

# The role of public-private partnership in overcoming poverty in the Kyrgyz Republic

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**Abstract.** Kyrgyzstan has been experiencing an "infrastructure deficit" for many years. It is expressed in the deplorable condition of roads, hospitals, schools, kindergartens, administrative buildings and other infrastructure facilities. One of the indicators of infrastructure quality is the global competitiveness index of countries. Among 133 countries of the world, Kyrgyzstan ranks 112th in terms of the quality of infrastructure in general. That is, it is included in the 30 countries of the world with the worst quality of infrastructure. This once again shows the country's need for renewal, modernization and construction of new infrastructure facilities. For many years, the country has resorted to borrowing money from international creditors when it was necessary to build or repair existing infrastructure. As a result, about 90% of all Kyrgyzstan's external loans today are debts for the construction of roads and energy facilities. However, the country can no longer follow this path today. Thus, at the end of 2021, Kyrgyzstan's public debt amounted to \$5 billion 147.22 million, or 60.33% of GDP. The high level of public debt and the recommendation of international institutions to refrain from increasing it led to the search for new instruments to finance new construction and modernization of existing socially important facilities. The mechanism of public-private partnership has become such a tool for the Kyrgyz Republic.

**Keywords:** Public-private partnership, state mortgage lending, State mortgage company, housing construction, poverty of the population.

## 1 Introduction

The relevance of the topic is due to the need to develop social entrepreneurship in Kyrgyzstan as a mechanism to improve the social and economic situation of the population on its territory, as well as the need for public-private partnership as a mechanism for the development of social entrepreneurship in connection with the development of a system of legislation in this area. Public-private partnership (hereinafter – PPP) is an objectively determined trend of modern economic development.

The administrative reform being implemented in the country and the measures being implemented to improve public administration determine, among other things, the tasks of

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implementing large investment projects on PPP terms in order to increase the efficiency of public administration in a number of areas of public relations (provision of public services, public administration in the field of transport, infrastructure, housing construction, social sphere, housing and utilities, etc.) are fixed today in a number of regulatory and program documents [1]. The hypothesis of the study can be formulated as follows: public-private partnership can be an effective tool for overcoming poverty in developing countries if certain principles and conditions are met.

The purpose of our study is to study the role of public-private partnership in overcoming poverty and to assess the effectiveness of this form of cooperation in various countries to formulate recommendations to the Government of the Kyrgyz Republic and private companies to improve the efficiency of PPP in the fight against poverty.

The results of the study can be useful for developing strategies and programs to combat poverty based on public-private partnership, as well as for making decisions on the inclusion of PPPs in national economic development plans.

## 2 Materials and Methods

Modern PPP began its development in the 1980s in the UK and the USA, when government agencies began to look for opportunities to attract private capital to infrastructure development and other projects. In the UK, PPP has been used to finance the construction of new roads and railways, as well as to renovate the housing stock. In the US, PPP has been used to finance projects related to transportation, utilities, energy and other sectors of the economy. In the 1990s, PPP became popular in developing countries, where public authorities began to look for new sources of financing for the development of the economy and social sectors [2].

Today, PPP is used all over the world and has become a key tool for the implementation of large-scale projects in various sectors of the economy, such as energy, transport, utilities, housing and social services.

Public-private partnership (PPP) is a form of cooperation between public authorities and the private sector aimed at achieving common goals. In the context of the fight against poverty, PPP can play an important role in the creation and development of economic and social projects that can improve the living standards of the population and reduce the number of poor [3].

One of the main advantages of PPP in the fight against poverty is the combination of resources and experience of public and private organizations. Within the framework of such a partnership, financial, technical and human resources can be combined, which makes it possible to implement large-scale projects and achieve more significant results than when working alone [4].

For the first time, plans for the implementation of socially significant projects through the mechanism of public-private partnership in the Kyrgyz Republic appeared in 2009, at the same time the first law on public-private partnership was adopted. Despite the fact that high hopes were pinned on him, he did not give the expected result due to numerous shortcomings and gaps in the legislative framework [5].

In the process of finalizing the new regulatory framework, the unsuccessful experience of implementing the old law was taken into account, as well as the best international practices were taken into account, as a result of which a completely new version of the law on PPP in the Kyrgyz Republic was signed in August 2021 [6].

This law differs from the previously existing law on public-private partnership:

- the introduction of the institute of direct negotiations for large public-private partnership projects (1 billion somov), i.e. the portfolio of projects has been increased;
- public-private partnership projects, with an amount of more than 100 million somov, the competition is carried out by the Ministry of Investment;

- a public-private partnership project with an amount of over 100 million soms, necessarily provides for the presence of 2 public partners who jointly conclude a public-private partnership agreement with a private partner;
- the duration of the public-private partnership agreement is not limited, the term is possible up to 49 years;
- the new law protects private partners in public-private partnership projects from inspections by law enforcement and inspection bodies for up to 3 years [7].

According to this draft law, it is noted that the state will continue to support initiatives and projects of bona fide business and foreign investors for the successful implementation of public-private partnership.

Undoubtedly, the new PPP law has produced a positive result. As of today, the PPP center has 55 public-private partnership projects at various stages of implementation totaling more than 1 billion US dollars. In the first quarter of 2022 alone, six agreements were signed for the implementation of PPP projects in various sectors of the economy, totaling \$1.3 billion som [8].

However, the economic efficiency of the public-private partnership mechanism in Kyrgyzstan is still low. But it can increase if the state intervenes less, minimizes bureaucratic procedures, transfers risks to the private sector and if there is a high level of modern technical and managerial knowledge of private entities. The development of PPP is possible and, moreover, necessary for Kyrgyzstan. Partnership between business and the state can become an important tool for the development of the country's economy and improving the quality of life of the population and overcoming poverty.

Within the framework of PPP, a wide range of projects can be implemented that can help fight poverty, such as:

- job creation: through the joint participation of public and private organizations, it is possible to develop entrepreneurship and industry, which contributes to the creation of new jobs and increase incomes of the population;
- housing construction: PPP can help in the construction of affordable housing for the poor, as well as in improving the quality of housing through the modernization of existing housing funds;
- Infrastructure development: the development of transport, communal and social infrastructure is an important factor in the fight against poverty. PPP can contribute to the development of infrastructure facilities such as roads, water supply, electricity, medical facilities and educational institutions;
- Social programs: PPP can be used to implement social programs that are aimed at supporting the poor, such as health, education, social protection, etc. [9].

One of the main roles of PPPs in the fight against poverty is the development of the economy and the increase in employment. The private sector can stimulate economic growth by creating new jobs, investing in infrastructure and technology, and increasing labor productivity. The state, in turn, can provide regulation of economic activity and create a favorable investment climate that will attract private capital to regions with a high level of poverty.

Another important role of PPP in overcoming poverty is the development of social infrastructure. Public and private organizations can work together to provide poor people with access to high-quality social services and improve their quality of life. For example, private investors can finance the construction of schools and hospitals, and the state can ensure quality control of services and accessibility for poor groups of the population [10].

However, when implementing PPP projects, it is necessary to take into account risks and disadvantages. In particular, inequality may increase if the project does not take into account the interests of poor groups of the population or benefits only the private sector. In addition, it may be necessary to monitor and regulate the activities of private investors in order to prevent the exploitation of poor groups and human rights violations.

Mortgage lending support programs for the population can also be developed, or the private sector can provide financing for housing construction projects, which can increase the availability of mortgage lending for potential borrowers. The National Bank of the Kyrgyz Republic proposed a model of mortgage lending, which provides for the use of the potential of existing commercial banks and the introduction of a new financial instrument that allows, due to the multiplier effect, to multiply initial investments in mortgage lending [11].

Schematically, the social mortgage model functions as follows: commercial banks issue mortgage loans for the purchase of housing in accordance with GIC standards and form mortgages for housing purchased on credit. Then the mortgages on the loans issued are repurchased from the bank by the State Mortgage Company and on their basis the GIC issues debt mortgage securities, which are sold to institutional investors (Social Fund, insurance companies, pension funds, commercial banks, other institutional investors and individuals). The proceeds can be used again for further financing of a new batch of mortgage loans and, thereby, a mechanism for refinancing (self-financing) of residential mortgage lending is being created. It should be noted that the key factor of this scheme is that GIC debt securities should have the property of unconditional liquidity for investors. At the same time, interest on mortgage loans can be significantly reduced in the future, since they are part of the GIC standards and include only costs set and strictly controlled by the GIC [12].

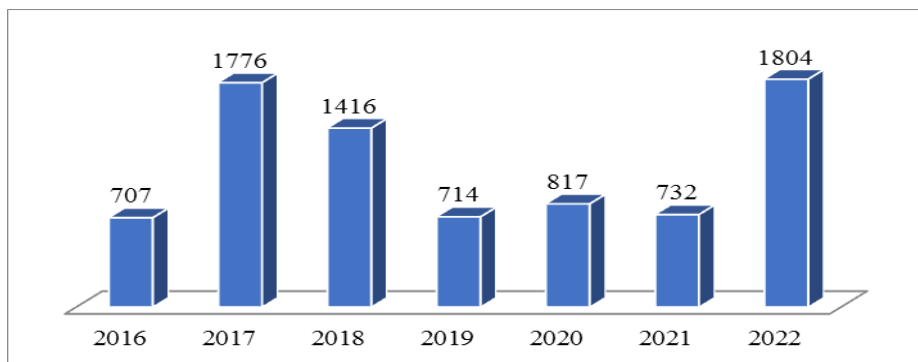
### **3. Results and discussion**

The expected economic consequences of the functioning of the GIC are as follows:

- formation of the market for long-term capital investments, development of construction and related sectors of the national economy;
- development of market infrastructure, including such participants in the mortgage lending system as insurance, real estate, appraisal/rating companies, non-state pension funds, notary and other participants;
- introduction of new and alternative instruments for long-term lending and refinancing of long-term loans;
- solving social problems of the population by supporting savings trends;
- formation and strengthening of property relations as fundamental in a market economy;
- attracting private foreign investors, international financial investors and directing them to form a solid, reliable mortgage fund and other effective mortgage instruments.

JSC "State Mortgage Company" is the only authorized body in the field of mortgage lending. Its goal is to provide affordable housing for citizens of the Kyrgyz Republic by developing the mortgage market, improving public access to housing, solving social problems in the field of housing for the benefit of the prosperity of society and improving living standards [13].

GIC provides mortgage lending in three main areas: social (4% per annum), preferential (6% per annum) and affordable (8% per annum). In total, 70043 applications were registered on the GIC website, 24392 applications were approved. In total, 13.5 billion rubles were issued to finance mortgage lending 1). It can be seen from the figure that the maximum number of families who purchased housing through a State mortgage company in 2022 was 1,804 families. To date, a total of 8301 families have been provided with housing. In total, housing was purchased with a total area of 661 thousand sq. m. 2.5 billion SOM were attracted.



**Fig.1.** The number of families who purchased housing through JSC "GIK" for 2016-2022. [14]  
 Source: [www.gjk.kg](http://www.gjk.kg)

The maximum amount allocated for mortgage lending was also in 2022 and amounted to 4655 million SOM. In accordance with the Resolution of the Cabinet of Ministers of the Kyrgyz Republic dated March 14, 2023 No. 140 "On Amendments to certain Resolutions of the Cabinet of Ministers of the Kyrgyz Republic in the field of public housing policy", amendments were made to the state housing program "My House 2021 – 2026". As part of the direction of the GIC "Social Mortgage", housing will be provided for rent with subsequent redemption without the participation of banks.

If we turn to the figures provided by the National Statistical Committee on Poverty Indicators, significant positive changes are noticeable. Statistics show for the period under review that from 2017 to 2021, the coverage of the population with microcredit increased from 17,166.5 million. som up to 36 982.4 million SOM., indicates that more people in the country have access to financial services, but it may also mean that more people have financial problems and are forced to apply for micro-loans (see Table 1). However, the poverty rate has increased from 25.6% in 2017 to 33.3% in 2021. This means that more people find themselves in an unfavorable economic situation and need help from the state and micro-credit organizations to improve the lives of the population.

**Table 1.** Key indicators in comparison (2017-2021) [15]

	2017	units of measurement	2021	units of measurement
Micro-credit coverage of the population	17 166,5	million som	36 982,4	million som
Poverty level	25,6	%	33,3	%
GDP per capita	6 864,4	million som	7 740,5	million som
Inflation	103,2	%	111,9 %	%

Source: <https://www.stat.com.kg/>

Analysis of these data shows that the economic situation in Kyrgyzstan remains worrisome, as the level of poverty is growing, and inflation affects the lives of the population. However, an increase in GDP per capita and increased access to microcredit may indicate some progress in the economic development of the country.

## 4 Conclusion

Public-private partnership (PPP) is cooperation between the state and the private sector in achieving common goals, such as poverty eradication. It can be an effective tool in overcoming poverty, as it combines the forces and resources of the state and the private sector. Government agencies can provide financial support and regulation, while private companies can provide expertise and innovation. Some types of PPPs, such as partnerships between government and microfinance organizations, help provide access to financial services for poor people. A partnership between the government and private companies that help create jobs for poor people is also being discussed. However, it was noted that PPPs may face some challenges, such as a lack of trust between the state and the private sector, as well as difficulties in creating equal partnerships.

Thus, the introduction of a comprehensive self-financing model of mortgage lending through the launch of the multiplier effect will trigger the further development of the capital market, commercial banks, institutional investors, the housing market and its infrastructure, which together is one of the important factors of long-term stability in Kyrgyzstan. Also, public-private partnership can become an important tool in the fight against poverty, allowing to combine the efforts of public and private organizations and implement large-scale projects on job creation, housing construction, infrastructure development and social programs. In addition, PPP can help attract investment, improve the quality of services and goods, as well as improve the business climate. It is important to note that the effectiveness of PPPs in the fight against poverty depends on the correct formulation of goals, a clear definition of the role of each partner and effective monitoring of results.

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