

Inefficiency of External International Financial Assistance on the Example of its Implementation in the Kyrgyz Republic

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Abstract

The resent research is an analytical review of international assistance provided to the Kyrgyz Republic in the course of fundamental political and economic reforms. The volume of assistance, its main directions, its effectiveness and results are investigated. The republic, as a developing country, continues to accept foreign aid, yet the results of the overall development remain an acute issue. The external assistance provided to the Kyrgyz Republic did not significantly increase the flow of external and internal investments, did not lead to an increase in the share of the gross product per citizen, and ultimately did not reach its goal of reducing poverty. Instead, the country is gradually plunging into the debt hole, entering into a cyclical pyramidal dependence on additional external financial resources necessary to service the current debt itself.

Key-words: External International Financial Assistance, External Debt, Efficiency Investments, State Budget, Energy, Transport, Corruption, Foreign Aid.

JEL: F340, F350, I380, O15, O19, O430.

Highlights:

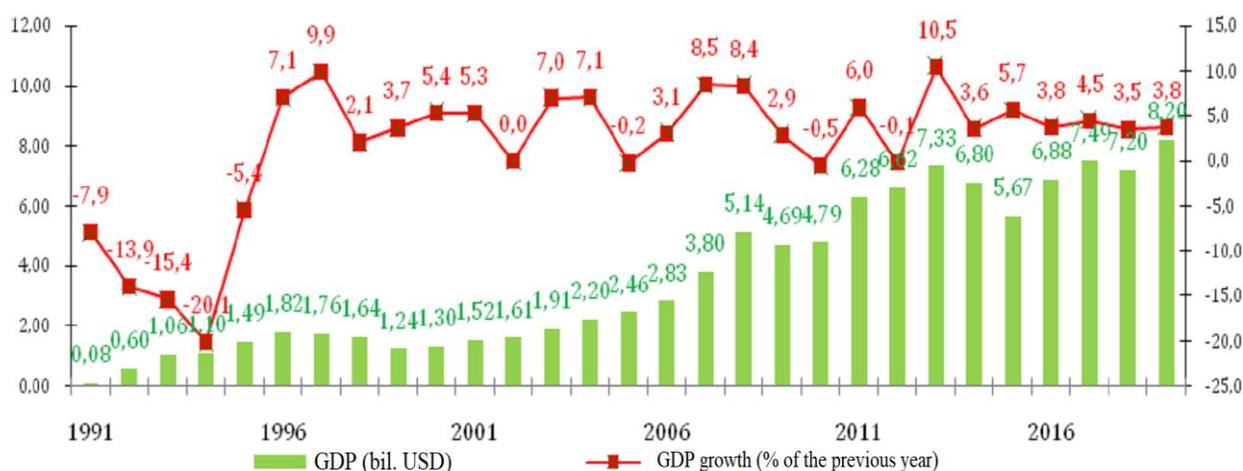
1. Kyrgyzstan received more than 4 bil. USD of foreign aid.
2. In general, external assistance was ineffective.
3. Factors: institutional unpreparedness, corruption, hidden motives of donors.
4. In the future, external debt will negatively affect the republic.

1. Introduction

The Kyrgyz Republic remains one of the Central Asian republics with economies in transition that implemented dynamic reforms in building a market system. During the long-term reforms,

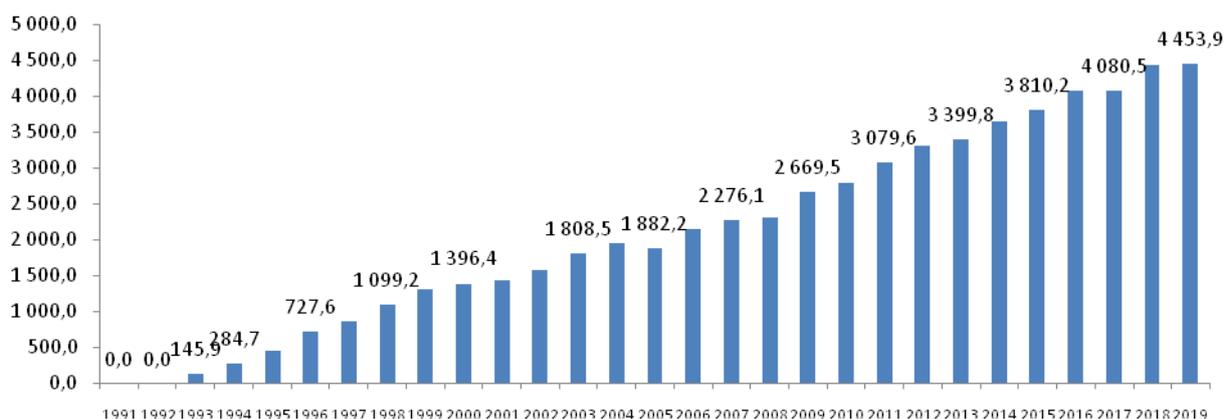
socio-economic relations were liberalized, mass privatization of state property was carried out, and state administration and planning were eliminated. As a result, the so-called ‘market economy’ with monetary relations playing the leading role formed in the country. Over 28 years of independent development, in twenty cases positive results of GDP growth were noted in the republic, and its negative dynamics was observed in eight cases (Kamchybekov, Atyshov, Bakas uulu 2019). (Fig. 1).

Fig. 1 - Economic Growth in the Kyrgyz Republic from 1991 to 2019. Source: NSC KR and authors' Calculations



As of July 30, 2019, the state debt of the Kyrgyz Republic grew from zero in 1991 to 4 bil. 453.99 mil. USD in 2019 (estimated at 47% of GDP): 3 bil. 767.49 mil. USD is external, 686.50 mil USD is domestic debt (External debt... 2020).

Fig. 2 - Government External Debt (Thousand USD). Source: Ministry of Finance of the Kyrgyz Republic



Since independence, the Kyrgyz Republic accumulated a significant amount of external debt which it is unable to service. “This is a paradox, since the Kyrgyz Republic began the transition period without any external debt”, the OECD noted in 2006 (Preliminary feasibility study... 2006).

Accordingly, a logical question arises of the emergence of external debt, of sources of its formation, of efficiency of its use, and ultimately, of its impact on the overall development of the country.

2. Literature Review and Research Methodology

Today, a number of developing countries are singled out as a separate category where development depends on foreign aid – aid dependent countries. Studies by international institutes show that the severity of socio-economic, humanitarian and environmental problems in recipient countries as a result of external injections not only does not wane but increases (Riddell 2007). The situation is worsened by increasing natural disasters in the 21st century, political instability, and economic crises. The growing dependence of poor countries on foreign aid flows with increasing severity of socio-economic problems prompts a number of researchers to raise the question of the inefficiency or even the fiasco of the system of foreign aid institutions (Moyo 2009).

The imbalance between developed and developing countries increased interest in the impact of external assistance on key indicators of economic growth. Long before the 1990s, economists questioned the provisions of the ‘double deficit’ theory, according to which the effectiveness of external assistance is to stimulate economic growth by overcoming the deficit of domestic savings and of foreign currency.

Bauer (1975) gave the scientific definition of foreign aid as “the transfer of resources from the taxpayer of the donor country to the government of the recipient country”.

Modern scientific works on the effectiveness of foreign aid contradict one another in terms of whether aid leads to economic growth or not. The mechanism for achieving this result, that is, the impact of foreign aid on institutional changes, is of most importance.

According to Sethi et al. (2019), foreign aid is a main factor contributing to development. Due to foreign aid, the country's economic base expands, and the financial market and human resources develop. This leads to the formation of a knowledge-based economy. According to studies by Arndt et al (2015), in the medium and long term, external assistance, without significantly affecting inequality, reduces poverty. Aid also contributes to faster expansion of industrial sectors and to a relative decrease in the share of agriculture in GDP.

Berritella (2017), in turn, argues that foreign aid affects the process of transferring income mobility from rich to poor countries. In turn, Kalyvitis and Vlachaki (2012) found a certain threshold level above which the effect of aid on growth becomes definitely positive. Dalgaard et al. (2004) and Fatima (2014) also believe that foreign aid has a positive effect on the economic growth of recipient countries. At the same time, Dalgaard and Hansen (2001) proved a linear effect in the relationship between the growth of aid and income due to a decrease in the return on foreign aid.

However, aid effectiveness depends on the institutional quality (Feeny and McGillivray (2008)), and on the institutional and political factors (Tang and Bundhoo (2017)).

Corruption, governance specifics, political stability, and the maintenance of fair trial are just a few institutional factors that influence a country's growth. External assistance, if not supplemented by an appropriate institutional structure in the economy, will only lead to a slight effect on economic growth (Tang and Bundhoo 2017). At the same time, according to the results of Malik's (2008) study, the growth of financial assistance did not significantly affect the economic growth of the 6 poorest countries in Africa. On the contrary, the long-term negative impact of international assistance on the standard of living in these countries was pointed out.

Assistance can also lead to the recipient country relying on external revenue, which blocks incentives and measures to improve the tax system (Askarov and Doucouliagos 2015).

However, why in general is foreign aid in developing countries so ineffective?

According to Dollar and Kraay (2001), the low efficiency of foreign aid can be caused by various factors such as poor management of foreign aid flows, inefficient and unfair distribution of aid between recipient countries, hidden requirements of donor countries, and political instability in recipient countries. Other factors (De Haan 2009) are low political and social responsibility, the quality of administrative systems and state bureaucracy, and the existing system of public services in recipient countries.

Opponents of foreign aid argue that foreign capital replaces domestic resources and, therefore, distorts the distribution of income. In addition, Griffin (1970) and Bauer (1971) also argue that foreign aid in many countries with initial capital shortages leads to the formation of inefficient and corrupt governments.

Based on the results of their research, Barthel et al (2014) concluded that donor countries use aid primarily as a means of promoting their own export interests.

Most donor countries have their own guidelines and goals that hide true motives. They know exactly where, when and how to use external assistance to achieve their goals. Their goals and interests are often subject to change and can influence the activities of their own governments both

domestically and internationally. In other words, in most cases, the goals of foreign aid policies are rooted and reflected in the nature of internal forces in the donor countries (Olsson, Wohlgemuth 2003; Brainard, Chollet 2007). Decisions on the allocation of external assistance, for example, in the US Congress, are determined by the nature of the relationship between the legislative and executive branches, often with conflicting goals (Irwin 2000).

Easterly (2006) provided statistics confirming that a significant portion of financial assistance was spent in countries that achieved small growth as well as minimal poverty reduction. In other words, although developed countries spent significant amounts of money on foreign aid programs, this assistance was accompanied by a slowdown in recipient countries. Such negative relationship does not necessarily determine that foreign aid is a direct cause of a slowdown, but it does show that aid cannot always stop this decline. Easterly argues that economic growth can take place in countries that do not even receive foreign aid.

Earterly (2007) also argues that 10 of the world countries receiving aid suffered extreme poverty simply because of inadequate governance and corruption. These countries were dominated by corrupt regimes that were not interested in achieving real development of their communities.

Mc Gillivray et al. (2001) argued that foreign aid reduces returns since it is mainly influenced by external conditions, and its importance in overall economic growth depends on the nature and effectiveness of existing political institutions. Foreign aid is usually provided for certain reasons: promoting long-term economic growth and poverty reduction to advance short-term political interests.

Burnside and Dollar (2000) argue that aid can only stimulate growth if it is channeled through established economies that make the best use of it. They add that aid can have a positive effect on growth in developing countries only if adequate fiscal, monetary and trade policies are in place. Thus, Burnside and Dollar formed the argument that external assistance could help the growth of recipient countries with well-developed institutions; however, in later works even this moderate conclusion was called into question.

Easterly (2003) in turn, argued there was no evidence of any effect of aid on growth, even in the case of high-quality institutions. Moreover, Brautigam and Knack (2004) concluded that aid could lead to a deterioration in the quality of democratic institutions. Knack and Rahman (2004) determined that aid could damage the quality of institutions due to the high likelihood of increased corruption, weak accountability and the struggle for natural rents.

Another persistent critic of foreign aid, Bauer (1966, 1974), emphasized that aid, especially grants, poses moral hazard problems, as they destroy incentives to pursue the right policies that lead

to the misallocation of scarce resources, thereby undermining growth. Deaton (2015) believes that help undermines what poor people need most – an effective government that works for tomorrow.

Boone (1995) and Reichel (1995) revealed a negative relationship between savings and help, defining it as the effect of substitutes. According to them, external assistance undermines incentives for the development of national production, replaces the prevailing cultural characteristics of the national economy and contributes to the growth of corruption.

Other researchers like Griffin (1970), Mosley and Eeckhout (2000), based on complex econometric calculations using data from several countries over several years, also indicated a lack of connection between external assistance and domestic savings and argued that an increase in foreign aid did not lead to proportional increases in investment.

According to Mosley and Suleiman (2006), aid stimulates unproductive public consumption and does not foster investment. These effects arise, *inter alia*, because of donors' misunderstanding of the needs of the recipient country and the lack of advance assessment of the needs of the population, which contributes to the selection of 'fashionable' areas and directions that are not in the country's priority.

In sum, a number of reasons explain the inefficiency of foreign aid for the economic growth of developing countries:

1. External assistance can lead to corruption;
2. External assistance can help maintain political regimes that are not interested in implementing reforms and distributing fair income among the population;
3. Recipient countries may have a low ability to absorb financial flows, especially in case of a lack of qualified specialists, developed infrastructure and financial system;
4. Aid flows can reduce domestic savings, both private (through the influence on the interest rate) and public (through the influence on state revenue);
5. External assistance can help increase the exchange rate of the national currency by undermining the price competitiveness of exported goods (the so-called Dutch disease);
6. External assistance can create 'aid dependency' in which both the governments of the recipient countries and the business sector get used to receiving easy money, thereby undermining incentives for increased productivity and effective investment.

The authors of the theory of dependence argue that the poverty of underdeveloped countries is not because they are not integrated into the world market (or 'insufficiently' integrated) but exactly because they are part of it. Developed countries by means of monopolization of markets, military

force and by involving countries in dependence on external financial assistance actively resist the attempts of the underdeveloped countries to free themselves from dependence.

The situation in poor developing countries is also complicated by their limited ability to absorb aid. These distinctive features of developing countries, along with the aforementioned factors, determine the growth of their dependence on foreign aid and the erosion of state sovereignty (Millikan, Rostow 1957; Rosenstein-Rodan 1961).

A significant problem faced by recipient countries is the divergence between donor goals and national development goals. This problem arises from the existing relations between donors and recipients where the right to make decisions regarding the purpose of assistance and the conditions for its provision belongs exclusively to donors. However, as practice shows, the donors' choice of aid goals does not always meet the interests of the development of the recipient country because aid to developing countries is often used to achieve political goals. In such cases, foreign aid, instead of solving the pressing problems of the development of the recipient country (which are the fundamental cause of poverty and a source of instability), leads to other problems:

- Inability of the recipient country to most effectively absorb the funds provided (aid absorption capacity) at the current level of development;
- Increase in the weakness of national institutions, primarily financial;
- Increase in the level of corruption;
- Erosion of social capital;
- Decrease in the skill level of the workforce;
- As a general result, the growth of political system instability.

Ultimately, the effects of a diverse, complex relationship between developed and developing countries are factors that exacerbate global inequality. These relationships, and not internal causes, are primarily responsible for the poverty of the third world.

General Results

Based on their analysis, the authors single out the following main problems of the growth of external debt in the Kyrgyz Republic that arose because of the provision of external financial assistance in 1991-2019:

1. Lack of experience and of a clear legislative framework in debt management.

2. Signing unprofitable loans: commodity loans with Turkey, China, Germany, India were concluded on very enslaving terms for the country. Trade debts with Russia were also accumulated.
3. Random issuance of sovereign guarantees in 2005-2009 (about 25) which were later revealed (for example, loans received from Switzerland, the EBRD, etc.).
4. Refusal to continue the fiscal consolidation achieved in 2005-2008.
5. Refusal to join the HIPC and MDRI initiatives (potential amount of write-off is from 770 to 915 million USD).
6. Accelerated accumulation of external debt because of significant borrowings from Eximbank of China for road and energy projects.

The authors of the present research make the following conclusions and suggestions:

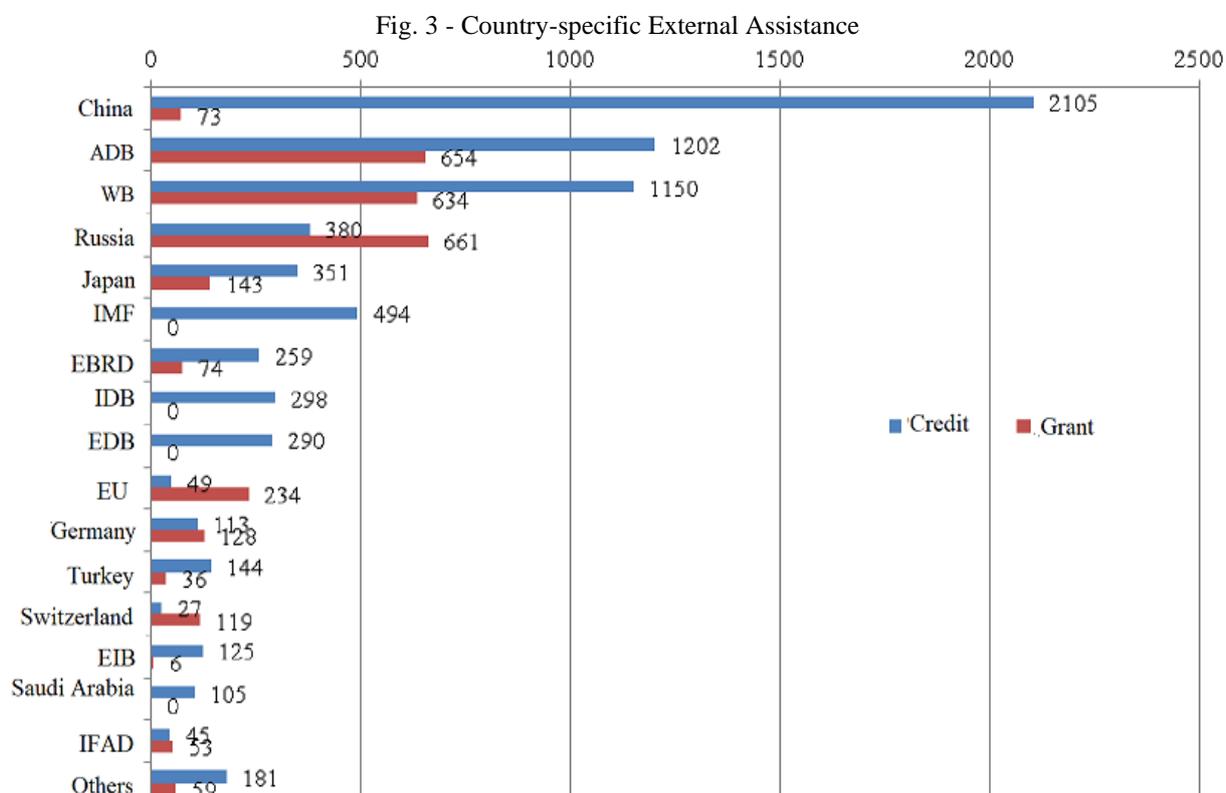
- Budgetary and program assistance from external sources should be directed to investing only in human capital (education, healthcare, etc.). Ongoing budget expenditures should be funded exclusively from current domestic revenues.
- External loans and borrowings should be directed exclusively to the creation of benefit, new jobs and the financing of self-sustaining investment projects (for example, the development of deposits by the state itself).
- Geography of external borrowing: refraining from borrowing from neighboring countries.
- Distribution of bilateral foreign aid: considering the appropriateness of localizing aid by region (for example, Switzerland and Germany – Naryn Oblast, Japan and Turkey – Batken Oblast, etc.).
- Increasing the effectiveness and accountability of external assistance.
- Creating an independent technical structure (body) on public investment management and programmatic assistance.
- Preserving and more efficient use of the potential of qualified specialists.
- Centralized flow and processing of information (about projects and finances, about completed, ongoing and planned projects, and about programs financed by external sources).
- Systematic analysis of the effectiveness and forecasting of projects and programs.

The authors believe these measures would provide a holistic approach to government investment projects and program assistance as a project cycle (starting from planning and design, ending with implementation and ‘commissioning’, and repayment of loans).

3. Kyrgyz Republic: Practice of Obtaining External Assistance

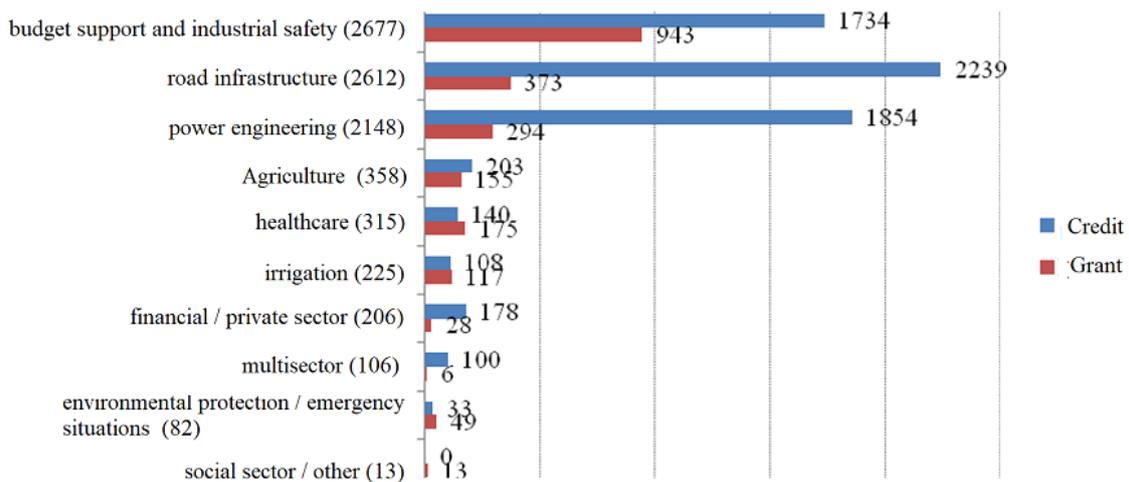
From 1992 to 2018, international agreements were signed with the Kyrgyz Republic in the amount of 10 bil. 193 mil. USD, of which reimbursable amounts in the form of loans were 7 bil. 320 mil. USD, and grants were 2 bil. 873 mil. USD.

The largest lender for the country at present is the Export-Import Bank of China – 1 bil. 701 mil. USD or 45.2% of all external debt, followed by the International Development Association – 647.37 mil. USD or 17.2% and the Asian Development Bank – 563.62 mil. USD or 15% (Fig. 3).



During transformational reforms, international aid was concentrated in three sectors: 73% of foreign aid or 7.44 bil. USD was generally allocated to budget support, development of transport infrastructure, and modernization of the energy complex (Fig. 4).

Fig. 4 - Sectoral Flow of Foreign Aid in 1992-2018



A. Infusion into the State Budget and its Results

State revenues collected within the Kyrgyz Republic do not cover all the costs necessary for reforming the economic and social structure and maintaining a minimum level of public services. Despite the fact that the main role of the budget is to annually mobilize and concentrate monetary accumulations in the centralized state fund for financing state needs, it remains insufficient.

When considering the country's potential, the issue of subsidized economy of the republic is vital. First, it should be noted that within the framework of the planned system of management in the USSR, the Kyrgyz Republic was supported by subsidies from the Union budget in three main areas:

- Direct support of the republican budget of 4% of GDP;
- Direct fueling of the country's economy of 30% of GDP in the form of financial, material and production resources to support sectors such as textile, food-processing, mining, engineering, maintenance and creation of industrial infrastructure: roads, irrigation facilities, electric power facilities, industrial and civil engineering;
- Supply of oil and gas (petroleum products and products of their processing) at preferential prices, significantly lower than market prices) (Akunov et al. 1998).

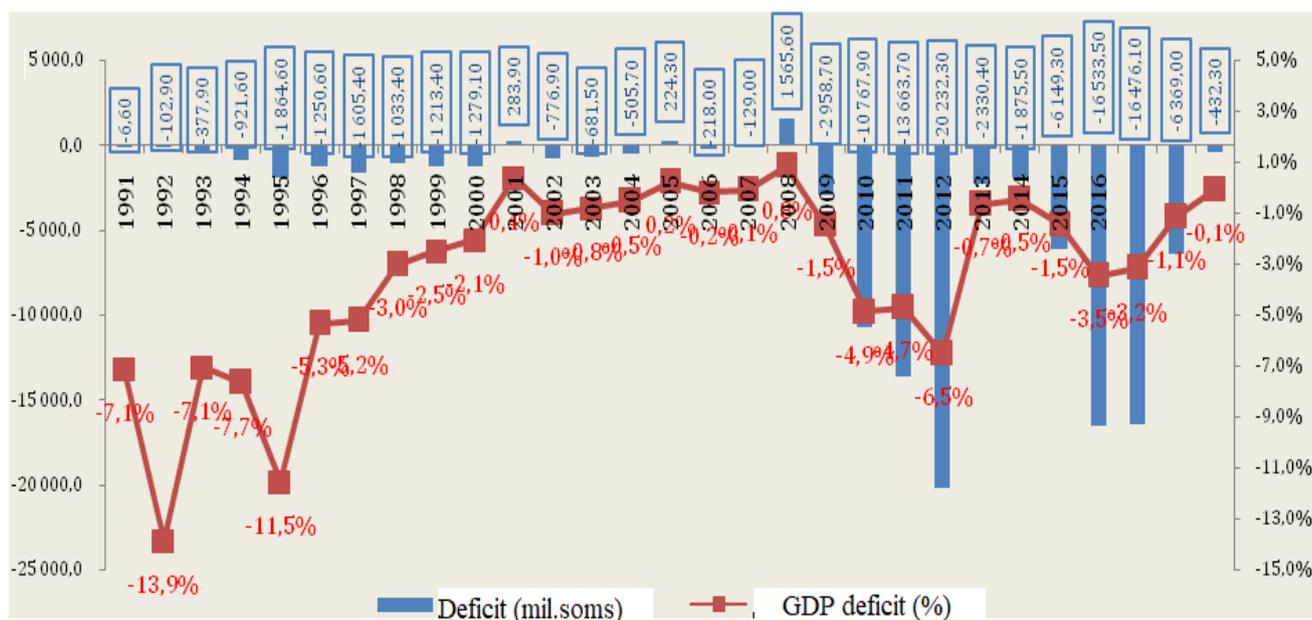
When evaluating the level of subsidies, German scientists argued that: “Kyrgyzstan is one of the poorest republics of the former USSR (annual income per capita in 1992 was \$ 810). The economy of the Kyrgyz Republic was highly integrated within the USSR, and the republic’s dependence on the former USSR was further strengthened thanks to transfers from the all-Union budget. In the late 1980s, they accounted for 10-12% of the gross product” (Chuburova 1998).

In turn, according to the calculations of researcher S. Zhukov (2005), the share of subsidies and dotations from the center in the republican budget expenditures with the cumulative total was in 16.4% in 1987; 23.8% in 1988; 18.2% in 1989; 33% in 1990; and 35.6% in 1991. At the time of the collapse of the Soviet Union, the subsidy level of the republic reached one third of all the expenditures of the country.

Despite the scatter of assessments in the level of subsidization, it can generally be recognized that the republic is currently not able to independently solve its internal political and economic problems without external injections.

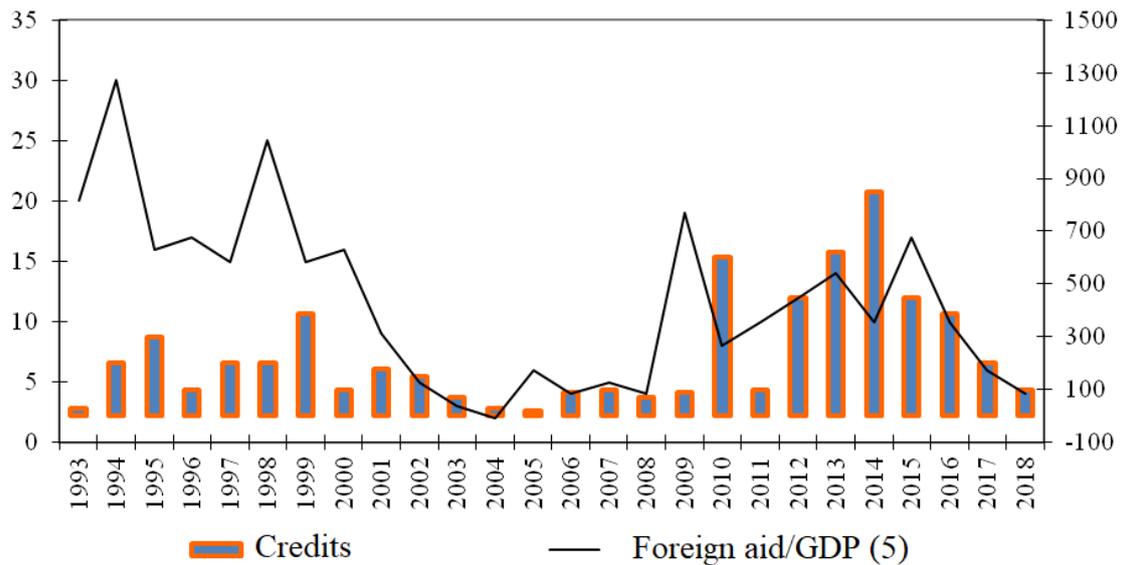
Accordingly, without external injections, one can note the almost constant state budget deficit of the Kyrgyz Republic (Fig. 5): in 1992-2018, it averaged 3.3% of GDP (Surplus/deficit... 2020).

Fig. 5 - State Budget Deficit (in Million Soms and % of GDP). Source: Ministry of Finance of the Kyrgyz Republic



In this regard, from 1993 to 2018, external assistance served as a stable and substantial budget resource: on average, the country attracted assistance equal to 11.2% of GDP annually (including grants – 2.3% of GDP, loans – 8.8% of GDP) (Fig. 6). Bauer (2000) analyzed a similar situation, arguing that poor countries spend a substantial portion of financial assistance on financing government spending and non-productive consumer sectors.

Fig. 6 - Ratio of Foreign aid to GDP. Source: Ministry of Finance of the Kyrgyz Republic



In support of the state budget in 1992-2018, the following funds were attracted to the republic: 2677 mil. USD, of which loans comprised 1,734.4 mil. USD, and grants comprised 942.6 mil. USD (Table 1).

Table 1 - Targeted Budget Programs

Donor	Programs	Amount of assistance (mil. USD)
WB	Strengthening PFM (public finance management) – Budget Code, Law of the Kyrgyz Republic ‘On Public Procurement’; Improving the investment climate	554
IMF	Stabilization of the macroeconomic situation in the country; PFM capacity improvement	493.9
ADB	Investment climate improvement – Laws of the Kyrgyz Republic ‘On PPP’ (public-private partnership) and ‘On Public Procurement’	406
RF	Construction of social institutions; Republican budget support	841.5
EU	Improving education; Social security targeting; Enhancing election trust	222.1
Others	Provision of agricultural machinery	159.5

The Kyrgyz Republic went through two rounds of debt relief by the Paris Club of creditors in 2001 and 2005; nevertheless, in 2006 the debt situation worsened to such level that Kyrgyzstan became authorized to receive debt relief from the World Bank and the IMF as part of the HIPC

initiative. After some hesitation and heated political debate, the republic decided not to join the HIPC Initiative (Toktosunova 2016).

Macroeconomic stabilization through external financial injections from international donor institutions was aimed at solving a number of political tasks in the Kyrgyz Republic:

- Accelerating economic growth;
- Consolidating the budget;
- Stabilizing prices;
- Increasing investment attractiveness;
- Improving the quasi-public sector, etc.

However, despite all external financial assistance, the average economic growth of the Kyrgyz Republic from 2000 to 2018 was no more than 4.4%, and the expected growth for the medium term is 4.0% per year (IMF... 2018).

B. Investment in Transport Infrastructure

The second significant sectoral object of attention of international donors in the republic was the development of transport infrastructure. During the years of reform, 56 projects were implemented to which 26% of all external assistance was directed (Table 2).

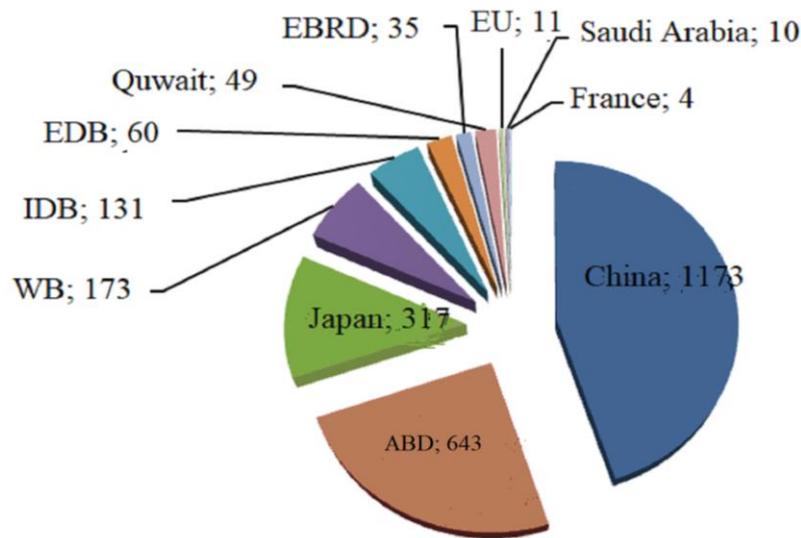
Table 2 - Transport: 26% of External Assistance

56 projects	Agreements	Total (mil. USD)
Total signed	67	2 612.4
including loans	48	2 239.3
including grants	19	373.1

In terms of the distribution of country assistance, China became the main donor of the republic at the beginning of the 21st century (Fig. 8). At the same time, it should be emphasized that it is the dependence on the neighboring country that becomes the most alarming. As part of the B&R strategy announced by China, the second world economy seeks to expand the boundaries of its influence, and foreign investment is an instrument to achieve this. At the same time, in case of non-repayment of loans, territorial claims or a requirement to transfer mineral deposits may become a solution to the debt burden. As V. Panfilova (2017) writes: “Given the fact that Dushanbe does not have money ... then, obviously, the country have to pay by admitting China to raw materials, transferring of controlling stakes in strategic enterprises or letting China control separate transport

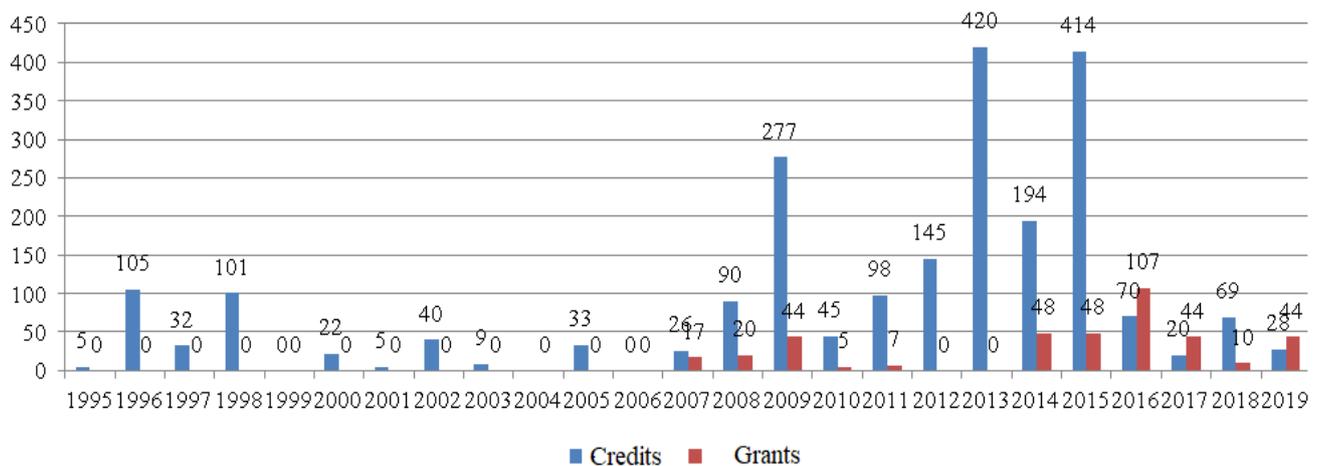
routes and even territories of Tajikistan. In 2011, Tajikistan ratified the protocol on delimitation and demarcation of the border with China, giving Beijing more than 1 thousand square km of disputed territories in the Eastern Pamirs”. The Kyrgyz Republic also went through unequal exchange of territories losing a part of them (Sakenov 2019).

Fig. 8 - Distribution of Country Assistance by Donors (mil. USD)



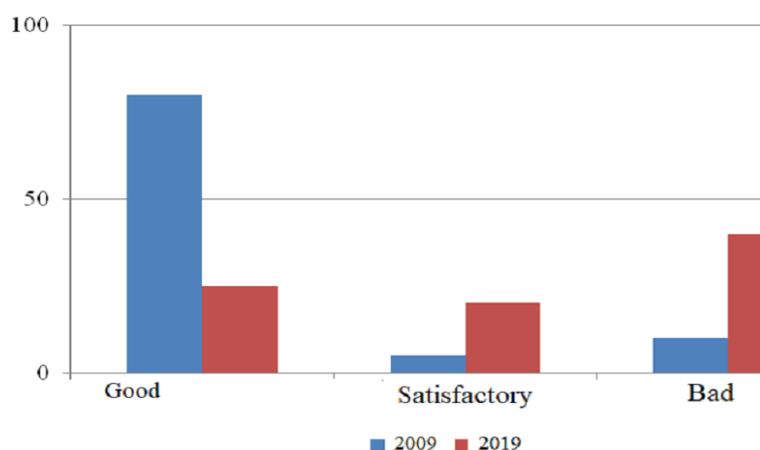
The main bulk of donor assistance to road infrastructure was in 1996-1998 and 2000-2015 (Fig. 9). The main objects were the rehabilitation of international highways connecting Bishkek with the regions. In particular, these were projects to improve the Bishkek-Osh and Bishkek-Torugart roads and internal transport arteries.

Fig. 9 - Distribution of Assistance in Transport by Year (mil. USD)



Despite the measures taken to restore the roads, in view of the poor quality of the initial works, as well as with the passage of time, their condition deteriorates. According to opinion polls, the quality of the Bishkek-Osh road in 2019 compared with 2009 was evaluated extremely negatively (Fig. 10).

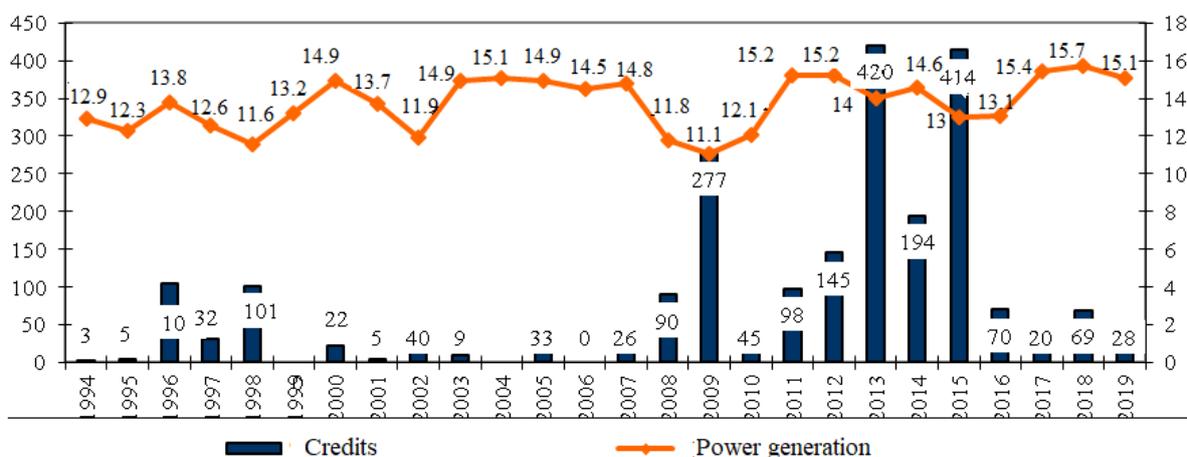
Fig. 10 - Assessment of the State of the Bishkek-Osh Road in 2009 and 2019 (t%)



C. External Assistance to the Country's Energy Sector

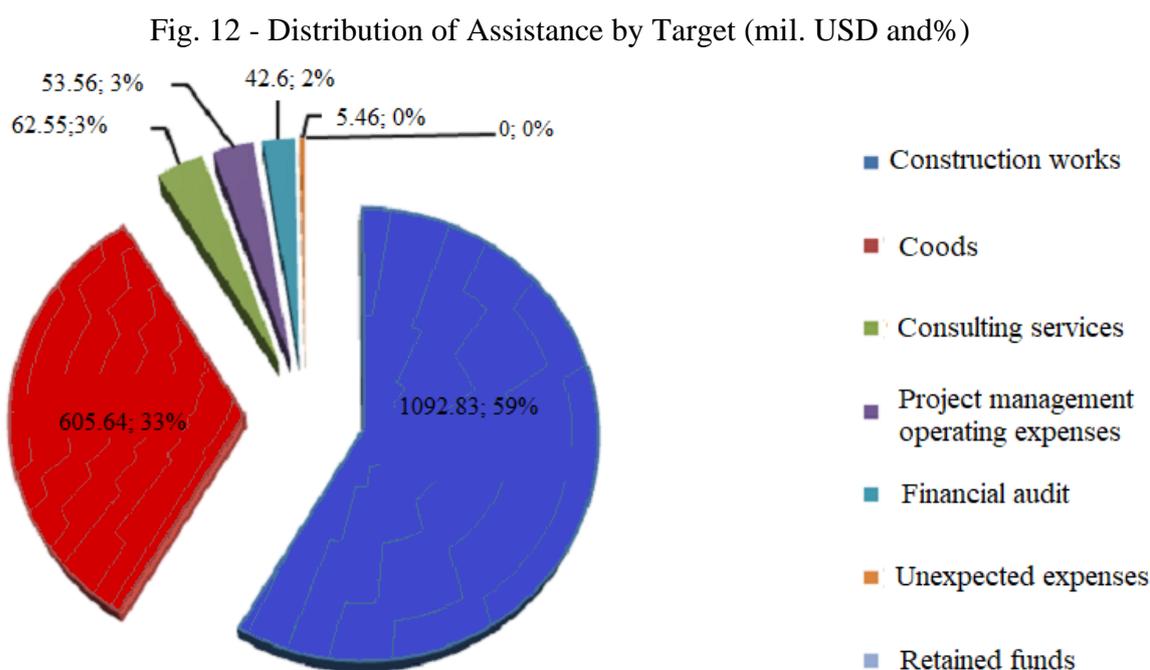
The third sectoral object for foreign investment in the republic was energy. In 1994-2018, the republic signed agreements for 2,147.8 mil. USD, including loans – 1,185.7 mil. USD, and grants – 294.1 mil. USD. In general, the energy sector received 21% of all financial assistance.

Fig. 11 - Loans to the Energy Sector and Electricity Generation (mil. USD and GW)



However, 2.1 bil. USD of external injections did not help the country’s energy system reach additional generation: annual electricity production still fluctuates between 11-16 thousand GW (Fig. 11).

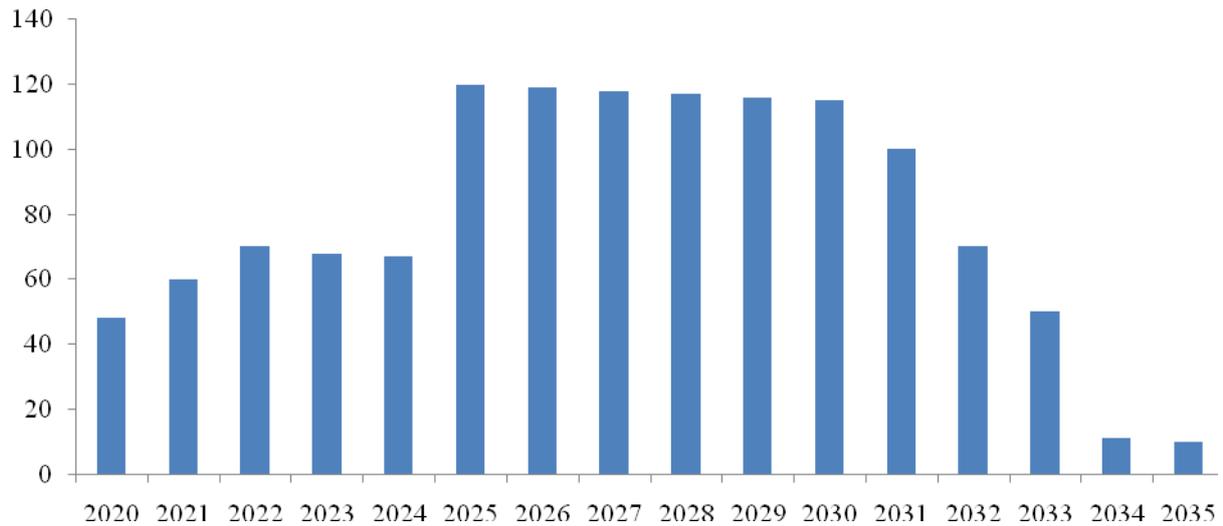
Moreover, investments in the energy sector were not allocated with ‘real money’ but provided as payment for various consulting services, which led to the fact that money was withdrawn and the country continued to plunge into a debt hole (Fig. 12). For example, according to Qian (2015), 24% of foreign aid in 2006-2012 was not transferred to recipient countries; instead, aid money was spent on activities in the donor countries themselves, mainly for debt relief and administrative expenses.



Currently, the amount of the external obligations of the Kyrgyz Republic on loans for energy is 1,338 mil. USD, the principal amount being 1,148 mil. and interest being 192 mil. At the same time, the debt of energy companies to the budget on budget loans and foreign loans amounts to 1.48 bil. USD (or 82.6% of all debt to the Ministry of Finance of the Kyrgyz Republic). In turn, restructuring the debt of energy companies on budget loans since 1999 amounts to 211 mil. USD.

The repayment peak in terms of loans allocated for the energy sector is planned for 2025-2030 (Fig. 13). Moreover, since 2025, annual payments will exceed 100 mil. USD, putting a heavy burden on the state budget.

Fig. 13 - Schedule of Repayment of Loans to the Energy Sector (mil. USD). Source: Compiled by the Authors



As the latest World Bank study showed, if countries receive assistance at 1% of GDP, the outflow of part of the money to offshore begins almost immediately, and this is an average of 7.5% of the funds received. If aid increases to 3% of GDP, the outflow share doubles to 15%.

“It can be argued, almost unmistakably, that the beneficiaries of the flow of currency into offshore during the periods of assistance are representatives of economic elites. The exact mechanism for turning aid flow into money outflow is more difficult to determine, but the most obvious and plausible version is the appropriation of allocated funds by politicians and officials”, the scientists conclude (Andersen, Johannesen Rijkers 2020). Regarding the Kyrgyz Republic, the statistics on the withdrawal of funds (assistance allocated by the World Bank) to offshore are as follows (Table 2):

Table 3 - Statistics of the Withdrawal of Funds in Offshore

Annual WB aid flows (% GDP)	Annual ODA aid flows (% GDP)	Haven deposits (mil. USD)	Non-haven deposits (mil. USD)	Haven deposits (quarterly growth rate)	Non-haven deposits (quarterly growth rate)	GDP (quarterly growth rate)
2.1%	4.8%	11	12	4.11%	2.5%	1.5%

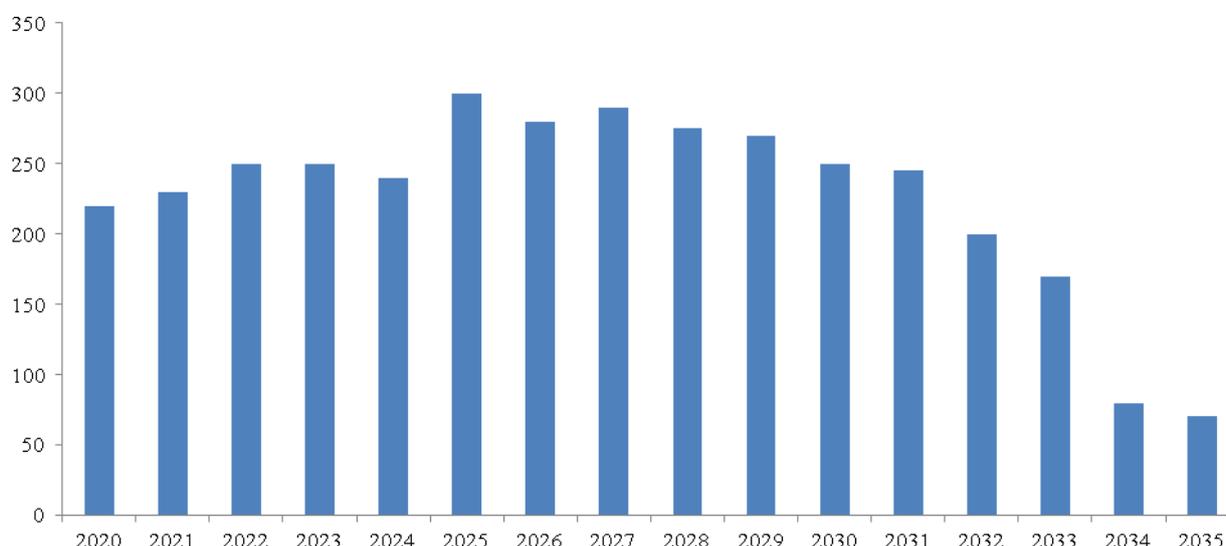
Source: WB.

Thus, according to calculations, the political elite of the republic brought offshore a minimum of 120 mil. USD (the amount of aid being 1.6 bil. USD).

Inefficient use of financial assistance, especially in the form of loans, led to the constant reproduction and exacerbation of the debt burden; as a result, new foreign aid was needed so that the

republic could repay loans under previously reached agreements. Starting from 2020, the Kyrgyz Republic in accordance with its obligations will be forced to seek and pay external debts in the amount exceeding 200 mil. USD annually, and in 2035 external payments will reach 300 mil. USD (Fig. 14).

Figure 14 - Amount of External Debts Payments of the Kyrgyz Republic (mil.USD)



4. Conclusion

In sum, external foreign assistance provided to the Kyrgyz Republic was ineffective.

The three largest areas where financial resources were directed – the budget, infrastructure and energy – could not get rid of previous problems. The state budget of the republic, as before, is chronically deficient, wear is gradually observed in the rehabilitated road infrastructure, and the energy sector does not produce additional electricity.

In view of the lack of proper control by donors and a high level of corruption among the country's top leadership, part of the aid was plundered, and the accumulated external debt, in turn, itself becomes a threat to stability in the country.

However, in case of learning from previous mistakes, appropriate changes can be made to the policy when requesting external assistance in the future. It is necessary to shift the focus to broader issues of efficiency in achieving clear results. External assistance should be directed exclusively to priority sectors and directions of the country's economy.

Conflict of interests. The authors would like to declare no conflict of interests.

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