

**Designing the institutions in transition:
Local Institutions in regulating the access to and management of
common pool resources in rural Kyrgyzstan**

Ulan Kasymov and Andreas Thiel

Humboldt University Berlin
Dept. of Agricultural Economics
Division of Resource Economics
Philippstrasse 13 D-10099 Berlin Germany
E-mail: kasymovu@agrar.hu-berlin.de
a.thiel@staff.hu-berlin.de

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1. Summary of the research project

After the breakup of the Soviet Union, Kyrgyzstan has been faced with the challenging transition from a state managed to a market economy. Transition reforms on privatisation and decentralisation have been implemented with the strong technical and financial backstopping of international donors. With regard to agrarian reform, Kyrgyzstan introduced a strategy of “shock therapy” which, when compared with other Central Asian countries, was the most “aggressive” in restructuring agricultural enterprises, privatizing land, and promoting individual farming (*Bloch C., 2002a*). Agricultural land and livestock were distributed, but state ownership was retained for some common and key natural resources such as forests, pastures and water (*Bichsel C., 2010*). The impacts of the reforms have led to declining agricultural output and increasing unemployment and poverty amongst the population (*Spoor M., 2004*).

Rapid reforms and the withdrawal of the state from rural areas created a temporary institutional vacuum, which stimulated a process of refilling by informal and newly created decentralized formal institutions and governance structures. A range of new organizations were created in a very short period of time: Municipalities (*aiyl okrug*) were introduced in 1996, Water User Associations (WUA) in 1995, Collaborative Forest Management Commissions (CFMC) in 2004, Pasture User Associations (PUA) and Pasture Committees (PC) in 2010. These new self-governance structures were created in a top down process. They are lacking competences and experience and are facing difficulties adapting to existing institutional setups.

The gap between the “people and politics”, formal rules and rules in use is decreasing the impact of agrarian reforms and leading to “open access situations”, overuse and degradation of natural resources and contributing to the increase of conflicts over natural resources.

There is little research into institutions and local common property arrangements in Kyrgyzstan: the understanding of the process of institutional change and interactions between the levels and contexts is lacking, and questions related to resource transfers from higher to lower administrative levels remain to be answered.

Therefore the key objectives of this study are: (1) to critically assess and analyze the institutional change in pasture management in Kyrgyzstan, (2) to analyze rule making process and assess the concepts and feasibility of institutions and governance structures at the local level and (3) interplay between informal and formal institutions, between the scales (local and national) and sectors (use of water for pasture management). Based on the results the research will (4) develop policy recommendations for bridging the gap between policy and people and designing more sustainable institutions.

The most important research question is how the emerging institutions (rules in use) are shaped by change of formal institutions, characteristics of actors, pasture resources and the properties of transactions.

The specific methodological emphasis is placed on the combination of case study and the field, laboratory experiments as outlined by *Ostrom E., (2005), Poteete et al (2009)* to study the behavior and outcomes in common pool resource dilemmas by exogenous, endogenous rule making and bargaining. The Institutions of Sustainability (IoS) Framework (*Hagedorn K., 2001*) and design principles of 'robust institutions' (*Ostrom E., 1990*) will provide the analytical frame. The distributional theory of institutional change (*Knight J., 1992*) will be applied by explaining the rule making process.

The research is focused on the institutions responsible for pasture management, however the use of water for pasture management (for winter fodder production) are investigated in order to study the interaction between institutional environment and other sectors.

Keywords: transition, institutional development, common pool resources, rural development, Central Asia, Kyrgyzstan.

2. Introductory problem statement

2.1. Agrarian reforms and their implications

To understand the dynamic of rural development in Kyrgyzstan we need to have a brief discourse on the historical background. The agricultural, semi-nomadic and pastoral societies, with feudal structures of land and water ownership were characterised by common use land regimes. Communal-tribal control of land was established in some tribes starting at the end of 17th century.

After colonisation by the Russian Empire, agrarian reform fixed state ownership and responsibility for use and allocation of land. The system of land tenure was introduced based on property rights backed up by Russian state authority (*Undeland A., 2005*).

After 1930, the Soviet government introduced nationalization reforms and established *kolkhozes* (collective farms) and *sovhozes* (state farms). This led to the settling of nomadic tribes, the construction of large-scale irrigation systems and the expansion of irrigated lands. The Soviet planned economy supported rapid growth of farming and the mechanization of agriculture. Agri-

culture became the one of the most important sectors in the economy of Kyrgyzstan contributing more than 38% of the GDP of Kyrgyzstan in 1991 (*ADB Statistics, 2011*).

After the break- up of the Soviet Union in 1991, independent Central Asian countries implemented different reforms and policies in the transition to a market economy in the agricultural sector. Kyrgyzstan introduced a strategy of “shock therapy”, by restructuring agricultural enterprises, privatizing land, and promoting individual farming (*Bloch C. 2002 b*). The agricultural sectors in Kyrgyzstan have experienced important economic developments since independence, with a strong contraction in 1990-1995, a recovery between 1996 and 1997 and a recession since 2005 (*World Bank Report 2007*).

The economy has seen moderate growth rates driven by agriculture; however, growth has not generated enough jobs to keep pace with population growth. “Compared to the mid-1990s, fewer people now participate in the labour market, and more people are unemployed” (*World Bank report 2007, 2*). According the World Bank poverty assessment, in Kyrgyzstan poor people are mainly occupied in farming: they are underemployed and the majority of rural households use land for subsistence farming. With limited job opportunities at home, internal migration and external migration to Russia, Kazakhstan and other neighbouring countries is increasing. This may have contributed to lowering rural poverty rates in recent years (*World Bank report 2007*).

Environmental degradation is widespread in Kyrgyzstan and various post-independence trends can be observed. Any environmental improvement has mainly been caused by “default rather than by design”, for example by the decline of industry and intensive agriculture (*Asian Development Bank 2007, 20*).

However, increasing environmental deterioration has been observed in state owned winter pasture land, forests, and irrigated land and water resources. Privately-owned agricultural land is suffering from underinvestment in its maintenance and the improvement of its soil fertility. The water quality of surface water is affected by irrigation drainage discharges, agricultural pollution, and a decline of wastewater treatment. The problems of salinization and waterlogging of the soil is leading to a decline in agricultural output.

According to the Asian Development Bank study on natural resource management the absence and weakness of rules and institutions, along with the weakness of the state to design and enforce them is one of the main reasons for environmental degradation problems (*Asian Development Bank 2007*).

2. 2. Institutional reforms and gap between politics and people

Another major characteristic of the transition process in Kyrgyzstan is the institutional reform of irrigation and pasture management, which is conducted to make the sectors more efficient, market-oriented and democratic through decentralization and user participation.

In Kyrgyzstan several water related institutional reforms have been conducted. A new Water Code was approved and administrative re-organization and re-allocation of competencies were conducted in 2005. Water Users Associations (WUA) have been created since 1995 and the Irrigation Service Fees (ISF) were introduced in 1999.

The ongoing pasture management reforms focus on the establishment of Pasture User Associations and Pasture Committees and aim to transfer the management competence to the community level. After the adoption of the new law "On pastures" in January 2009, Pasture User Associations (PUA) and Pasture Committees (PC) are to be created in more than 450 municipalities during 2010.

However, the mainly international donor-driven reforms have not met their objectives so far.

According to *Ibraimova A., (2008)* no effective incentives are provided by the state to enforce new institutions and organisations at the rural level and informal institutions are not being taken into account by the government. New organisations for collective action often remain ineffective.

In water management we observe not a complete institutional change, but rather a re-arrangement and a process of institutional "bricolage" of old and new institutional elements. "On a formal level, new institutions have been established: laws have been approved, WUAs have been registered, and fees have been introduced. On an informal level, these institutions are transformed according to the existing institutional logics" (*Shering J., 2007, 288*).

The newly established pasture management institutions at local level will probably face similar problems. According to *Crewett W., (2009)* the process of establishing Pasture Associations and Pasture Committees is confronted with a number of challenges. The level of information dissemination and awareness seems insufficient to assure the participation of all relevant stakeholders. Another challenge is that the new pasture law is starting to be implemented whilst the legal framework is still in the process of development. The process has just started and an evaluation of its outcomes needs further research.

By the institutional change initiated and organized by the government and supported by international donors, we observe a gap between the politics and the people, and the newly designed formal institutions and the existing rules in use. People often are not informed, do not under-

stand and do not participate in the process of developing new “sets of formal rules”. The new formal institutions do not meet their interests or may contradict them. People respond to the formal institutional change with their own strategies, which are often oriented towards the short term, and are aggressive towards resource use. The gap between the politics and the people has two sides: Regarding the people there is a lack of information, understanding and participation. On the other hand, politics are dominated by autocratic or technocratic behavior. The gap between the people and politics decreases the impact of agrarian reforms and leads to “open access situations”, overuse and degradation of natural resources and contributes to the increase of conflicts over natural resources.

3. Outline of analytical framework

In order to analyze institutions and institutional change, the study follows the conceptual framework of Institution of Sustainability (IoS) *Hagedorn K., (2001)*. “Institutions are the sets of inter-related rules governing given aspects of social life which are acknowledged (or even sanctioned) by all or some members of society. Institutions regulate relationships among individuals and between social and the ecological system, i.e. rights and duties as well as costs and benefits of actions, and therefore institutions are the essential linkage between social and ecological systems” (*Gatzweiler et al., 2001, 4*).

The meaning of sustainability refers to the “ways social systems interact with and relate to ecological systems by means of their institutions” avoiding the extinction of resources and allowing for humans to avoid disruptions and cope with instabilities (*Gatzweiler F., 2001, 6*).

The effective management of ecosystem stocks and flows fails when the necessary institutions are absent or mismatches among institutions occur. The process of evolution and co-evolution of institutions or intentional institution building and non-intentional institutional change is a dynamic and complex process and is a result of co-adapting social and ecological systems.

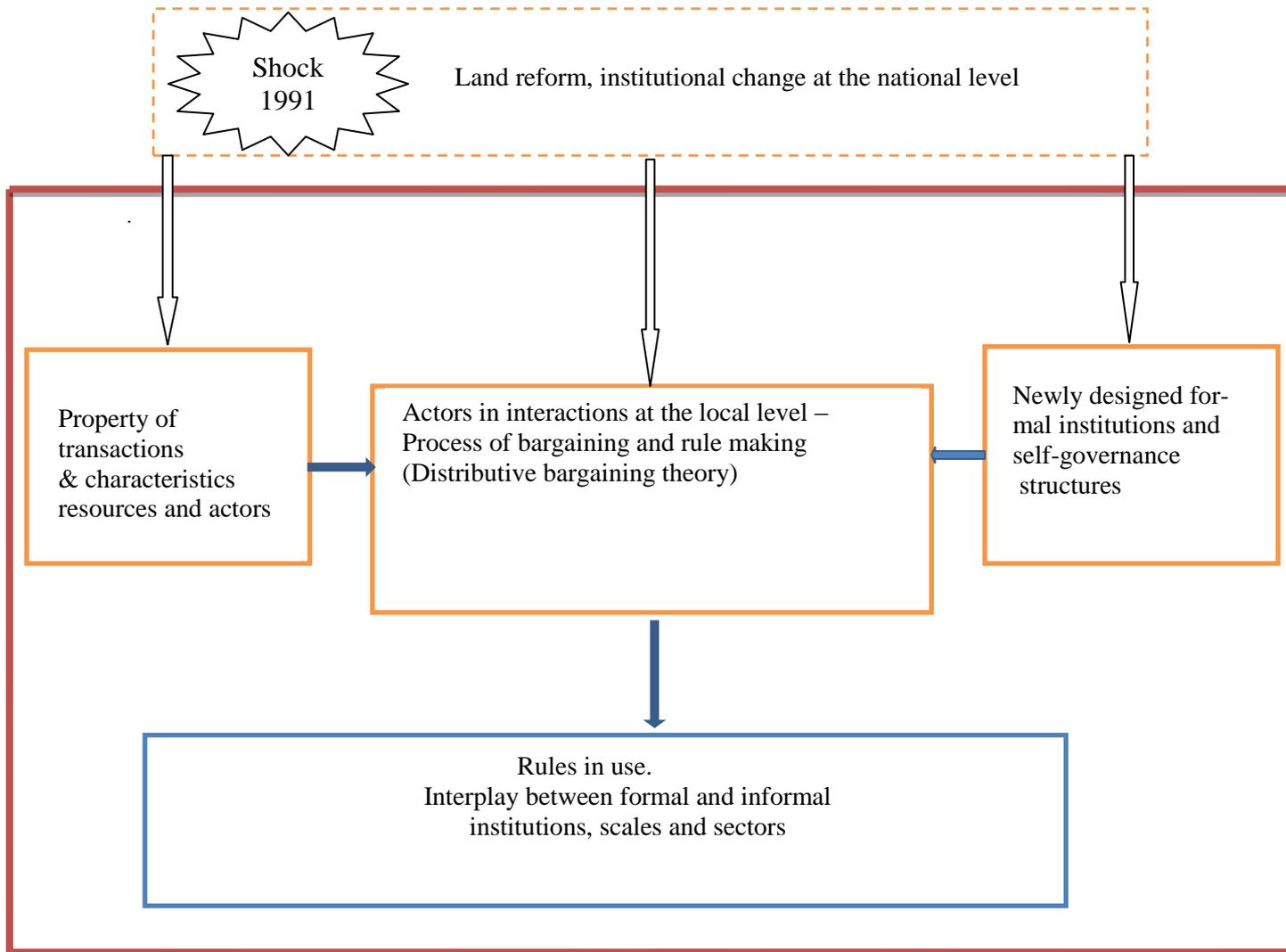
Four groups of determinants are proposed to structure and analyze the technological (or biological), economical and socio-political factors, which influence institutional change in the area of agri-environmental coordination. (1) The framework develops category of natural related transactions and focuses on the resources, goods and services, which involves self-organisation of ecosystem. The properties and implications of transactions are influenced by the technological innovations and structural change. The institutionalisation of these transactions affects the sustainability of resource management (*Hagedorn K., 2008*). (2) The characteristics and objectives of actors such as values, interests and resources shaping the institutions simultaneously. (3)

Design and distribution of property rights are affected by institutional change. (4) Governance structures are changed as well, in order to ensure effectiveness of property rights and coordinate the transactions (*Hagedorn K., 2002, 2008*).

Finally the framework states that “Institutional framing conditions (basic rules and arrangements and self-governance) supporting and allowing for the evolution of local resource management institutions belong to this type of institutions which can (and should) be designed intentionally” The framework underlines the importance of learning processes of “co-adaptation” where communication, information, feedback and response are essential (*Gatzweiler F., 2001, 7*).

The Institutions of Sustainability Framework (IoS) helps conceptually orient the analysis of the institutions and the process of institutional design. The framework is adapted to the transition context of Kyrgyzstan (Figure 1) and illustrates how the process of institutional change and adaptation in pasture management can be analysed.

Figure 1. Project analytical framework



Source: Adapted from Hagedorn K., (2008).

4. Description of main theory

The concept of bargaining or contracting property rights has been introduced by *Libecap G.*, (1999). This concept “gives the importance of the property rights for the resource use” (*Libecap G.*, 1999, 37) and investigates the details of the bargaining process identifying as crucial factors (i) the gains to be shared, (ii) the number and heterogeneity of the actors (parties) involved, (iii) the information, (iv) the distribution issues and (v) the physical nature and value of the resource.

While *Libecap G.*, (1999) focuses on the intentional design of institutions and implications of inefficiency, *Knight J.*, (1992, 1995) developed the distributive bargaining theory, which explains

the intentional and spontaneous emergence of formal and informal institutions. The theory insists on the distributive aspect of institutional development, stating that “social institutions are a by-product of strategic conflict overall substantive social outcomes” and “social actors produce social institutions in the process of seeking distributional advantages in the conflict over substantive benefits” (Knight J., 1995, 107).

The bargaining of actors over possible alternatives is the selection mechanism for institutions. The bargaining power influences the bargaining outcome. Asymmetries in resource ownership, as one of the factors of bargaining power, “affects the willingness of self-interested actors to accept the bargaining demand of other actors” (Knight J. 1997, 5).

Knight transformed the Prisoner’s Dilemma game into the bargaining problem in order to model basic social interaction and the emergence of social institutions. The model is based on the following assumption: “institutions are rules that structure social interactions in ways that allow social actors to gain benefits of joint activity” (Knight J. 1995, 98). The bargaining model is presented in Table 1.

		B	
		L	R
A	L	$\Delta A, \Delta B$	$x, x+\epsilon B,$
	R	$x+\epsilon A, x$	$\Delta A, \Delta B$

Table 1. The basic bargaining game (Knight J., 1992).

A and B are two actors in the bargaining situation. If we set $\Delta A, B < x$, then two equilibrium outcomes R, L and L, R can solve their coordination problem. R, R and L, L are strategies, which represent the breakdown of coordination. The Δ values represent the payoffs for non-coordination (break down values). For $\epsilon A > 0$, ϵ represents the distributional advantage, that can be accrued to one of the actors, depending on the type of equilibrium achieved. (Knight J. 1992).

The key feature of the distributive theory is the “fundamental relationship between resource asymmetries on the one hand, and credibility, risk aversion and time preferences on the other” (Knight J., 1992, 129). He assumes that a relationship exists between resources ownership and attitudes towards risks. It is positive towards risk acceptance and negative towards aversion. “The greater the difference in the resources between the actors, the stronger the relationship between the costs of non-coordination and risk attitudes should be” (Knight J., 1995, 109). The bargaining theory argues that social actors suffer significantly and not uniformly for failing to coordinate, and the awareness of these differences can influence the credibility of certain strat-

egies. "In this way, the commitment of the powerful can significantly influence the choice of equilibrium alternatives" (*Knight J., 1992, 136*).

The bargaining and distributive theory was successfully applied by studying the management of common pool resources in the transition context of Central and Eastern Europe. The research proved that many cases cannot be explained by efficiency and that the power asymmetries, power abuse and opportunistic behaviour play a crucial role in the transition context.

The characteristics of land reform in Bulgaria were studied by *Hanisch M., (2000)*. He applied public choice and bargaining theory with the objective of explaining the reform implementation process at the central and local levels and to understand the reform outcomes. Hanisch argues that at the local level, the "hypothesized mechanisms like a player's attitudes towards risk, time preferences, informal sanctioning and a player's credibility crucially influenced co-ordinations between rural actors" (*Hanisch M., 2000, 37*).

Theesfeld I., (2005, 2011) analysed the transition processes in Bulgaria in the irrigation sector. In the case of Bulgaria's water user associations, she empirically studied the perception of power by actors and ranked them in order to find their interrelation. *Theesfeld I.,(2005)* argues that 1) unrestricted access to information, 2) personal relationships, 3) trustworthiness, 4) cash resources for bribing, 5) menace, and 6) physical power and violence are the main power resources, which were abused by local actors and significantly influenced the implementation of the privatisation and decentralisation reform in Bulgaria's irrigation sector. For future research, she recommends the examining of power resources in every context, hence they are not universally relevant. (*Theesfeld I., 2005*).

Schlüter A., (2001) investigated agricultural reform in the Czech Republic. His study explains the process of privatisation by applying the theories of institutional change. The competition and bargaining approaches were empirically tested at the local and central level. He states that at both levels competition was not important, but at the local level "...the determinants of the distributive bargaining approach have been most important: asymmetries in exit options, time preferences and information have been striking, largely favouring old management" (*Schlüter A., 2001, 1*).

The distributive bargaining theory is operationalized by the investigation the process of bargaining and rule- making in pasture management in Kyrgyzstan and studying the factors triggering the spontaneous change of informal rules and intentional change of formal rules. The analytical focus is on the asymmetries of power (resources), distributional consequences and their influence to the stability (status quo), which according to Knight are main conditions that produce incentives for the spontaneous change of informal rules and also for intentional

change of formal rules (*Knight J., 1992, 183*). The logics of the bargaining are different in the case of the spontaneous change in the informal rules – it is “to constrain the actions of others through our own commitments” and in the case of the intentional change of formal rules- “through the actions of a third party” (*Knight J., 1992, 188*). However, the following factors are assumed to influence the bargaining process for both, the spontaneous and intentional institutional change in pasture management in Kyrgyzstan (*See Figure 2. Variables influencing the rule making process in pasture management*):

(1) The introduction of new formal rules by the state and the efficacy of intentional change depend on the ability of information on the new equilibrium to pursue local actors and ability of sanctions to enforce the implementation of the new rule (*Knight J., 1992*).

(2) The characteristics of actors (*Hagedorn K., 2008*) and their power resources such as information, resources, networks, risk aversions, exit opportunities etc. (*Knight J., 1992*).

(3) The physical nature and value of the pasture resources (*Libecap G., 1999*).

(4) The features of production systems in pasture management and the properties of transactions, which are institutionalised by the existing rules and/or are affecting the change (*Hagedorn K., 2008*).

Finally the robustness and sustainability of the existing status quo and new institutions are examined referring to the IoS framework in order to develop policy recommendations for pasture management in Kyrgyzstan.

Figure 2. Variables influencing the rule making and bargaining process in pasture management

1. State interventions: Information about the new legal framework, enforcement of the new formal institutions and governance structures

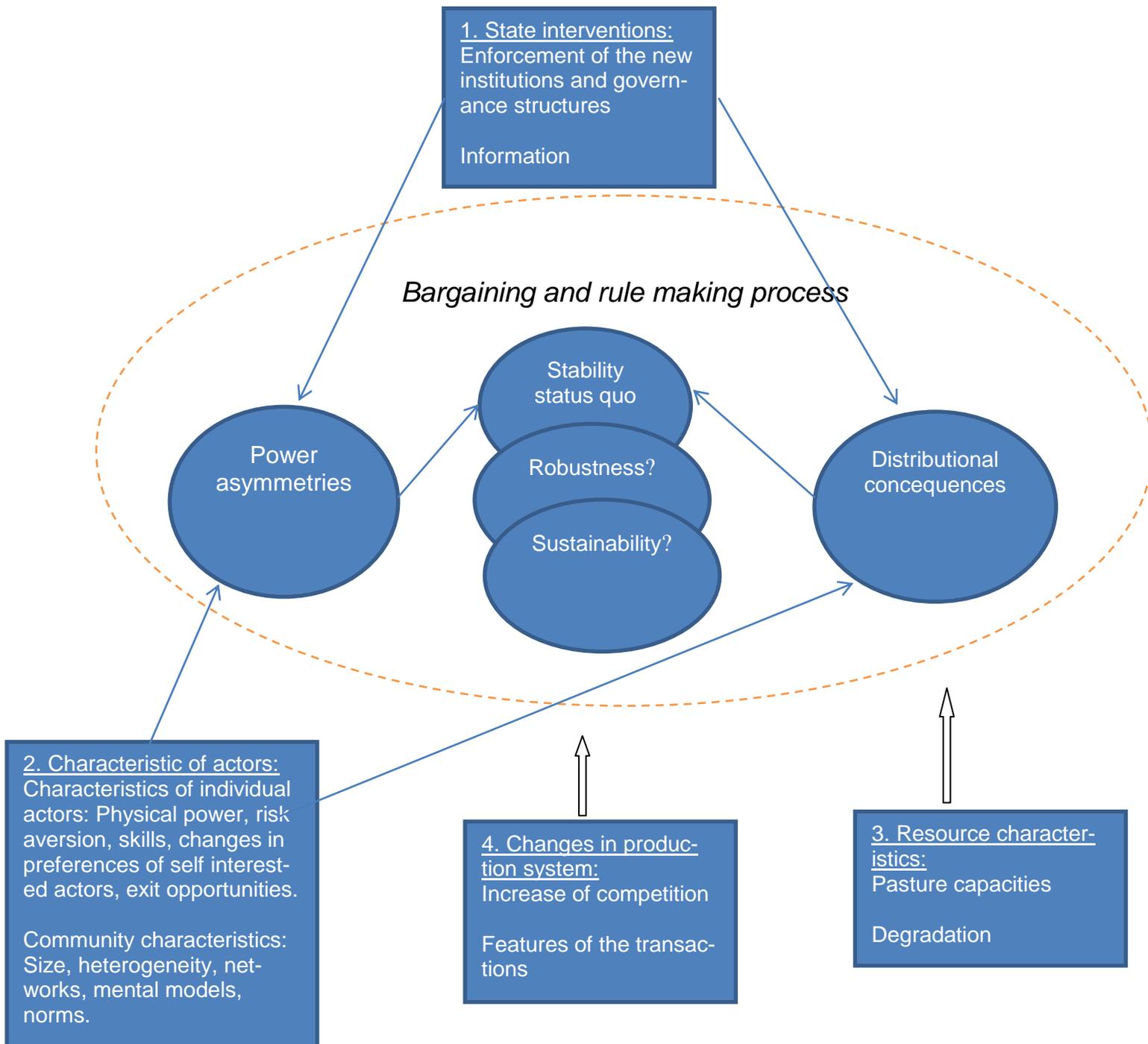
2 Characteristic of actors:

Individual actors: Physical power, risk aversion, changes in preferences of self interested actors, exit opportunities.

Community characteristics: Size, heterogeneity, networks, mental models, norms.

3. Characteristics of the resources: pasture capacities, level of degradation

4. Changes in production system: increase of competition, properties of transactions



Source: Author

5. Conclusion and discussion

The paper essentially described how the Institutions of Sustainability (IoS) framework and distributive bargaining theory can be operationalized in order to undertake a complex institutional analysis of pasture management in Kyrgyzstan.

The Institutions of Sustainability (IoS) framework are employed to facilitate an understanding of the complexity of the process of institutional change in transitional context of Kyrgyzstan by integrating the properties of transactions, characteristics of actors, institutions and governance structures and focusing the research on bargaining and rule making process as a particular action arena. The Institutions of Sustainability (IoS) framework was chosen because it provides a holistic and systematic frame for analyzing and understanding the diverse drivers and relationships, captures the complexity of determinants affecting the dynamic process of emerging new institutions. The IoS framework was successfully applied to study the common pool resource management in the transition context of Central and Eastern Europe. According to Hagedorn K.¹, the institutional change during the transition from state managed to market oriented economic systems was strongly influenced by change in production systems (methods and techniques) and the institutions of sustainability framework explicitly focus on this relationship between institutional change and transactions.

The bargaining and distributive theory of institutional change is introduced in order to explain the causes and drivers, shaping the process of emerging new institutions and takes in the account the institutional failures, power and discrimination which play an important role in the transitional context of Kyrgyzstan. As Williamson O., (2000) stating in his analysis of the state of the art of the New Institutional Economics and the experience from the transition: "Politics is judged with reference to a hypothetical ideal by some and in comparative institutional terms by others. Efficiency arguments have mainly prevailed over power interpretations because the latter are tautological, but power issues refuse to go away". (*Williamson O., 2000, 610-611*). The experience of studying the common pool resource management in the transition context (*Shulter A., 2001, Hanish M., 2000, Theesfeld I., 2005*) reintroduced the power concept in the institutional analysis and showed that "the power asymmetries, power abuse and opportunistic behaviour are matter of fact and should be not ignored" (*Hagedorn K., 2005, Theesfeld I., 2005, vi*).

¹ Comment to the research project proposal of Ulan Kasymov

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