

CENTRAL ASIA

KYRGYZ REPUBLIC INFRASTRUCTURE GOVERNANCE ASSESSMENT



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Frequently Used Abbreviations and Acronyms

CoA	Chamber of Accounts
EEU	Eurasian Economic Union
EIA	Environmental Impact Assessments
FDI	Foreign Direct Investment
InfraGov	Infrastructure Governance
InfraSAP	Infrastructure Sector Assessments Program
IFI	International Financial Institution
iSOEF	Integrated State-owned Enterprise Framework
JSC	Joint Stock Company
MAPS	Methodology for Assessing Procurement Systems
MoDD	Ministry of Digital Development
MoE	Ministry of Energy
MoEC	Ministry of Economy and Commerce
MoF	Ministry of Finance
MoNRETS	Ministry of Natural Resources, Ecology and Technical Supervision
MTEF	Medium-term expenditure framework
NDS	National Development Strategy
NEHC	National Energy Holding Company
NIA	National Investment Agency
NRI	Network Readiness Index
PIM	Public Investment Management
PPL	Public Procurement Law
SPMF	State Property Management Fund
USP	Unsolicited Proposal
VfM	Value for Money

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Executive Summary

Context

- 1. The infrastructure and social service system of the Kyrgyz Republic is poor and has deteriorated since independence, aggravating rural and urban disparities, undermining citizen and business confidence, and triggering conflict.** The deterioration or collapse of developed, if basic, Soviet-era structures and systems has led to significant voids in infrastructure maintenance, paved roads, electricity, district heating, drinking water provision, sanitation services, healthcare, childcare, and social facilities. Basic public services delivery was transferred in 2008 to local self-governments, despite, in many instances, their limited funds, lack of technical knowhow, and weak institutional capacity. Unsurprisingly, the extent and quality of such services in rural and especially mountainous regions now lag far behind urban areas. Piped water supply outside of the capital is intermittent and commonly disrupted by shortages or unsafe water. More than 90 percent of citizens lack access to sewage systems.¹ Substandard roads and streets, lack of clean drinking water, and problems with kindergarten, electricity, and garbage were among the highest-ranked challenges facing villages and towns noted by voters in a 2019 survey.² Increasing regional disparities pose a threat to social cohesion and contribute to political instability.
- 2. Large infrastructure gaps, especially in the transport and energy sectors, constrain the competitiveness of the economy.** The country's rankings are low in various global indexes measuring infrastructure in general, as well as in the transport and power sectors, including vis-à-vis Central Asian and other landlocked countries. Road and rail densities are low and lag regional peers, and the quality of much of the road network is poor, impeding growth in rural areas and the development of export industries. Additionally, many capital assets are far older than their normal service life and have thus become prone to frequent breakdowns that disrupt, for example, power and heating supplies. Firms identify electricity as a major constraint on their operations and because the expansion of electricity generating capacity lags the growth of domestic demand, increasing electricity imports during the winter are required.
- 3. The government's strategic planning documents emphasize the imperative of investment to modernize and expand public infrastructure.** According to the International Monetary Fund (IMF) three infrastructure sectors alone—roads, water, and electricity—require additional expenditures amounting to 63 percent of 2018 GDP over 2019-30 to achieve the country's Sustainable Development Goals³ (health and education sectors require additional expenditures of 18 and 25 percent of 2018 GDP, respectively).⁴ But the current Public Investment Program covers only 3-5 percent of GDP each year and there is limited

¹ World Bank 2021, Kyrgyz Republic Country Program Evaluation, World Bank, Washington, DC, and Development Policy Institute 2020, How can local self-government of the Kyrgyz Republic inspire citizens? Bishkek, Kyrgyz Republic: Development Policy Institute.

² Center for Insights in Survey Research 2019, Public Opinion Poll Residents of Kyrgyzstan: November 21-December 3, 2019. International Republican Institute, Washington, DC.

³ IMF 2019, Kyrgyz Republic: Staff Report for the 2019 Article IV Consultation. Country Report No. 19/208.

⁴ Ibid.

space to allow for larger fiscal deficits without exerting upward pressure on public debt-to-GDP ratios.⁵ Consequently, public investments—from both domestic and external sources—will need to be used efficiently, and further efforts undertaken to strengthen all streams of funding/financing.

4. **High demand for infrastructure and limited fiscal space calls for a strategic approach to crowd-in private capital, particularly in sectors where a massive potential for private investment is deterred by distortionary policies.** The investment climate in the Kyrgyz Republic faces significant challenges. Governance issues are particularly relevant to investors, with nearly 70 percent of firms citing some aspect of governance as their single largest constraint.⁶ Indeed, governance concerns occupy the first, second, and third positions as top obstacles to the business environment in the 2019 World Bank Enterprise Survey. Among respondents, 62.9 percent flagged either political instability, informality, or control of corruption.⁷

Objective and Assessment Framework

5. **To help the government address these challenges, this report outlines the infrastructure governance challenges that impede the country's opportunities to enhance both public investment performance and value for money (VfM) and attract private sector participation.** It does so by applying selected principles of the World Bank's Infrastructure Governance Assessment Framework (InfraGov). It then maps out the concrete steps that the government could take to fully realize the potential of the sectors' opportunities. The report was generated following a benchmarking exercise, discussions with World Bank Country staff, a review of previous reports from the World Bank and other development partners on public investment management (PIM) and public financial management (PFM) issues, and an in-person fact-finding mission to the Kyrgyz Republic that included interviews/focus groups interactions with government officials and private sector investors.

6. **This assessment focuses upon key InfraGov dimensions across the project lifecycle, cross-cutting principles, and service delivery.** The chosen dimensions were prioritized together with the government and center on the quality of the overarching PIM and public-private partnership (PPP)/concession frameworks and processes across the lifecycle of a public infrastructure project, and on the cross-cutting considerations in infrastructure of data transparency and climate-change resilience. The report's findings reveal barriers to the design, execution, and monitoring of all public infrastructure projects, independent of their funding source. The key governance challenges and the corresponding recommendations are summarized in the table at the end of this executive summary. The project lifecycle dimensions covered in this assessment are (a) planning, preparation, and selection; (b) efficiency and value for money; (c) fiscal sustainability; and (d) procurement. In addition to the aforementioned cross-

⁵ Ministry of Finance of the Kyrgyz Republic, Explanatory Note to the Draft Republican Budget of the Kyrgyz Republic for 2023 and Planning Period for 2024-2025, Page 85-90, <https://www.minfin.kg/pages/utverzhdenny-byudzheth#>

⁶ World Bank 2019, Enterprises Survey 2019, World Bank, Washington, DC.

⁷ Ibid.

cutting issues, the capacity of state-owned enterprises (SOEs)⁸ in terms of service provision is analyzed, and an analysis of the energy and digital sectors is conducted.

Project Lifecycle

7. **Despite recent reforms, the governance of infrastructure projects across the project lifecycle faces significant challenges.** Project prioritization is not standardized, resulting in little connection between high-level strategic plans and approved projects. The 2018-2040 National Development Strategy (NDS) outlines the country's key economic and social priorities, but gaps in strategic planning and the lack of financing for large-scale projects has forestalled many of these priorities. Separate review and approval processes for domestically funded public investment and externally funded public investment have led to fragmentation and may result in project overlap, duplication, and additional fiscal burden on the state budget. Line ministries submit proposals for externally funded projects concurrently to both the Ministry of Finance (MoF) to evaluate financing, and to the Ministry of Economy and Commerce (MoEC) for project appraisal. However, MoEC approves projects on an ad-hoc basis, and projects are not prioritized unless they have secured funding or financing. Moreover, domestically funded projects are not seen, much less appraised, by MoEC, and are directly negotiated between the MoF and line ministries. Potential duplication and overlaps can also arise with projects financed from foreign direct investment (FDI), as they go through a more streamlined approval process and are also not subject to MoEC review. Overall, the approval processes for FDI-financed public infrastructure projects and those of the state budget do not meet the same standards in terms of quality assurance and transparency as IFI funded projects. Lifecycle costs, also known as the total cost of ownership of public infrastructure assets, are rarely considered and accounted for during the development stage of a project, affecting the sustainability of investments. This can force MoF to react in annual budgets by allocating recurrent funding for maintenance of current infrastructure assets rather than funding new infrastructure projects. While a medium-term expenditure framework (MTEF) is in place in the Kyrgyz Republic, the lack of alignment with investment planning and prioritization limits fiscal sustainability. Finally, the 2022 public procurement reform can pose additional risks to value for money and integrity. The new law removes from its scope state-owned and municipal enterprises as well as joint-stock companies with 50 percent or more of the shares belonging to the state.⁹ This has raised concerns from civil society, local media, and international partners with respect to transparency issues. Moreover, the IMF recently concluded that a proposed amendment to the law “would undermine the integrity of the procurement system and considerably increase risks of corruption.”

8. **The Kyrgyz Republic has had a public-private partnership (PPP) framework in place since 2012 (with amendments), and more can be done to improve the PPP track record and attract more private participation in infrastructure.** The country has signed 19 PPP contracts, but only three are currently operational, in the healthcare, public transportation, and culture sectors. The quality and integrity of PPP project preparation require strengthening. Feasibility studies for PPPs are only conducted on a discretionary basis, potentially compromising project quality. Although the PPP Center discloses information on PPP projects (both under preparation and signed) on its website, crucial details are missing, such as the presence of a feasibility study, project initiation status, and any support from

⁸ In this report, SOEs include state unitary enterprises, which are defined as business entities that have no ownership rights to the assets that they use in their operations. This form is possible only for state and municipal enterprises, which respectively operate state or municipal property.

⁹ <http://cbd.minjust.gov.kg/act/view/ru-ru/112361>

international financial institutions (IFIs) for project preparation. A PPP Project Preparation Fund has been little utilized thus far. The PPP approval process is also separate from typical public investments, posing challenges in terms of fragmentation and potential project overlap and duplication. Although MoEC is responsible for strategic planning and for ensuring the quality of public infrastructure development, it is not involved at any point of the PPP review process. The fiscal risk assessment of PPP projects and development of risk-mitigation strategies should be integral parts of feasibility studies, both for unsolicited proposals (USPs) and government-initiated projects. More guidance on how to conduct a PPP fiscal-risk assessment could help improve their quality. It is unclear how, or if, fiscal-risk analyses were undertaken for the PPP projects in operation or in the pipeline. It is also unclear what role MoF plays in checking, enforcing, and approving the results of such assessments, or in assessing the affordability of the direct commitments and acceptable level of the fiscal risks generated by potential contracts. A limited use of PPP risk assessment and disconnects in the process can lead to unsustainable use of limited fiscal space and increase an already elevated public debt, potentially undermining the country's credit rating, which is currently a B2 from Moody's and B from Standard & Poor's.

Climate Change and Transparency

9. **The Kyrgyz Republic is especially vulnerable to climate-change risks arising from frequent climate-related disasters, a fragile energy sector, and ageing infrastructure.** A reliance on hydropower energy generation makes the sector extremely sensitive to climate variability stemming from a projected increase in temperatures affecting runoff rates, seasonal flow rates, and a projected decline in precipitation. Many of the power generation and distribution assets also need rehabilitation and are already responsible for considerable distribution losses. The wider governance issues and challenges within the PIM—limited prioritization, fragmented funding sources, and lack of oversight of existing assets—are also adversely impacting the climate-change resilience of these assets. The Ministry of Natural Resources, Ecology and Technical Supervision (MoNRETS) is the lead agency responsible for monitoring climate issues. While it undertakes environmental impact assessments (EIAs) for all large infrastructure projects at their planning stage, there is limited monitoring during project implementation, as this is the responsibility of individual line ministries. MNR would benefit from having access to environmental data held by line ministries to overcome a gap in oversight and communications, which can exacerbate climate risks. Although climate-change targets are well established, more can be done to integrate these targets into sector strategies. It is also unclear how MNR works with other ministries, such as the Ministry of Energy, to ensure alignment with sector mitigation goals. The introduction of climate-change considerations into budget preparation and execution processes is still in the development stage. Tools for supporting climate mitigation and adaptation in public financial management are lacking. Although program budgeting has been implemented, implementing a comprehensive system for tagging climate-related expenditures to connect climate policies with budget resources and monitor spending in terms of both financial and nonfinancial performance could enhance, the focus on climate risks.

10. **Increasing transparency and integrity is another critical cross-cutting challenge in the Kyrgyz Republic.** While the government has made commendable efforts to increase information sharing and promote public participation especially during budget formulation, gaps remain. Public dissemination of information that could aid in improving public oversight of budget implementation is infrequent and incomplete. This includes pre-budget statements, more extensive external audit reports, a summary of the budget proposal, and macroeconomic forecasts. Limitations on project information and service

delivery undermine accountability and can potentially hamper value for money and performance. For example, data related to service delivery—which is typically publicly available in other countries—is designated as confidential in the Kyrgyz Republic. A lack of transparency in certain aspects of the project lifecycle and governance of SOEs can adversely affect trust in government and the business climate. This includes the lack of public information on SOE financial performance, procurement decisions, and decisions on the development of infrastructure projects.

Service Delivery and Governance of State-Owned Enterprises

11. **The government is working to optimize its SOE portfolio, but its governance and performance should be improved.** While relatively small in terms of their total number—SOEs (94) and joint stock companies/JSCs (63)—play a significant role in economic activity. The State Property Management Fund (SPMF) oversees all JSCs and most SOEs, but it works with the two groupings separately, in part because they have different regulatory regimes. Additionally, 13 SOEs are under various ministries. Consequently, there is no single-source comprehensive overview of the entire SOE portfolio. While SOEs are mandated to contribute 50 percent of their profits to the state budget, the dispersed financial monitoring systems render it difficult to track the net impact of the SOEs on the state budget.¹⁰ Almost all SOE contributions to it comes from just six SOEs. Corporate governance reforms continue, albeit at a modest pace, including new standards being introduced in publicly owned JSCs (but not SOEs). However, the SOE reforms are at risk because of changes to the Procurement Law, which exempts SOEs from the public procurement framework. This is likely to adversely affect competition, value for money, harmonization of procurement practices across government procurement market, and the professionalization of government procurement.

Sectoral Analysis in Energy and Digital Infrastructure Sectors

12. **There is immense potential in the energy sector, particularly in hydroelectric and solar energy, to meet domestic demand, promote growth, and export energy if sector governance is improved.** The country's strategic location makes it an ideal hub for electricity export to neighboring countries. But several obstacles must be tackled, including modernizing infrastructure, increasing energy efficiency, and bringing most electricity tariffs up to the cost recovery level to ensure the sector's sustainability. The government is focusing on renewable resources, and regional integration, and it is implementing some measures to improve sustainability of investments in the sector by increasing tariffs while also providing social protections. The energy sector has undergone many reforms and several stakeholders have been consolidated under the Ministry of Energy. Despite steps in the right direction, changes intended to enhance sector efficiency could also represent a reversal of the efforts toward establishing a more liberalized power sector. Specifically, the limited independence of the energy regulator, and poor corporate governance of the largest energy SOEs is preventing the sector from realizing its full potential. Poor execution and frequent revisions in the tariff policy are undermining the sector's financial stability and its ability to attract investors, including through potential PPPs.

13. **Digital development is one of the key priorities in the country's development strategies and action plans, and the government is working with international partners to support their implementation.** The national digital infrastructure needs to be upgraded to support innovation,

¹⁰ <http://cbd.minjust.gov.kg/act/view/ru-ru/157114>

accelerate digital transformation, and Internet accessibility. However, the increasing cost of constructing digital infrastructure impedes efficient delivery of digital services. Internet services providers are not obligated to share their infrastructure and can charge unlimited prices for renting out bandwidth. The digital sector would also benefit from higher market competition. One SOE enjoys monopoly power on the development and provision of core information and communications technology (ICT) infrastructure in the country and another holds a dominant market position in mobile connectivity. The influence of the Communications Service—as the regulator—over the market is strong, which has led to some concerns among businesses, for example, on the lack of consultation and considerations of the practicalities of infrastructure development, terrain, or the capacities of each mobile operator when they are required to cover particular residential areas. Ministerial reshuffles and changes in the structure of line agencies can affect the development of ICT solutions and result in lost sunk costs. The current lack of clarity in the procurement regime as it applies to SOEs, along with a lack of transparency in relations between the central government and ICT SOEs and the limited ICT technical understanding within line ministries, have resulted in many government entities attempting to procure ICT solutions by outsourcing the project to another SOE.

Key Challenges, Recommendations, Timelines, Priorities, and Actors

CHALLENGES	RECOMMENDATIONS	TIMELINE	PRIORITY	ACTOR(S)
A solid legal framework and the institutional capacity to plan, assess, prioritize, and select infrastructure projects is crucial in ensuring a coordinated infrastructure investment program				
<ul style="list-style-type: none"> Project prioritization is not standardized, resulting in little connection between high-level strategic plans and the execution of individual infrastructure projects. The separate review and approval processes for domestically funded public investment and externally funded/financed public investment has led to fragmentation and can result in project overlap, duplication, and additional fiscal burden on the state. budget. The same is true for the PPP approval process. Potential duplication and overlaps can also arise with projects financed from FDI, as they go through a more streamlined approval process, are not reviewed by MoEC, and do not require approval from the Council on Fiscal and Investment Policy. Government support is needed to attract more private participation in infrastructure as a viable option to address the financing gap. 	<ul style="list-style-type: none"> Designate or create a centralized, independent infrastructure agency that brings coherence to the multiple sector strategies, takes responsibility for priority setting and project pipeline development, and leads on developing infrastructure capacity within line ministries. 	LT	High	MoEC
	<ul style="list-style-type: none"> Ensure greater and coordinated oversight of public infrastructure projects from all funding/financing sources (FDI, PPPs, state budget, donor funded/financed) through greater strategic planning and coordination to promote public infrastructure reflecting prioritized national needs and to avoid duplication. 	MT	High	MoF, MoEC & NIA
	<ul style="list-style-type: none"> To attract market leaders and incentivize investors from other sectors, the PPP Center and the National Investment Agency (NIA), to which the former has been subordinate since 2022, should adopt appropriate credit enhancement mechanisms and leverage available resources to facilitate access to sovereign-backed guarantees for high-priority projects in strategic sectors, such as energy. 	MT	Medium	MoF & NIA
Economic efficiency and VFM over the infrastructure lifecycle should be important criteria in the choice of infrastructure investments				
<ul style="list-style-type: none"> Lifecycle costs are rarely considered and accounted for during the development stage of a project, affecting the sustainability of investments. The quality and integrity of PPP project preparation require strengthening, to ensure that PPP projects represent value for money. 	<ul style="list-style-type: none"> Require by legislation that all public investment projects include forecasts on the lifecycle/total cost of ownership of the asset. 	ST	Medium	MoF
	<ul style="list-style-type: none"> Develop a strategy that outlines the clear direction of government's ambitions and priorities for using PPPs (including high-priority sectors and high-priority projects), to clearly express government commitment to PPPs. 	MT	High	MoF, MoEC & NIA
	<ul style="list-style-type: none"> Require the use of feasibility studies for high-risk / significant projects, that incorporate lifecycle costs. 	MT	High	MoF

CHALLENGES	RECOMMENDATIONS	TIMELINE	PRIORITY	ACTOR(S)
Fiscal affordability and fiscal sustainability of infrastructure projects should be assessed and managed throughout their lifecycle				
<ul style="list-style-type: none"> While an MTEF is in place, the lack of alignment with investment planning and prioritization limits fiscal sustainability. The fiscal system in the Kyrgyz Republic is highly exposed to risk. There are gaps in the implementation of PPP affordability and exposure assessments and their use in the decision-making before contracts are signed. 	<ul style="list-style-type: none"> MoF and MoEC should closely coordinate with line ministries to align the national and sectoral level strategic documents, strategic plans prepared by line ministries, and medium-term budgets. 	ST	High	MoF & NIA
	<ul style="list-style-type: none"> Capacities of line ministries need to be strengthened to plan beyond one budget cycle for both recurrent and capital costs. 	MT	High	MoF & MoEC
	<ul style="list-style-type: none"> The government should embrace a more transparent fiscal-risk management by expanding the reporting scope (as part of the fiscal-risk assessment report and the information disclosed on the relevant website). Expansion should include risk sharing between the public and private sectors, the fiscal commitments and contingent liabilities created by each project, including their terms and conditions (i.e., currency of the fiscal commitment), and the estimated contingent liabilities. 	ST	High	MoF & MoEC
	<ul style="list-style-type: none"> MoF should strengthen its gateway role in approving and managing the fiscal risks. 	MT	High	MoF
Incorporating environmental and climate-change considerations is important to ensure sustainable and resilient public infrastructure				
<ul style="list-style-type: none"> While environmental impact assessments are undertaken for public infrastructure projects, there is limited monitoring during project implementation. Climate-change targets are not sufficiently integrated into sector strategies. The introduction of climate-change considerations in budget preparation and execution processes is still in the development stage. 	<ul style="list-style-type: none"> Individual line ministries and MNR should share responsibilities for monitoring environmental impact, throughout the execution of a public infrastructure project, to increase accountability. 	ST	High	MoNRETS & line ministries
	<ul style="list-style-type: none"> Incorporate climate-change reduction targets into specific sector strategies. 	MT	High	MoNRETS
	<ul style="list-style-type: none"> Incorporate climate change into project appraisal and budget planning and execution processes, to ensure that future public investments in infrastructure are climate resilient. 	ST	Medium	MoNRETS

CHALLENGES	RECOMMENDATIONS	TIMELINE	PRIORITY	ACTOR(S)
Strengthening budget accountability and procurement transparency can promote better infrastructure strategies and projects				
<ul style="list-style-type: none"> Gaps remain in information sharing, especially for effective participation during budget implementation. The recent public procurement reform was motivated by the need to streamline the procurement process, but it can pose additional risks to value for money and integrity. Certain limitations in the disclosure of information and data on projects, and on service delivery, undermine accountability and can potentially hamper value for money and performance. Lack of transparency in certain aspects of the project lifecycle and governance of SOEs can adversely affect trust in government and business climate. 	<ul style="list-style-type: none"> Immediately address the lack of transparency around SOE procurement resulting from the recent procurement law, including the development and mandatory use by SOEs of an online platform for public procurement. Accelerate efforts to increase citizen participation and monitoring of budget implementation by expanding the disclosure of public financial information. 	ST	High	MoF
		MT	Medium	MoF
The governance of SOEs should be transparent and efficient, with strong corporate governance mechanisms in place				
<ul style="list-style-type: none"> Dispersed financial monitoring systems renders it difficult to track the net impact of SOEs on the state budget. The SOE corporate governance reforms are at risk, particularly in light of changes to the Public Procurement Law. Despite the lack of clarity on SOE procurement, the government is now working on implementing an online platform for SOEs to conduct public procurement. Other corporate governance reforms continue, albeit at a modest pace. 	<ul style="list-style-type: none"> Improve oversight of the entire SOE portfolio, by introducing more aggregate reporting and creating a central coordination function. Publicly disclose financial relationships between the government and SOEs, including transfers of funds, SOEs' retained earnings, reinvestment, loan guarantees, and third-party financing. Ensure that audited financial statements of SOEs are publicly available, including the auditor's opinions and the detailed financial notes. Improve SOE procurement rules as a priority, ensuring SOEs are subject to the same competitive principles as those within the overarching public procurement law. 	ST	High	MoF & SPMF
		ST	High	MoF & SPMF
		MT	High	MoF & SPMF
		ST	High	MoF & SPMF

CHALLENGES	RECOMMENDATIONS	TIMELINE	PRIORITY	ACTOR(S)
Good governance and strong competition in the Energy and Digital sectors can support the delivery of high-quality infrastructure services				
<ul style="list-style-type: none"> The energy sector consistently reports poor reliability and high losses, reflecting insufficient investments and underspending on maintenance and rehabilitation of ageing infrastructure. While governance of the energy market has been the subject of several reforms, clarity of the roles and responsibilities of sector institutions is needed. Worsening sector financials are significantly affected by low tariffs, which the government has been trying to address for several years. The enabling digital environment requires further strengthening of national laws and regulations. The national digital infrastructure should be upgraded to support innovation and accelerate digital transformation. Measures must be addressed to build more resilient, cost effective, and collaborative digital infrastructure. The digital sector would benefit from higher market competition. The Communications Service under the Ministry of Digital Development (MoDD) has considerable influence over the regulation and licensing of the mobile market. The regulatory environment for procuring ICT solutions involves a degree of uncertainty because of the lack of technical understanding and constantly changing expectations. 	<ul style="list-style-type: none"> Continue with the tariff reform program, evaluate existing government subsidies for electricity tariffs to address the current system’s shortcomings, and create a more efficient distribution of resources. Enhance the financial sustainability of the power generation sector by crowding in private investment. Restore the energy regulator’s independent functions. Develop and implement a comprehensive, long-term strategy to diversify the nation’s power mix. Establish a board of directors for the National Energy Holding Company. Support ICT infrastructure sharing among Internet service providers and mobile operators. Continue promoting fair competition and crowd-in private investment in the ICT sector and consider privatizing the SOE mobile operator. Reduce excessive state interference in the regulation of mobile and broadband segments of the ICT market, and consult more with businesses on optimal coverage maps. Simplify and expedite the development of broadband infrastructure by adopting a policy on infrastructure sharing and co-deployment. 	<p>MT</p> <p>MT</p> <p>ST</p> <p>MT</p> <p>ST</p> <p>ST</p> <p>ST</p> <p>ST</p> <p>ST</p>	<p>High</p> <p>High</p> <p>Medium</p> <p>High</p> <p>High</p> <p>High</p> <p>Medium</p> <p>High</p> <p>Medium</p>	<p>MoE</p> <p>MoE</p> <p>MoE</p> <p>MoE</p> <p>MoE</p> <p>MoDD</p> <p>MoDD</p> <p>MoDD</p> <p>MoDD</p>

I. Introduction

The provision of high-quality services is uneven in the Kyrgyz Republic, particularly between rural and urban areas

1. **Despite a reduction in overall poverty, living standards for much of the population in Kyrgyz Republic remain low, prominently with respect to service delivery.** There is limited access to basic services, such as water, sewage, heating, paved roads, and electricity, and the quality of these services is generally poor. Piped water supply outside of the capital is intermittent and commonly disrupted by shortages or by noncompliant or unsafe water. Access to district heating is limited to approximately 17 percent of the 1.1 million Kyrgyz households. The remaining 907,000 households' resort to individual solutions to meet their heating needs during winter.¹ In 2020, the vast majority of citizens lacked access to sewerage systems, and their number is growing—from 91 percent in 2018 to 93 percent in 2020.²

2. **There are large disparities in basic service provision among rural and urban areas and across regions.** Mountain oblasts have fewer basic services than other regions, and, within each region, rural areas are less likely to have basic services than urban areas. For example, 42 percent of the populace of the capital has access to piped sewage, compared with only 3 percent of the predominantly rural population of the Batken region. In small towns, 25-50 percent of the populace has regular solid waste service, compared with about 96 percent of the populace in Bishkek and 60 percent in Osh. Increasing regional disparities pose a threat to social cohesion and contribute to political instability.³

3. **The Kyrgyz Republic inherited a reasonably developed, if basic, infrastructure and social service system that has rapidly deteriorated since independence.** The deterioration or collapse Soviet-era structures and systems left significant voids in infrastructure maintenance, drinking water provision, sanitation services, healthcare, childcare, and social facilities.⁴ In 2008, responsibility for the delivery of most basic public services was turned over to local self-governments, many of which have been unable to carry out these responsibilities because of lack of funding and inadequate technical and institutional capacity.

4. **Failure to provide basic services contributes to frustration and lack of confidence in government, which has been a trigger for conflict.** In a 2019 survey asking voters for the most prominent issue facing their village or town, substandard roads and streets, lack of clean drinking water, and problems with kindergarten, electricity, and garbage were among the highest-ranked responses, along

¹ World Bank 2017, "Kyrgyz Republic—Heat Supply Improvement Project." Project Appraisal document 1124, World Bank, Washington, DC.

² World Bank 2021, Kyrgyz Republic Country Program Evaluation, World Bank, Washington, DC, and Development Policy Institute 2020, How can local self-government of the Kyrgyz Republic inspire citizens? Bishkek, Kyrgyz Republic: Development Policy Institute.

³ World Bank 2021, Kyrgyz Republic Country Program Evaluation, World Bank, Washington, DC.

⁴ World Bank 2018, Kyrgyz Republic: Systematic Country Diagnosis. World Bank, Washington, DC.

with unemployment.⁵ The low quality of local infrastructure and public services also constrains private sector development.

Infrastructure needs are not currently being met, and the country has limited fiscal space to respond to such needs

5. **The government’s strategic planning documents emphasize the imperative of investment to modernize and expand public infrastructure to close large infrastructure gaps.** These infrastructure gaps have arisen both because of the physical deterioration of capital assets constructed or installed during the Soviet era and because of the need to build new infrastructure to take advantage of growth opportunities offered by participation in the Eurasian Economic Union (EEU) and the Chinese One Belt-One Way initiative.⁶

6. **The economy faces large infrastructure gaps, especially in the transport and energy sectors, and these gaps constitute a constraint on the competitiveness of the economy.** The Kyrgyz Republic ranked 103 of 140 countries in the infrastructure subindex of the World Economic Forum’s 2019 Global Competitiveness Index, and only 129 on the transport infrastructure sub-component of that index. It ranked 108 out of 160 countries on the Logistics Performance Index, and its evaluation for that index includes a score of only 2.4 out of five for trade- and transport-related infrastructure. On all components of the Logistic Performance Index, the Kyrgyz Republic scored worse than the average for both Central Asian and landlocked countries. Road and rail densities are low and lag regional peers, and the quality of much of the road network is poor. The deficiencies of the transport infrastructure impede growth in rural areas and the development of export industries.⁷ Additionally, many capital assets are far older than their normal service life and have thus become prone to frequent breakdowns that disrupt power and heating supplies. Consequently, 31 percent of firms in the 2019 World Bank Enterprise Survey identify electricity as a major constraint on their operations (compared to 24 percent in the World Bank’s Europe and Central Asia region as a whole). Furthermore, the expansion of electricity-generating capacity is not keeping pace with the growth of domestic demand, necessitating increasing electricity imports during the winter.⁸

7. **High demand for infrastructure, and limited fiscal space calls for a strategic approach to crowd-in private capital.** For example, national infrastructure investment needs for 2010–20, illustrating the magnitude of the challenge, were estimated at close to \$9 billion⁹ or 13.3 percent of GDP, mostly to ensure maintenance of the existing stock and toward transport and electricity.¹⁰ The IMF provided estimates of the additional spending required to achieve the United Nations Sustainable Development Goals in five

⁵ Center for Insights in Survey Research 2019, Public Opinion Poll Residents of Kyrgyzstan: November 21-December 3, 2019. International Republican Institute, Washington, DC.

⁶ World Bank 2020, Kyrgyz Republic: Public Expenditure Review—Creating fiscal space for inclusive growth, World Bank, Washington, DC, and Government of the Kyrgyz Republic 2018, Development Program of the Kyrgyz Republic for the Period 2018-22: “Unity, Trust, Creation.”

⁷ World Bank 2018, Logistics Performance Index 2018, World Bank, Washington, DC, and World Bank 2020, Kyrgyz Republic: Public Expenditure Review—Creating fiscal space for inclusive growth, World Bank, Washington, DC.

⁸ World Bank 2020, Kyrgyz Republic: Country Economic Memorandum. World Bank, Washington, DC.

⁹ Unless otherwise stated, the currency cited throughout this report is the U.S. dollar.

¹⁰ Bhattacharyay Biswa Nath 2010, Estimating demand for infrastructure in energy, transport, telecommunications, water and sanitation in Asia and the Pacific: 2010-2020. ADBI Working paper 248 (September), Asian Development Bank Institute, Tokyo.

sectors over the period 2019-30.¹¹ Three infrastructure sectors—roads, water, and electricity—required additional expenditure amounting to 63 percent of 2018 GDP (nearly two-thirds of which is accounted for by investment in roads), while the health and education sectors required additional expenditures of 18 and 25 percent of 2018 GDP, respectively. Assuming the average annual real GDP growth of 4.5 percent during 2019–30, the total additional expenditure required by these five sectors to meet the Sustainable Development Goals amounts to 6.6 percent of GDP over the course of the 12-year period, of which 3.9 percent of GDP is composed of expenditures in the infrastructure sectors and 2.7 percent of GDP expenditures in the education and health sectors. While public investment in infrastructure has increased over the past five years, there is limited fiscal space to allow for larger fiscal deficits without exerting upward pressure on public debt-to-GDP ratios. Public investments—from both domestic and external sources—will need to be used efficiently, and private financing should be prioritized, particularly in sectors where substantial potential for private investment is being held back by distortionary policies, such as in hydropower.¹²

8. **The majority of the total public investment is being funded through external sources; however, there is still a significant gap in infrastructure financing.** In 2023-2025, the total amount of public investment budget from all sources will reach 139,377.9 million KGS.¹³ The share of external funding through foreign loans and grants will amount to 132,531.2 million KGS (95.1 percent of the total public investment) while only 6,846.7 million KGS (4.9 percent) will be allocated from domestic sources to co-finance the public investment projects (see Table 1). Agriculture, transport, energy, and infrastructure (including water supply) remain the most important sectors, with an expected volume of investment of 128,610.20 million KGS (92.3 percent) of total public investment in 2023-2025 (see Table 2).¹⁴

Table 1: External and Domestic Funding in the Kyrgyz Republic (million KGS)

Public Investment Program		2018 (fact)	2019 (fact)	2020 (fact)	2021 (fact)	2022 (approved)	2023 (projected)	2024 (forecast)	2025 (forecast)
External	Grants	5,737.40	5,272.60	5,281.13	8,475.61	13,779.50	16,482.17	11,611.53	7,503.25
	Loans	9,087.30	13,042.80	10,410.42	17,955.54	21,917.98	29,459.15	40,422.22	27,052.87
Total external		14,824.70	18,315.40	15,691.55	26,431.14	35,697.48	45,941.32	52,033.75	34,556.12
Internal	Co-financing	912.09	804.00	491.46	1,399.85	2,081.39	1,629.96	2,904.50	2,312.21
Total		15,736.79	19,119.40	16,183.01	27,830.99	37,778.87	47,571.28	54,938.25	36,868.32
GDP		569,385.60	590,042.40	598,344.50	723,122.20	824,948.90	926,980.60	1,021,904.40	1,127,484.80
% of GDP		2.80	3.20	2.70	3.80	4.60	5.10	5.40	3.30

¹¹ IMF 2019, Kyrgyz Republic: Staff Report for the 2019 Article IV Consultation. Country Report No. 19/208.

¹² World Bank 2018, Kyrgyz Republic Country Diagnostic: From vulnerability to prosperity. World Bank, Washington, DC.

¹³ 139,377.9 million Kyrgyzstani Som = 15.9 million US\$.

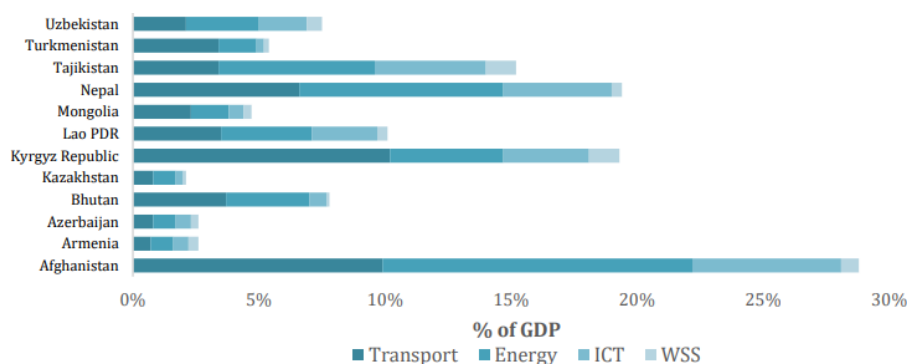
¹⁴ Ministry of Finance of the Kyrgyz Republic, Explanatory Note to the Draft Republican Budget of the Kyrgyz Republic for 2023 and Planning Period for 2024-2025, Page 85-90, <https://www.minfin.kg/pages/utverzhdenny-byudzhet#>

Table 2: Distribution of External Financing by Sectors (million KGS)

Sector	2018 (fact)	2019 (fact)	2020 (fact)	2021 (fact)	2022 (approved)	2023 (projected)	2024 (forecast)	2025 (forecast)
Agriculture	1,315.37	1,778.10	1,333.83	1,221.02	2,485.96	4,995.04	4,883.82	4,140.77
Transport	5,471.02	7,926.56	4,294.30	7,544.60	8,970.64	11,611.41	15,628.34	12,587.75
Energy	3,356.21	4,979.56	3,625.55	8,224.07	8,423.08	9,105.41	10,933.32	5,098.75
Healthcare	351.73	123.42	1,187.05	1,833.14	2,484.53	2,099.33	2,123.34	2,360.85
Education	1,129.18	337.39	190.48	544.20	1,425.01	1,699.90	1,309.43	817.00
State Administration	46.69	38.66	108.18	195.87	727.92	806.07	1,493.97	490.96
Infrastructure (water supply)	2,903.89	2,237.15	4,041.45	4,353.83	7,124.36	8,101.31	7,736.24	4,428.24
Others (Emergency, ITC, Environment)	250.61	894.59	910.72	2,514.42	4,055.99	7,522.84	7,925.31	4,631.82
Total	14,824.70	18,315.43	15,691.55	26,431.14	35,697.48	45,941.32	52,033.75	34,556.12

9. As reflected in the Roadmap of the Kyrgyz Republic National Development Program, which identifies the priority sectors for public investment and covers the specific infrastructure needs, 2022-2026,¹⁵ many infrastructure projects have not secured funding or financing. As estimated by ESCAP in 2019,¹⁶ the Kyrgyz Republic’s infrastructure needs are among the highest of the Asian landlocked developing countries. In particular, financing requirements to close the infrastructure gap, such as transport, energy, and ICT, during the period 2018-2030 are estimated at about 19 percent of GDP per year (see Figure 1). The current Public Investment Program covers only 3-5 percent of GDP each year; hence, there is a significant gap in infrastructure financing. To meet the country’s growing spending needs on infrastructure without undermining debt sustainability, further efforts are needed to strengthen all streams of funding/financing.

Figure 1: Infrastructure Financing Needs in Asian Landlocked Developing Countries, 2018-2030



Source: UNESCAP 2022, Infrastructure financing in Kyrgyzstan.

The Kyrgyz Republic needs to attract private financing of infrastructure projects by improving the investment climate and governance

¹⁵ The Kyrgyz Republic Cabinet of Ministers Decree No. 351, 2021; <http://cbd.minjust.gov.kg/act/view/ru-ru/158853?cl=ru-ru>

¹⁶ UNESCAP 2022, Infrastructure Financing in Kyrgyzstan.

10. **Substantial investments in infrastructure normally can be funded through private sector investment if this can be mobilized.** Nevertheless, there are several challenges to private financing of infrastructure projects in the Kyrgyz Republic related to its investment climate. Governance issues are particularly relevant to investors, with nearly 70 percent of firms citing some aspect of governance as their single largest constraint. When investors cite the top obstacle to the business environment in the 2019 World Bank Enterprise Survey, governance concerns occupy the first, second, and third positions.¹⁷ Among respondents, 62.9 percent flagged either political instability, informality, or control of corruption.

11. **Aiming to support the government of the Kyrgyz Republic in improving its quality of infrastructure services, the World Bank conducted a diagnostic and applied a governance lens, through the InfraGov assessment framework (see Annex 1 for the methodology).** The assessment provides a high-level overview of the widespread issues facing the governance of infrastructure in the country, as well as actionable recommendations. Thus, Chapter II presents the results of the assessment on Kyrgyz Republic's infrastructure performance and governance according to each of the relevant InfraGov dimensions. Chapter III presents sectoral analysis on the Energy and Digital sectors. Annex 2 describes the state-of-play with respect to previous recommendations offered to the Kyrgyz Republic about improving public infrastructure, while Annex 3 provides a glossary of relevant public infrastructure-related terms used in this report.

II. Infrastructure Performance and Governance

12. **The following section identifies the key governance challenges within each relevant InfraGov dimension and provides actionable recommendations.** The assessment covers the four project lifecycle dimensions of planning, preparation, and selection; efficiency and value for money; fiscal sustainability; and procurement; while also applying the cross-cutting principles of climate-change resilience and transparency, and the service provision dimension of state-owned enterprise (SOE) capacity.¹⁸

A. Project Lifecycle

State of Play: Public and Private Investment in Infrastructure

13. **The system for public investment in infrastructure in the Kyrgyz Republic underwent reform in 2019.** Public investment in infrastructure is now separated into two different systems for externally financed and domestically financed projects. Public investments financed through external sources are governed by the Regulation on Public Investment Management (Government Decree No. 232, 2019).¹⁹ The 2019 reforms strengthened the role of the Ministry of Economy and Commerce (MoEC) in this process for externally funded projects, and now requires that all new projects be subject to simultaneous economic and quality assurance analyses from both the Ministry of Finance (MoF) as manager of budget execution and public debt, and MoEC as the ministry responsible for strategic planning and the guarantor of the quality of project proposals. For public infrastructure projects funded through the domestic

¹⁷ World Bank 2019, Enterprise Survey 2019, World Bank, Washington, DC.

¹⁸ In this report, SOEs include state unitary enterprises, which are defined as business entities that have no ownership rights to the assets that they use in their operations. This form is possible only for state and municipal enterprises, which respectively operate state or municipal property.

¹⁹ <http://cbd.minjust.gov.kg/act/view/ru-ru/14564?cl=ru-ru>

sources—the state budget—line ministries send project proposals to MoF, which then creates a list of projects that are consistent with the expenditure ceilings of line agencies and submits it for approval to the Chairman of the Cabinet of Ministers, before it is included in the budget proposal. MoEC plays no role in selecting or triaging domestically financed projects. Additionally, MoF is moving toward a multiyear expenditure framework, with budgeting for the domestically financed investment projects conducted on a single-year basis but included in preliminary forecasts for the following two years.

14. **The Kyrgyz Republic has undertaken several key reforms to improve its PPP track record and attract more private participation in infrastructure.** The PPP Law has gone through multiple rounds of amendments in the past decade. It was first adopted in 2012, followed by a set of revisions in 2019 and then again in 2021²⁰ to significantly streamline the PPP process and mainstream PPPs. A few examples of changes included during these revisions are the introduction of USPs; streamlined requirements for feasibility studies; a minimum of one bid required for a valid tender (instead of the previous required two bid minimum); and an ability to directly negotiate PPP projects exceeding \$12 million without a need for bidding process. The PPP Center (the main body responsible for PPP development in the country) was established under MoEC in 2019. In 2022, the PPP Center was transferred to the National Investment Agency (NIA), which is under the authority of the President of the Kyrgyz Republic. Such changes signal the intention to give PPPs an increased role in the country’s economic growth, particularly with respect to infrastructure needs. The PPP Center²¹ is tasked with both PPP policy development and supporting NIA in promoting PPP projects.²²

Key Challenges: Public and Private Investment in Infrastructure

Dimension 1. Planning, Preparation, and Selection

It is important to have a solid legal framework and the institutional capacity to plan, assess, prioritize, and select potential infrastructure projects.

Planning of projects should be based on a national vision for infrastructure development and/or infrastructure and sectoral plans. The screening, assessment, prioritization, and selection of projects should reflect rigorous technical methodologies in a transparent, data-driven manner. Moreover, some form of systematic comparison of projects should also take place, which is necessary for project prioritization and selection. Selection is perhaps the most critical stage of the project cycle; it is often the point where political and evidence-based viewpoints intersect. A strong gatekeeping function can help ensure that the most legitimate criteria and the public interest guide for project selection.²³

15. **Project prioritization is not standardized in the Kyrgyz Republic, resulting in little connection between high-level strategic plans and the execution of individual public projects.** The 2018-2040 NDS, approved by the president in 2018, outlines the country’s key economic and social priorities. This national strategy was accompanied by an approved ‘long list’ of planned public infrastructure projects; however,

²⁰ <http://cbd.minjust.gov.kg/act/view/ru-ru/112275?cl=ru-ru>

²¹ <http://cbd.minjust.gov.kg/act/view/ru-ru/159145?cl=ru-ru>

²² <http://cbd.minjust.gov.kg/act/view/ru-ru/159655?cl=ru-ru>

²³ Infrastructure Governance (InfraGov) Assessment Framework, December 2020.

not all projects in that list have an approved funding source.²⁴ While aspirational, this lack of linked funding or financing has resulted in most decisions around public infrastructure development being made through the priorities of the external financier, which may not necessarily respond to the country's priorities and infrastructure gaps. There are currently no prioritization procedures formalized in legislation and there is limited evidence to suggest that projects are prioritized based on their alignment with national and sectoral objectives. This disconnect between the high-level objectives and the actual execution of public infrastructure projects underscores the need to strengthen oversight and coordination around infrastructure decision-making and the development and implementation of public infrastructure. Box 1 outlines how the United Kingdom has created an independent body to formulate a strategy to tackle gaps in infrastructure and to develop and monitor the government's progress in delivering infrastructure projects and programs that align with the priorities within that strategy.

Box 1: National Infrastructure Commission in the United Kingdom

The National Infrastructure Commission (NIC) is an Executive Agency of His Majesty's (HM) Treasury in the United Kingdom that provides government agencies with impartial, expert advice on major long term infrastructure challenges. The Commission advises government agencies on all sectors of economic infrastructure, defined as: energy, transport, water and wastewater (drainage and sewerage), waste, flood risk management, and digital communications.

The Commission operates independently, at arm's length from government, as an executive agency of HM Treasury. This has allowed the Commission to have credibility with private sector infrastructure owners, market participants, and local government, while also having a close relationship to relevant line ministries.

The objectives of the Commission are to (a) support sustainable economic growth across all regions of the UK, (b) improve competitiveness, (c) improve quality of life, and (d) support climate resilience and the transition to net zero carbon emissions by 2050. It does this by:

- assessing national infrastructure needs, carrying out in-depth studies into the UK's most pressing infrastructure challenges, and making recommendations to the government
- monitoring the government's progress in delivering infrastructure projects and programs recommended by the Commission.

The NIC delivers the following products and services:

- A National Infrastructure Assessment once in every Parliament, that sets out the Commission's assessment of long-term infrastructure needs, with recommendations to the government
- Specific sector-related studies on pressing infrastructure challenges as set by the government taking into account the views of the Commission and stakeholders. These studies include recommendations to the government
- An annual monitoring report, taking stock of the government's progress in areas where it has committed to taking forward recommendations of the Commission.

Source: HM Government: Charter for the National Infrastructure Commission.

²⁴ <http://donors.kg/en/strategy/5174-national-development-strategy-of-the-kyrgyz-republic-for-2018-2040>

16. **The separate review and approval processes for domestically funded public investment and for externally funded/financed public investment has led to fragmentation and can result in project overlap, duplication, and additional fiscal burden on the state budget.** Every year, line ministries submit project proposals (for externally funded/financed projects) concurrently to both MoF to evaluate economic feasibility, and to MoEC for project appraisal.²⁵ MoEC approves projects on an ad-hoc basis, as projects are not prioritized unless they have secured funding. If the pre-screening is successful, the public investment proposals are forwarded to the Council on Fiscal and Investment Policy, chaired by the prime minister and consisting of representatives from line ministries and other government agencies. The Council is mandated by law to review public investment proposals and approve/reject them. The Council receives information about the MoEC and MoF analyses concerning the availability of concessionary finance and the potential contribution of each project to the development of the Kyrgyz economy. Domestically funded projects are negotiated directly between line ministries and MoF, as part of the regular budget preparation process coordinated by MoF; in this process, line ministries negotiate with MoF for the inclusion of capital and recurrent expenditures (including for public infrastructure) in the state budget. MoEC does not review these projects at any stage of the process. Final authorization of the proposed budget, and therefore the domestically funded public infrastructure, comes from Parliament.

17. **The PPP approval process is also separate from typical public investments, posing similar challenges in terms of fragmentation and potential project overlap and duplication.** The PPP Center serves as a vital coordinator for identifying, initiating, and prioritizing PPP projects, working closely with various stakeholders, such as state authorities, local self-government bodies, state and municipal enterprises, institutions, and interested individuals or companies. Although a comprehensive framework is not yet in place, the PPP Center adheres to the PPP Development Program for 2022-2026,²⁶ placing significant emphasis during decision-making on the social impact of the projects. Once the PPP Center identifies and prioritizes potential projects, they are submitted to NIA for evaluation based on criteria such as alignment with national development priorities, financial viability, and potential social and economic impact. If a project meets the NIA's requirements, it is approved; if not, it is sent back to the PPP Center for refinement. Additionally, if a PPP project requires fund allocation from the state budget or sovereign guarantees, the PPP Center must coordinate with MoF before approval. For PPP projects of more than 100 million KGS, the process is conducted by the Center, under the NIA, as the authorized state body in the field of PPP. For PPP projects worth more than 1 billion KGS, there is no open process; rather, direct negotiations are held between the government authority (PPP initiating authority, and/or the PPP Center) on one side and the private company on the other. The Council on Fiscal and Investment Policy is responsible for granting final approval of PPPs, but this specific responsibility is not clearly outlined within the Council's mandate.²⁷ MoEC, responsible for strategic planning and ensuring the quality of public infrastructure development, is not involved at any point of this process. The lack of coordination and cohesion on decisions around investment projects coming from various sources increases the risk of duplication and overlaps, undermining value for money.

²⁵ <http://cbd.minjust.gov.kg/act/view/ru-ru/14564?cl=ru-ru>

²⁶ Decree of the Cabinet of Ministers of the Kyrgyz Republic [dated June 30, 2022, No. 353 on the "Approval of the Program for the Development of PPP in the Kyrgyz Republic for 2022-2026."](#)

²⁷ Order of the Cabinet of Ministers of the Kyrgyz Republic No. 60-r dated February 15, 2022, Appendix 2. <http://cbd.minjust.gov.kg/act/view/ru-ru/218885>

18. **Potential duplication and overlaps can also arise with foreign direct investment (FDI)-financed projects, as they go through a more streamlined approval process, are not reviewed by MoEC, and do not require approval from the Council on Fiscal and Investment Policy.**²⁸ Approval of infrastructure projects funded through FDI circumvents typical authorization processes and goes directly to the Cabinet of Ministers for approval. While this streamlined approach may respond to the heightened need to crowd-in private financing given the limitations in state-budget funding, the government—particularly MoF and NIA—should ensure that the appropriate feasibility studies, cost benefit analyses, and environmental impact assessments have been undertaken. Clearly, different standards in terms of quality assurance and transparency are applied to FDI- and state budget-funded public infrastructure projects.

Dimension 2. Efficiency and Value for Money

Economic efficiency and value for money (VfM) over the infrastructure lifecycle are important criteria in the choice of infrastructure investments.

Design a process that agnostically guides the decision on how to provide the infrastructure service, and the role of the private sector, prioritizing VfM. This can be achieved by considering the total cost over its lifecycle: (planning, design, finance, construction, operation and maintenance, and possible disposal), compared to the value of the asset and its economic, environmental, and social benefits. Using this approach helps choose between repairing or upgrading an existing infrastructure, or launching a new project, as well as choosing among financing modalities. An initial VfM assessment should be carried out by the implementing agency during early stages of project planning and business case development. Later, this assessment should be updated at the feasibility stage, when more information on the project becomes available (financial model or the feasibility study).²⁹

19. **Lifecycle costs, also known as the total cost of ownership of public infrastructure assets, are rarely considered and accounted for during the development stage of a project, affecting the sustainability of investments.** This is the case for both small-scale projects funded through the state budget and for externally funded projects that require maintenance over the lifetime of the assets. There is also no requirement to outline lifecycle costs during the appraisal stage of public infrastructure projects, through feasibility studies or concept notes. For example, within the public investment budget for 2021 and the forecast for 2022-2023 (specifically Annex 7), the initial capital investment is listed for every project, both for those that are internally funded (state budget) and externally funded; however, there is no differentiation or acknowledgement of the lifecycle costs to maintain such infrastructure.³⁰ This is also evidenced by the multiple references to “rehabilitation projects,” such as the Rehabilitation of the Osh-Batken-Isfana Road financed by the Islamic Development Bank worth 170,000,000 KGS and Rehabilitation of water supply and sewerage in Kant financed through the Swiss Government, worth 88,995,000 KGS.³¹ It is concerning that such projects have to receive new financing from external sources, and that the total cost of ownership was not incorporated in the development stage of the original projects. Within the Regulation on Public Investment Management (Resolution of the Cabinet of Ministers of the Kyrgyz

²⁸ See the Law on Investments of the Kyrgyz Republic, dated March 27, 2003, No.66, <http://cbd.minjust.gov.kg/act/view/ru-ru/1190>

²⁹ Infrastructure Governance (InfraGov) Assessment Framework, December 2020.

³⁰ <https://minfin.kg/pages/ispolnenie-byudzheta-1>

³¹ Ibid.

Republic dated December 26, 2022 No. 714), there is no specified requirement to include lifecycle costs.³² The lack of consideration of lifecycle costs limits the fiscal sustainability of projects and may compel MoF to allocate recurrent funding for maintenance of current infrastructure assets in the annual budget rather than funding new infrastructure projects.

20. **The quality and integrity of PPP project preparation require strengthening to ensure that PPP projects represent value for money.** The Kyrgyz Republic has signed 18 PPP contracts, with three currently operational (in the healthcare, public transportation, and culture sectors). As mandated by the PPP Law and the regulation on the PPP preparation process using the resources of the PPP Preparation Funds, developing a feasibility study is a compulsory step for PPP projects.³³ However, enforcement is lacking, and feasibility studies for PPPs are conducted on a discretionary basis. This could permit agencies to bypass feasibility studies to expedite processes and reduce administrative burdens, potentially compromising project quality. Although the PPP Center discloses information on PPP projects (both under preparation and signed) on its website, crucial details are missing, such as the presence of a feasibility study, project initiation status, and any support from international financial institutions (IFIs) for project preparation. In 2014, the Asian Development Bank supported the establishment of a PPP Project Preparation Fund with a total capitalization of \$4 million. This Fund can be used for consulting services for PPP project preparation, including the development of a feasibility study or other comprehensive assessments of a PPP project's feasibility before and during implementation. The winning bidder is responsible for reimbursing the Project Preparation Fund for any resources spent on project preparation. This burden may implicate the fact that, to date, only \$1 million has been spent or committed to project preparation.

Dimension 3. Fiscal Sustainability

The fiscal affordability and fiscal sustainability of infrastructure projects should be assessed and managed throughout their life cycle.

For specific projects to be fiscally affordable, it is essential that the appraisal and selection process is linked to the budget cycle, even though the project evaluation cycle may run along a different timetable. Multiyear budgeting facilitates this integration by allocating funds for project implementation over the medium term. The macro-fiscal implications of individual projects should be carefully assessed—i.e., their impact on a country's fiscal deficit, its gross and net debt, and the stock and flows of nondebt liabilities and contingent liabilities for government within the context of an adequate institutional setting (i.e., providing enough authority to the Ministry of Finance). Finally, during the lifecycle of infrastructure projects, proper control, monitoring, and reporting mechanisms on public commitments and contingent liabilities are key, in particular for PPPs. All this should contribute to the fiscal sustainability of projects, including those that aim to crowd in more private investments.³⁴

21. **While a Medium-Term Expenditure Framework (MTEF) is in place in the Kyrgyz Republic, the lack of alignment with investment planning and prioritization limits fiscal sustainability.** The medium-

³² <http://cbd.minjust.gov.kg/act/view/ru-ru/159867?cl=ru-ru>

³³ "[Regulation on the procedure for the PPP projects preparation at the expense of the Fund.](#)"

³⁴ Infrastructure Governance (InfraGov) Assessment Framework, December 2020.

term budgets covering the whole of central government expenditure are mainly concerned with recurrent expenditures, such as operation and maintenance costs, and include provision for capital investment in public infrastructure projects only if donor funding or financing has been secured. Capital investment in public infrastructure from the state budget rarely occurs and is only included in the MTEF if funding becomes available within the overall constraints imposed by both the public debt ceiling and fiscal targets. In addition, there is a lack of alignment between national and sectoral level strategic documents, strategic plans prepared by line ministries, and medium-term budgets. The strategic plans prepared by each line ministry, and national and sectoral strategies, are generally statements of aspiration with little to no regard given to the costs and time required to develop and deliver a public infrastructure project. Until there is increased correspondence between the plans and the medium-term budgets, the MTEF in the Kyrgyz Republic cannot successfully deliver fiscally sustainable projects.

22. **The ratio of capital to recurrent spending in the annual budget also raises fiscal sustainability concerns.** In 2022, the expansion of capital investment acted to crowd out priority recurrent spending, resulting in the underfunding of operations and maintenance for a number of existing assets. The lack of commitment to recurrent/lifecycle costs accounted for in the MTEF poses a risk to the adequate maintenance of existing infrastructure assets.

23. **The fiscal system of the Kyrgyz Republic is exposed to a significant risk.** To manage existing and future risks, the government is taking active steps to incorporate fiscal risk analysis and monitoring in the decision-making process, institutionalizing fiscal-risk management. Fiscally responsible governance is especially relevant for PPPs as they can generate fiscal risks if not structured and managed properly. Presently, there is a significant expansion of the PPP pipeline. As of 2023, the PPP portfolio comprises 68 projects, including 18 operational projects worth \$379 million and 45 projects across various sectors in different stages of preparation and procurement. This is an increase of 50 projects from in 2022, when the government reported 13 projects with a total value of \$77.5 million as part of the 2022 Fiscal Risk Assessment Report. Some of the operational PPPs have long-term direct government payments that are included in the annual budget of the public partner. Consequently, it becomes crucial to prioritize their efficient management. Effective management of fiscal risks requires thorough assessment, and for the government to fully acknowledge and only take on the risks they can afford before entering into PPP contracts, carefully reviewing alternative options and assessing the necessity of these commitments.

24. **The PPP legal framework considers critical elements that assess and mitigate fiscal risks, but there are gaps in the implementation of affordability and exposure assessments and their use in the decision-making process before contracts are signed.** The PPP Law acknowledges the need for and importance of optimal risk allocation. The Regulation on the PPP Preparation Process emphasizes that fiscal assessment and mitigation strategies are an integral element of project feasibility studies. Fiscal Risk Assessment Reporting has been practiced since 2020,³⁵ and the methodological guidelines for preparing fiscal risk assessments, including fiscal risks pertaining to PPPs, were updated in April 2023. However, the 2023 report is still missing information on some of the key pieces of fiscal risk assessment of these

³⁵ Since 2020, MoF, with support from the World Bank, has been preparing an aggregate level Fiscal Risks Assessment report that, among other sources of fiscal risks, includes fiscal risks from PPPs. The report is publicly disclosed on the MoF website.

projects, including the size of contingent liabilities.³⁶ This raises questions on how affordability and exposure is being assessed in these projects, and most importantly, if and how it is integrated in decision-making before contracts are signed. The World Bank report on Improving Fiscal Risk Management in the Kyrgyz Republic³⁷ underlines the need for a comprehensive analysis of fiscal risks and further reflection on the management of major risks, including those from the energy sector as the main source of contingent liabilities. Currently, the total energy portfolio includes three projects with a total value of nearly \$287 million (74 percent of the total investment value) at the due diligence, tender, and contract implementation stages.

25. **Government support is needed to attract more private participation in infrastructure.** The private sector has a critical role to play in addressing the financing gap. In 2021, the country received \$247.5 million of FDI,³⁸ demonstrating the potential for private sector involvement. The National Energy Holding Company, an open joint stock company,³⁹ has delivered projects with FDI and IFI support backed by sovereign guarantees provided by MoF at the request of the Ministry of Energy (MoE). This highlights the complex and potentially risky environment for the country's sustainable private-sector infrastructure investments. Credit enhancement mechanisms may be critical to further advance the PPP agenda in the country. The first sovereign guarantee for a PPP project will be provided for the 100 MW Scaling Solar project led by the World Bank Group's International Finance Corporation. NIA has executed feed-in tariffs⁴⁰ for two investment projects. However, the lack of a hard currency peg in the Power Purchase Agreement may reduce foreign investor interest. Implementing it would create potential foreign exchange risks requiring special attention from the PPP Center and MoF during project structuring. The successful delivery of the first solid PPP project under the PPP Framework could be a good case for an international roadshow to advance the PPP agenda in the Kyrgyz Republic and attract strong sponsors and foster a robust pipeline of projects.

Dimension 6. Public Procurement

Infrastructure procurement and contract management systems should be efficient, of high quality, and should support competition and transparency.

Ensure the quality and value for money of projects through competitive procurement. Whether infrastructure projects are delivered using public procurement, or through PPPs or other types of hybrid arrangements, a high-quality process will ensure that these projects provide good value for money, are safe and effective, and that investment expenditures are not diverted inappropriately. Creating a level playing field in procurement ensures that the government receives strong proposals/bids of high quality and that it can award the contract to the most advantageous bidder. To this end, the

³⁶ The report expanded from just providing a list of projects in 2022 report to covering more information, such as type of government support provided and the payment mechanism of projects (in 2023).

³⁷ World Bank (2023) Improving Fiscal Risk Management in the Kyrgyz Republic

<https://openknowledge.worldbank.org/entities/publication/37054e0e-5a0c-46e3-b9fc-5ed9ef527cf5>

³⁸ <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?end=2021&locations=KG&start=1993&view=chart>

³⁹ A public joint-stock company, abbreviated PJSC or open joint-stock company, abbreviated OJSC, is a type of [company](#) in many successor states of the [Soviet Union](#), in particular in [Russia](#). Its distinguishing feature is the right of [stockholders](#) to trade [stocks](#) without the permission of other stockholders.

⁴⁰ A feed-in tariff is a policy designed to support the development of renewable energy sources by providing a guaranteed, above-market price for producers.

government has to ensure that procurement documents are of high quality, set competitive bidding conditions, use transparent evaluation criteria that are fit for purpose, implement integrated e-procurement solutions, and efficiently manage the contract. Competitive bidding requires the convergence of several criteria, such as a sound level of technical depth in the requests for proposals, sufficient time to prepare the proposals, rigorous evaluation of proposals, pre-disclosed contract conditions and risks, etc. Bidders should be treated equally and fairly, the rules of the game should be clear and adhered to, and the process conducted transparently. E-procurement systems should be implemented to promote efficiency, integrity, and transparency of infrastructure governance, and to provide an interface with financial management systems to enhance commitment controls. The systems have to be clear, straightforward, and user-friendly, and they must cover the core functions throughout the procurement and contract management cycle.⁴¹

26. **The recent public procurement reform was motivated by the need to streamline the procurement process, but it poses additional risks to value for money and integrity.** In April 2022, a new Public Procurement Law (PPL)⁴² was enacted, replacing Law No. 72 “On Public Procurement” dated April 3, 2015, which had been prepared with support of the World Bank and other international partners. The new law removes from its scope state-owned and municipal enterprises (MEs) as well as joint-stock companies with 50 percent or more of the shares belonging to the state (SOEs /JSCs/MEs). The new law has raised concerns from civil society, the local media, and international partners over transparency issues.⁴³ In October 2022, the government announced its intention to introduce amendments to the legislation.⁴⁴ According to the IMF Staff Concluding Statement of the Article IV Consultation Mission (December 2022), the draft amendment to the public procurement law could exclude competitive bidding and, if passed, “would undermine the integrity of the procurement system and considerably increase risks of corruption”.⁴⁵ Challenges in the supply chain resulting from the Covid-19 pandemic impacted the price of bidding proposals and, according to the government, the length of the procurement process presented difficulties for suppliers to meet the price at bidding. There has not been sufficient analysis done in terms of how the lack of competition and shorter timelines for bidding resulting from the amendment to the Public Procurement Law might affect value for money and increase risks of corruption. In July 2023, the President signed the amendments to the Public Procurement Law abolishing public procurement tenders financed from the public budget funds.⁴⁶

Recommendations

- **There is need for a centralized, independent infrastructure role (either under an existing agency or by creating a new body) that brings coherence to the multiple strategies, has a centralized overview of all proposals and funding/financing opportunities, and can take the lead on developing infrastructure capacity.** The NDS 2040 sets the high-level priorities for the economic

⁴¹ Infrastructure Governance (InfraGov) Assessment Framework, December 2020.

⁴² <http://cbd.minjust.gov.kg/act/view/ru-ru/112361>

⁴³ <https://kloop.kg/blog/2022/05/26/tret-goszakupok-mozhet-ujti-v-ten-kak-novyj-zakon-povliyaet-na-prozrachnost-pokazyvaem-na-dannyh/>

⁴⁴ <https://president.kg/ru/sobytiya/novosti/>

⁴⁵ <https://www.imf.org/en/News/Articles/2022/12/02/kyrgyz-republic-staff-concluding-statement-of-the-2022-article-iv-consultation-mission>

⁴⁶ <https://kloop.kg/blog/2023/07/25/v-kyrgyzstane-otmeneny-tendery-pri-zakupkah-za-schet-byudzhetnyh-sredstv/#>

and social development of the Kyrgyz Republic; however, there is a disconnect between this strategy, the ‘long list’ of projects, and the variety of needs and opportunities to invest in infrastructure in the Kyrgyz Republic. This entity should have decision-making power during the prioritization process and could take the lead on identifying any current or expected infrastructure gaps, developing a response to these opportunities, and supporting and promoting best practice infrastructure delivery.

- **Greater oversight of public infrastructure projects from all funding and financing sources (FDI, PPPs, state budget, externally funded) is required to ensure that public infrastructure investments are driven by need/returns on investment.** Increased coordination is needed between the Council on Fiscal and Investment Policy and the approval process for PPPs and FDI, to ensure that there is no duplication of projects. There should also be standard criteria for selection of public infrastructure projects (independent of funding source). To crowd in private investments in infrastructure, the government should fully integrate the PPP framework into the PIM process so as to have a consolidated approach for infrastructure services delivery while increasing awareness and capacity building among line ministries and MoF.
- **All public investment projects, both state budget-funded and externally funded/financed, should be required to include forecasts on the lifecycle/total cost of ownership of the asset, and this should be grounded in legislation.** The Regulations on Public Investment Management contain an annex that includes instructions for initiating, selecting, and preparing projects, but it is restricted to the requirement to account for capital or direct costs.⁴⁷ These regulations should be amended to require forecasting of the lifecycle costs associated with maintaining an asset. It will be necessary to also apply such regulation to domestically financed projects, with exemptions for small projects for which lengthy and costly appraisal and selection procedures would not be beneficial.
- **Require widespread implementation of feasibility studies that include lifecycle costs during the project appraisal phase of infrastructure planning.** Particularly for significant/high-risk projects, feasibility studies (such as value for money assessments) can help more rationally select among delivery and financing alternatives, taking considerations such as differential financing cost and potential efficiency gains into account. Such feasibility studies should include comprehensive financial and economic analysis over the lifecycle of projects, to provide a sound basis for the economic efficiency and value for money assessments during project selection.
- **Enhanced government backing is essential for drawing greater private sector engagement in infrastructure projects.** In the Kyrgyz Republic, the private sector’s participation in infrastructure projects has been limited, reflecting regulatory barriers and a lack of resources. The authorized state body—the PPP Center under NIA—should reassess its approach to project preparation requirements to increase the integrity and quality of prospective infrastructure projects. To attract market leaders and incentivize investors from other sectors, the PPP Center under NIA

⁴⁷ Costs must include, in addition to construction costs, costs incurred prior to commencement of construction, such as costs for feasibility studies, architectural and engineering design, land acquisition, and costs for all materials, equipment, and services (including consultant costs) required to complete the project

should adopt appropriate credit enhancement mechanisms and leverage available resources to facilitate access to sovereign-backed guarantees for high-priority projects in strategic sectors, such as energy. This will not only enhance efforts to attract expertise and financing but also the overall creditworthiness of projects.

- **The government should increase the correspondence between sector investment plans and the medium-term budgets to fully move toward a fully coherent MTEF system and ensure the fiscal sustainability of projects.** MoF and MoEC should closely coordinate with line ministries to align the national and sectoral-level strategic documents, strategic plans prepared by line ministries, and medium-term budgets. Capacity of line ministries should be strengthened to plan beyond one budget cycle for both recurrent and capital costs.
- **Create capacities to implement the methodology for conducting fiscal risk assessments of PPP projects.** While the institutionalization and operationalization of the policy framework for fiscal risk management may take some time, authorities' commitment to a fiscally responsible governance is commendable. The government should embrace a more transparent fiscal risk management by expanding the reporting scope (as part of the fiscal risk assessment report and the information disclosed on the website). Expansion should include risk sharing between the public and private sectors and the fiscal commitments and contingent liabilities created by each project, including their terms and conditions (i.e., currency of the fiscal commitment). It will also be important to operationalize the institutional framework based on coordination and information sharing, with the MoF having a gateway role in approving and managing fiscal risks.

B. Cross-cutting Governance Issues

Dimension 5. Climate change Resilience

Incorporating resilience to climate change, natural disasters, and public health risks is important for infrastructure outcomes.

Governments' climate-change and/or disaster-risk management frameworks should be factored in when designing infrastructure projects, throughout the project cycle. A climate-informed project appraisal is an important part of assessments. The government should ensure effective use of environmental and/or specific climate-change evaluations to identify, mitigate, and manage the projected risks and impacts of infrastructure projects, including those related to climate change. This includes physical risks related to extreme weather events and gradual changes in climate and risks related to the transition to a low-carbon economy, resulting from changes in policy, technology, and consumer preferences. Extreme weather and disaster management should be considered during the pre-assessment of the project, as well as be controlled and monitored during the infrastructure's lifecycle. Climate objectives should be integrated into asset management policies and practices. Infrastructure investments need built-in adaptability and resilience against risks of natural and man-made disasters, public outcry, and pandemics. Moreover, climate change and environmental sustainability considerations should not create unreasonable administrative burdens for business.

State of Play

27. **The Kyrgyz Republic is vulnerable to risks arising from frequent climate-related disasters, a fragile energy sector, and ageing infrastructure.** The 6.8 million population of the Kyrgyz Republic (2023) is predominately rural and is unevenly distributed across the country, reflecting its mountainous terrain. Energy generation is extremely sensitive to climate variability because of the sector's reliance on hydropower (see Chapter III). Climate change will have a direct impact on electricity production from hydropower, increasing the pressure on energy sector assets. The main climate-change risks to hydropower production stem from a projected increase in temperatures affecting runoff rates and seasonal flow rates and a projected decline in precipitation, which could reduce runoff and hence electricity generation. Additionally, many of the power generation and distribution assets in the Kyrgyz Republic need rehabilitation and are already causing considerable distribution losses. While government agencies, nongovernmental organizations, and IFIs are focusing significant efforts on funding and rebuilding this infrastructure, the wider governance issues, and aforementioned challenges within the public investment management system (e.g., limited prioritization, fragmented funding sources, and lack of oversight of existing assets) are adversely impacting the climate-change resilience of these assets.

28. **Since March 2022, the Ministry of Natural Resources, Ecology and Technical Supervision (MoNRETS) is the authorized state executive body responsible for environmental and climate-change-related policy and regulation issues.** This includes the development and implementation of state policy and coordination in the areas of environmental protection, ecology and climate, geology, and use and protection of natural resources, including bioresources, subsoil, and water resources. The ministry also exercises state control and supervision over compliance with the requirements of environmental protection (including chemical, biological, radiation, and nuclear), industrial safety, mining safety, subsoil protection, coal quality, and fuel.⁴⁸

Key challenges:

29. **While environmental impact assessments are undertaken for public infrastructure projects in the Kyrgyz Republic, there is limited monitoring during project implementation.** MoNRETS undertakes EIAs for all large infrastructure projects at the development stage (i.e., before the budget decision). The level of scrutiny applied to assessments is categorized based on risk level. While MoNRETS exercises state control and supervision over compliance with the requirements to ensure environmental protection, this 'compliance' only occurs at the inception stage. Environmental impact assessments are only undertaken at the planning stage of infrastructure development; thus, MoNRETS does not have an environmental monitoring function during the execution (the construction phase) of infrastructure projects, which is undertaken by individual line ministries). Additionally, although MoNRETS is the designated environmental inspector, it does not have access to environmental data and information on air, water, and land quality, as this is held by individual line ministries. The lack of a centralized oversight function on climate-related aspects and the lack of communication of noted risks among line ministries during project execution can exacerbate climate risks.

⁴⁸ <https://mnr.gov.kg/en/about/page/pravovye-osnovy-deyatelnosti/>

30. **Although climate-change targets are well established, more can be done to integrate these targets into sector strategies.** The Kyrgyz Republic submitted an update to its 2019 Nationally Determined Contribution in October 2021, which declares the intention to reduce greenhouse gas emissions by 16.63 percent by 2025, and by 15.97 percent by 2030 relative to the ‘business as usual’ scenario. The carbon reduction goals conditional on international support were also revised, and now set the targets of 36.61 percent reduction by 2025 and a 43.62 percent reduction by 2030.⁴⁹ The Nationally Determined Contribution’s climate-change objectives and targets are not yet fully integrated into other strategies or mainstreamed in the public investment management framework. Some climate-related priorities are reflected in key national-level policies, including the National Strategy for Sustainable Development 2018-2040, the National Development Program until 2026, and the Green Economy Development Program for 2019-2023,⁵⁰ and in several sectoral adaptation strategies and plans of action for key climate-sensitive socioeconomic sectors, such as water resources and agriculture (addressed jointly), health, forestry and biodiversity, and emergency situations. While this represents satisfactory progress, there is limited incorporation or tangible examples of how climate targets can be achieved at the sectoral level. It is also unclear how MoNRETS works with other ministries, such as MoE, to ensure alignment with sector mitigation goals.

31. **The introduction of climate-change considerations into budget preparation and execution processes is still in the development stage in the Kyrgyz Republic.** Tools for supporting climate mitigation and adaptation in public financial management are lacking. Although the Kyrgyz Republic has implemented program budgeting extensively, there is currently no comprehensive system for tagging climate-related expenditures to connect climate policies with budget resources and to monitor spending in terms of both financial and nonfinancial performance.⁵¹ The introduction of such tools and guidelines would help raise awareness of climate change in MoF, MoEC, and line ministries, support climate-change policy formulation and resource allocation across sectors, identify financing gaps, mobilize resources for climate action from both domestic and external sources, and improve monitoring and reporting of climate-change expenditure.⁵² Green/sustainable public procurement is one of the priorities in the National Strategy for Sustainable Development and in the Green Economy concept. The Kyrgyz Republic aims to achieve a target of 50 percent of all public procurement contracts to be sustainable/green by 2040. While this is an admirable goal, the necessary tools and legislative environment still need to be established to successfully achieve this 2040 objective.

⁴⁹ Climate-Change Adaptation and Mitigation in the Kyrgyz Republic—IMF; <https://www.elibrary.imf.org/view/journals/002/2023/092/article-A002-en.xml>

⁵⁰ Sector strategies for energy, mining, transport, and municipal water supply are incorporated into the National Development Program 2026 and Green Economy Development program 2019-2023.

⁵¹ UNDP, 2019, Climate-budget tagging is defined as ‘a tool for identifying, classifying, weighting and marking climate-relevant expenditures in a government’s budget system, enabling the estimation, monitoring, and tracking of those expenditures.’

⁵² World Bank 2021, Climate-Change Budget Tagging: A Review of International Experience. Equitable Growth, Finance and Institutions Insight. Retrieved from Washington, DC: <https://openknowledge.worldbank.org/handle/10986/35174>

Recommendations

- **The responsibility for monitoring environmental impact throughout the execution of a public infrastructure project should be shared between individual line ministries and the Ministry of Natural Resources, Ecology and Technical Supervision to increase accountability.** MoNRETS already undertakes the environmental impact assessments at the development phase of an infrastructure project. Expanding the authority to the execution phase will enable MoNRETS to follow up on the commitments made during the initial assessment and will foster greater centralization and visibility on climate and environmental impacts. Maintaining visibility at the sector level (i.e., from the line ministry responsible) will also enable the monitoring function to be nuanced to sector specific capabilities and particularities.
- **Further work is needed to incorporate climate-change reduction targets into sector strategies, and climate -related tools into the budget planning and execution process, to ensure that future public investments in infrastructure are climate resilient.** Establishing how targets are distilled between key infrastructure related sectors (e.g., in the water, energy, transport sectors) and what the key timeframes apply to each sector would help reduce adverse impacts of climate shocks and provide a foundation for sustainable economic growth. Climate-change policies should be integrated into fiscal policy—meaning that such policies should be mainstreamed in national planning, aligning them with budgetary requirements, and strengthening the capacity for their effective implementation. The creation and mainstreaming of tools such as climate-budget tagging could be piloted in selected line ministries.

Dimension 8. Data Availability and Transparency

Transparent access to adequate information throughout the project cycle is key for project performance and accountability.

The availability of adequate information and data on projects and service delivery is essential for ensuring accountability, improving project performance, strengthening the investment climate, and maintaining public confidence in the private sector. The government should invest in collecting, monitoring, and analyzing high-quality and integrated data that can serve as the basis for project management, decision-making, consultation, and accountability. The degree to which data are made public should be determined by a disclosure framework that weighs the trade-offs of transparency and confidentiality. The framework should be enforced, and relevant public institutions scrutinized on their performance in complying with transparency requirements. Disclosed data should be easy to access, navigate, and analyze.⁵³

State of Play

32. **The Kyrgyz Republic has made significant progress in moving toward more centralized, digital platforms for government service and processes, including the electronic procurement platform and**

⁵³ Infrastructure Governance (InfraGov) Assessment Framework, December 2020.

the open data portal.⁵⁴ In 2018, the country approved its first Open Government National Action Plan.⁵⁵ The 2022 Open Government Partnership assessment on the implementation of this Action Plan highlighted significant progress in opening government data and public procurement transparency.⁵⁶ The Kyrgyz Republic scored an overall 62/100 in the 2021 Open Budget Survey,⁵⁷ which means that the country is publishing sufficient material to support informed public debate on the budget. Budget transparency has improved significantly in recent years; this was also reflected in the rising budget oversight score within the Open Budget Survey, from 55/100 in 2017 to 61/100 in 2021. The electronic platform for public procurement and its open data portal includes information of purchasing organizations, suppliers, and value, which is critical data for government and civil society to monitor efficiency and corruption risks.

Key Challenges

33. While the government has made commendable efforts to increase information sharing and promote public participation, gaps remain, especially for effective participation during budget implementation. MoF has implemented pre-budget deliberations during budget formulation. The government has also implemented processes for enhancing public consultation during legislative amendments, with significant focus on increasing the effective participation of business associations. However, according to the 2021 Public Expenditure and Fiscal Accountability (PEFA) assessment,⁵⁸ the lack of access to comprehensive fiscal information is undermining both budget planning and execution. There are five essential components of budget transparency: (a) the Annual Executive Budget Proposal Documentation; (b) the Enacted Budget; (c) In-Year Budget Execution Reports; (d) the Annual Budget Execution Report; and (e) the Audited Annual Financial Report, accompanied by the External Auditor's Report. At both the central and subnational levels, only one of those was fully or partially published (as is globally typical, it was the Annual Budget Execution Report). Moreover, the availability of other information that could aid in improving budget performance, such as pre-budget statements, other external audit reports, summary of the budget proposal, and macroeconomic forecasts, was infrequent and incomplete. The 2021 Open Budget Survey rated the opportunities for public participation in the budget process as 60/100 during budget formulation and 0/100 during budget implementation.⁵⁹

34. Certain limitations in the disclosure of information and data on projects, and on service delivery, undermine accountability and can potentially hamper value for money and performance. For example,

⁵⁴ <http://www.zakupki.gov.kg/popp/>; <http://www.stat.kg/en/opendata/>

⁵⁵ Government of the Kyrgyz Republic, Resolution of the Government of the Kyrgyz Republic No 360 (16 Oct. 2018), <http://cbd.minjust.gov.kg/act/view/ru-ru/216612>.

⁵⁶ https://www.opengovpartnership.org/documents/kyrgyz-republic-transitional-results-report-2018-2020/#_edn2

⁵⁷ The Open Budget Survey assesses the online availability, timeliness, and comprehensiveness of eight key budget documents using 109 equally weighted indicators, and scores each country on a scale of 0 to 100.

⁵⁸ PEFA is a methodology for assessing public financial management performance. The PEFA Performance Measurement Framework is an integrated monitoring system that allows measurement of public financial management (PFM) performance over a specific time period. The Performance Measurement Framework covers 31 performance indicators (PIs), with 94 dimensions. The PEFA framework applies a scoring system to the PIs (and to each of their dimensions) using methodologies, guidance, and practical tools prescribed or issued by the PEFA Secretariat and available at the PEFA Secretariat website: www.pefa.org

⁵⁹ Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report for Kyrgyz Republic, August, 2021; <https://internationalbudget.org/open-budget-survey/country-results/2021/kyrgyz-republic>

information related to service delivery that is typically publicly available in other countries is designated as confidential in the Kyrgyz Republic. To illustrate, some data on the total coverage of fixed line broadband coverage is considered confidential, and so is the information on the market share of companies within the ICT industry. Similarly, some of the audits of the Chamber of Accounts (CoA) are considered confidential. Articles 6, 13, and 62 of the Law on the Chamber of Accounts, No. 117, 2004 allude to confidentiality as a principle of CoA operations. For instance, Article 62 states that the information is disclosed to the public “unless it goes against the confidentiality of the object of the audit.” This limited data availability weakens accountability lines.

35. **Lack of transparency in certain aspects of the project lifecycle and governance of SOEs can adversely affect trust in government and the business climate.** This includes, for example, the lack of public information on SOE financial performance discussed in section C, as well as the fragmentation and lack of information sharing across various lines of funding sources during the decision-making process for the development of infrastructure projects. These are some instances of isolated efforts within the government to provide more disclosure to improve value for money of investments, but in general, the lack of transparency around SOE procurement means that a significant proportion of the country’s public spending occurs in the shadows, which can significantly hamper trust in government and confidence among investors and increase integrity risks.⁶⁰

Recommendations

- **The government should work closely with international partners to ensure that the public procurement legislation does not undermine progress in advancing the transparency agenda and does not undermine economic efficiency.** While an online platform can help promote transparency around public procurement of SOEs, the use of the tool by government should be made mandatory and enforced for it to be effective.
- **The disclosure of information to increase citizen participation and monitoring of budget implementation is a critical next step to promote accountability in service delivery and increase firms’ confidence and participation.** The government is moving in the right direction and should continue its efforts to further disclose public financial information and promote participation in the budget process, which would have significant implications for value for money and integrity. Coordination among relevant institutions can be enhanced through the implementation of digital tools that support the generation and flow of information. Additionally, producing and disclosing information on SOEs’ financial performance and service provision will be a powerful instrument to increase accountability around the delivery of services.

⁶⁰ According to the data of the analytics module from the Open Contracting Partnership, between 2019 and mid-2022, state-owned, municipal enterprises, and JSCs with a state share of more than 50 percent, signed more than 15,000 contracts, for a total amount of more than 25 billion KGS. <https://kloop.kg/blog/2022/05/26/tret-goszakupok-mozhet-ujti-v-ten-kak-novyi-zakon-povliyaet-na-prozrachnost-pokazyvaem-na-dannyh/>

C. Service Provision

Dimension 11. SOEs Governance and Performance

SOEs should operate on market terms where possible, with clear reporting and corporate governance standards, and sound approaches to human resources and financial management.⁶¹

Corporate governance provides the structure for defining, implementing, and monitoring a company's goals and objectives and for ensuring accountability. Good SOE corporate governance ensures there are clear ownership rules and responsibilities, strong SOE oversight entities, independent and professional boards, robust performance monitoring mechanisms, and a high level of disclosure of financial and audit reports.⁶²

State of Play

36. **While SOEs play a significant role in economic activity in the Kyrgyz Republic, the SOE portfolio is relatively small in terms of a total number of SOEs, and SOE governance is decentralized.** There are 94 (SOEs) in the Kyrgyz Republic. Of these, 13 SOEs fall under the mandate of individual ministries (for example, the National Energy Holding is responsible to the Ministry of Energy) and 80 are under the State Property Management Fund (SPMF). In addition to 80 solely owned unitary enterprises, the SPMF holds shares of 63 JSCs.⁶³ Given the difference in the regulatory framework used for SOEs and JSCs, the SPMF works with these two groups of SOEs separately. SOE governance is decentralized, with some SOEs reporting their financial results to the SPMF, and some to the relevant ministries. There is no comprehensive overview of the entire SOE portfolio. Moreover, manually collecting financial reports from all the SOEs is a challenge for SPMF because of the low-quality data and the large scale of data consolidation required.

Key Challenges

37. **SOEs are required to balance multiple objectives in a rapidly changing political and economic environment.** The government is working to optimize its SOE portfolio. The SOE reform in the Kyrgyz Republic is driven by the goal of retaining profit-making SOEs and optimizing their performance. SOE merger and liquidation is used to deal with loss-making SOEs. In the event of a merger, profit-making SOEs are often responsible for finalizing the projects of the loss-making SOEs, often with little compensation. At present, SOEs are required to contribute 50 percent of their profits to the state budget, per

⁶¹ This section is based on Dimension 11 of the InfraGov Assessment Framework, which is aligned with Module 4 on Corporate Governance and Accountability Mechanisms of the World Bank's Integrated State-Owned Enterprises Framework (iSOEF), which can be found here:

https://worldbankgroup.sharepoint.com/sites/gsg/CGFR/Documents/iSOEF/iSOEF%20Guidance%20Note%20Module%204_Final.pdf.

⁶² Infrastructure Governance (InfraGov) Assessment Framework, December 2020.

⁶³ Note that the SPMF's preliminary report for 2022 states that SPMF has shares in only 32 JSCs, of which 14 are nonfunctioning, and participates in 10 LLCs, of which five are nonfunctioning. In addition, the Fund is working with 88 SOEs (11 in transport and communications, 12 in the ICT sector, 24 in agriculture, 2 in geology, and 39 in service provision). *Source:* SPMF, 2022. On the activities of the State Property Management Fund under the Ministry of Economy and Commerce of the Kyrgyz Republic following the results of 2022, presentation.

Government Decree No 468, 2019.⁶⁴ The dispersed financial monitoring systems make it difficult to track SOEs performance and their net impact on the state budget. According to the SPMF, SOEs currently contribute around 4 percent of the state budget revenues. However, 98 percent of the SOE's contribution to the budget is coming from six SOEs. SOEs are not compensated for the costs that they incur in implementing public service objectives and these are not made clear in any regulation (i.e., they are established on an ad-hoc basis).

38. The SOE corporate governance reforms are at risk, particularly because of changes to the Public Procurement Law. SOEs with 50 percent or more of the share belonging to the state were operating under the PPL since 2004, constituting from 30 to 40 percent of the overall public procurement volume. The new PPL, which excludes SOEs from the public procurement framework,⁶⁵ has created an environment that can lead to a multiplicity of procurement rules among SOEs, making it difficult for private sector to participate in bidding across SOEs, and increasing their cost of doing business with the SOEs. The exclusion of the SOEs from the PPL is likely to adversely affect competition, value for money, harmonization of procurement practices across the government procurement market, and the professionalization of government procurement.⁶⁶

39. Despite the lack of clarity on SOE procurement, the government is now working on implementing an online platform for SOEs to conduct public procurement. According to the government, InfoSystems SOE has developed an online portal for public procurement for SOEs. However, the use of the portal is not mandatory. As a result, some of the SOEs are publishing notices online (on their own website) and receive bid submissions through email, but there is no control or oversight over SOE procurement practices. Additionally, while the public procurement platform may seem like a useful tool, there is no clear institutional owner of this reform or a requirement to legally enforce its use, leading to the possibility of the platform being used (if at all) to tick the box and not having any real impact on the way SOEs undertake procurement.

40. Other corporate governance reforms continue, albeit at a modest pace. Corporate governance standards are being introduced in publicly owned JSCs (but not SOEs). There is no publicly available overview of the progress of SOE corporate governance reforms. At the same time, the government is working to recruit the members of the supervisory boards for JSCs. For SOEs, all directors are appointed for a period of three years (Resolution of the Council of Ministers No. 133 from 8/04/2019). In 2022, SPMF introduced key performance indicators for directors and deputy directors, which are attached to financial incentives.

⁶⁴ <http://cbd.minjust.gov.kg/act/view/ru-ru/157114>

⁶⁵ At least 232 companies were affected by the amendment. Among them are large enterprises such as OJSC Manas Airport, OJSC National Energy Holding, CJSC Alfa-Telecom, OJSC Severelectro, OJSC RSK Bank.

⁶⁶ IMF, 2023. Article IV Consultations. <https://www.elibrary.imf.org/view/journals/002/2023/091/article-A001-en.xml>, IMF, 2023. Selected Issues. <https://www.elibrary.imf.org/view/journals/002/2023/092/article-A001-en.xml>

Recommendations

- **Better oversight over the entire SOEs portfolio is necessary.** The government, through SPMF, needs to establish a central coordination function for the governance of SOEs, with more attention given to aggregate reporting, aiming to cover the entire SOE portfolio.
- **The Kyrgyz Republic should ensure that a description of practices regarding the financial relationship between the central government and SOEs is publicly disclosed,** including coverage of transfers of funds between SOEs and the government and SOEs' retained earnings, reinvestment, and third-party financing. The level of state participation in SOEs' subsidiaries and joint ventures should be comprehensively disclosed, including the terms attached to all state and SOE equity in extractive companies. Any loans or loan guarantees provided by the government or SOEs to oil, gas, and mining companies operating within the country should be disclosed.
- **The Kyrgyz Republic is encouraged to ensure that the audited financial statements of SOEs are publicly available, including the auditor's opinions and the detailed financial notes.** There is a need to strengthen the monitoring of SOEs' compliance with their statutory obligations to publish this information, working with the State Property Management Fund to ensure that its planned portal includes annual information on SOEs' dividends, retained earnings, reinvestment, third-party financing, and loans and loan guarantees. Ensuring that the Fund receives information digitally and that it is automatically published online could both improve SMPF's internal processes and increase transparency.
- **Finally, the government should work to ensure clarity on SOE procurement rules as a priority.** While the government is working on introducing online tools to support SOE procurement, the key issue remains the lack of alignment with the overarching public procurement law, which includes open, competitive, and transparent practices for procurement.

III. Sectoral Analysis

41. **In addition to looking into cross-cutting governance issues relating to the InfraGov dimensions, an analysis into relevant sector issues was conducted.** Through the benchmarking exercise, the Energy and Digital sectors were identified as facing the most governance-related challenges. These sectors were examined following the InfraGov Assessment Framework to contribute to the World Bank sector dialogue through a governance lens.

A. Energy

State of Play

42. **The Kyrgyz Republic is prioritizing sustainable development in the energy sector by focusing on renewable resources and regional integration, reflecting both the 2018-2040 NDS and the National Development Program through 2026.** Primary goals include increasing the use of renewable energy

sources to 10 percent,⁶⁷ reducing dependence on hydrocarbons, and expanding hydropower capacity. Additionally, the government is implementing measures to improve sustainability of investments in the sector by (a) increasing tariffs while also providing social protections, (b) improving operational efficiency, and (c) improving the governance and accountability of the sector. The Kyrgyz Republic's participation in the Central Asia-South Asia power project (CASA-1000) is a noteworthy step toward regional integration. This project aims to connect the Kyrgyz Republic, Tajikistan, Afghanistan, and Pakistan through a transmission line. The Kyrgyz component of the project is expected to be completed in 2024. In addition, the Kyrgyz Republic is a member of the EEU and is collaborating on developing a common electricity market scheduled to begin operations by 2025.

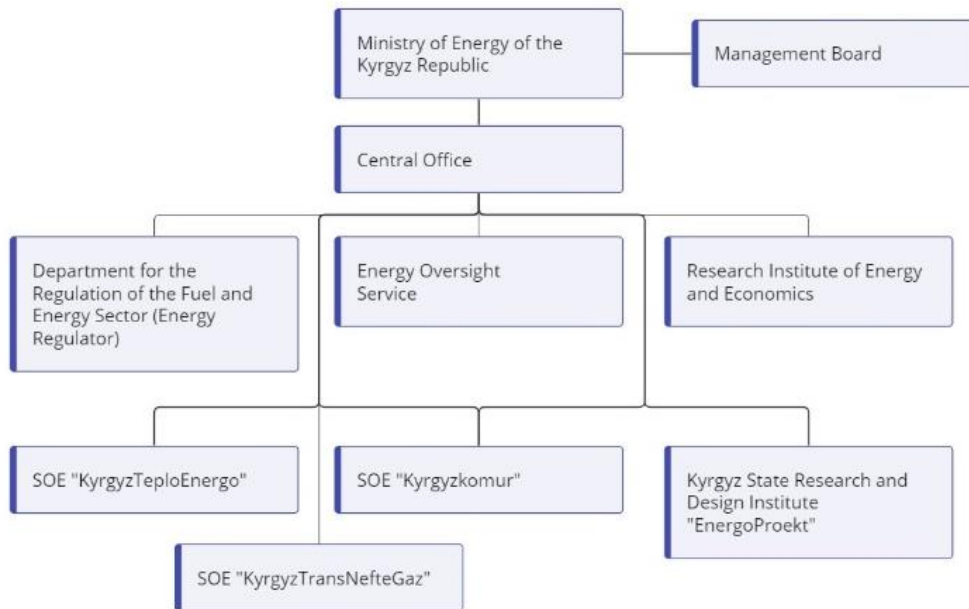
43. **The energy sector has undergone many reforms and several stakeholders have been consolidated under the Ministry of Energy.** MoE is responsible for formulating the country's energy policy, while the Department for the Regulation of the Fuel and Power Complex (i.e., the energy regulator) regulates the sector. The energy regulator had autonomous administrative status but since February 2021 has been placed under MoE, which was a step backwards in its independence as a regulator.⁶⁸ The MoE also hosts the Technical Safety Service, in charge of supervising and handling compliance with safety requirements in the energy sector. Three state-owned enterprises, KyrgyzKomur (operating in the coal sector), Kyrgyzteploenergo (an electric utility company), and KyrgyzTransNefteGaz (an oil and gas enterprise) are under MoE's direct management structure. The JSC National Energy Holding Company (NEHC) was established in 2016 to consolidate and manage the corporate governance of the four key electricity sector distributors⁶⁹ with majority ownership held by the state, along with two fully owned power sector JSCs (JSC Chakan GES and JSC Kyrgyz Electricity Settlement Center). Ownership and oversight of energy sector SOEs is conducted using a centralized model, with the NEHC acting as the ultimate shareholder responsible for governing subsidiary energy SOEs. Although all subsidiary energy companies of NEHC have functioning boards of directors staffed with NEHC representatives, among others, in line with current Kyrgyz legislation, the NEHC itself does not have a board. Recently, electricity distribution was restructured, which involved merging four distribution companies into one and consolidating them with the National Electric Grid of Kyrgyzstan. The OJSC Electric Stations, a national generation company, was also merged with the Bishkek district heating distribution company OJSC Bishkekteploset. While these changes are intended to enhance sector efficiency, they could also represent a reversal of the efforts toward establishing a more liberalized power sector.

⁶⁷ National Development Strategy of the Kyrgyz Republic for 2018-2040.

⁶⁸ The energy regulator was established in 2014 with the mandate to regulate the energy sector, including electricity, district heating, and gas.

⁶⁹ Sever Electro serves Bishkek, Talas, and the Chuy region, accounting for 42 percent of distribution; Vostok Electro serves the Issik-Kul and Naryn regions and accounts for 18 percent of distribution; Osh Electro serves the city of Osh and the Osh and Batken regions, and accounts for 26 percent of distribution; Djalal-Abad Electro serves the Djalal-Abad region and accounts for 14 percent of distribution; and BishkekTeploSet is the district heating distribution system operator.

Figure 2: Structure of the Ministry of Energy



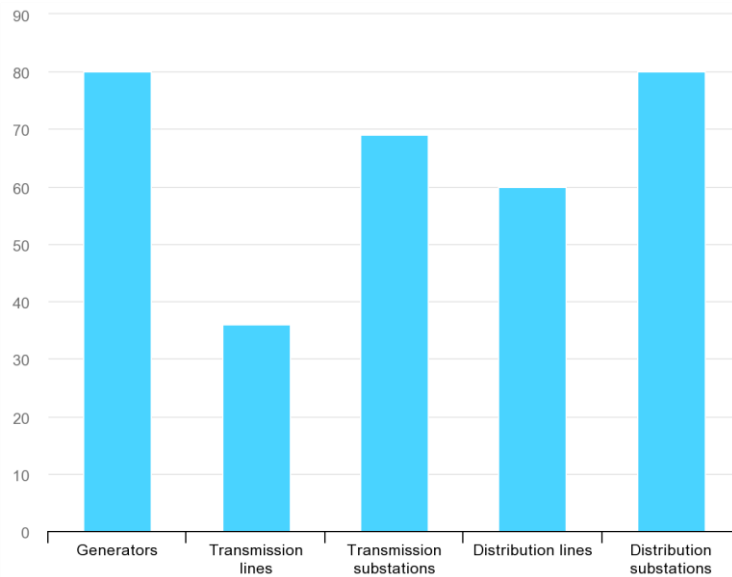
Source: The Kyrgyz Republic, Decree of the Cabinet of Ministers No. 247, dated November 15, 2021.⁷⁰

Key Challenges

44. **Further diversifying power generation, strengthening the sector’ efficiency, and modernizing sector assets are crucial to ensure a reliable domestic energy supply, facilitate energy security, and contribute to economic growth.** The Kyrgyz Republic is a major hydroelectricity producer in Central Asia, supplying the majority (78 percent) of the country’s electricity requirements. Although the country possesses coal reserves, primarily used for heating and industrial purposes, coal accounts for just 22 percent of the energy generation. Electricity exports to Kazakhstan and Uzbekistan—primarily in spring and summer—have traditionally generated revenues for the country, although trade is highly cyclical and dependent on hydrological patterns and water release agreements for irrigation purposes for downstream countries. In recent years, the country has imported electricity to meet its domestic needs in winter, when demand is 2.5-3 times as high as in summer. Additionally, the country plays a crucial role in regional energy markets as a key transit nation for energy resources, thanks to the Bukhara-Tashkent-Bishkek-Almaty natural gas pipeline, which passes through its territory. This enables the country to generate revenue from transit fees, develop export potential to neighboring countries, and play a significant role in regional energy markets. In recent years, measures have been put in place to update energy infrastructure and enhance energy security, and initiatives have been taken to establish wind and solar power plants, although no such plants are currently operational. Moreover, several obstacles must be tackled, including modernizing infrastructure (see Figure 3), increasing energy efficiency, and bringing energy tariffs up to the cost-recovery-level to ensure the sector’s sustainability.

⁷⁰ <http://cbd.minjust.gov.kg/act/view/ru-ru/158674>

Figure 3: Proportion of Assets Depreciated in Kyrgyzstan, 2020



Source: Adapted from State Committee for Industry, Energy and Subsoil Use (2020), Kyrgyzstan’s Energy Sector 2020.

45. **The sector consistently reports poor reliability and high losses consequent upon insufficient investments and underspending on maintenance and rehabilitation of ageing infrastructure.** Total reported total losses were about 20 percent of net generation in 2020, and it is likely that actual losses are higher considering the lack of metering and the poor management information systems. The main inefficiency is in the distribution segment, which accounts for up to 80 percent of reported losses. Old and obsolete distribution lines and equipment have led to frequent supply disruptions from equipment failures and system overloading across the country. In addition to load shedding, distribution companies have recently started introducing additional bottlenecks to limit consumption for individual customers up to a certain threshold. Applications for new connections, for instance, are being processed very slowly—and even rejected during the winter season—because of generation and distribution capacity constraints. The need to upgrade ageing assets and expand distribution capacity through targeted investments in the network is evident.

46. **While governance of the energy market has been the subject of several reforms, clarity of the roles and responsibilities of sector institutions is needed.** As previously mentioned, the sector regulatory and ownership functions are bundled under MoE, and NEHC has not managed to apply a robust corporate governance structure for energy SOEs. Sector governance appears as informal and arbitrary in light of the lack of transparency in decision-making. The energy regulator is not independent and lacks formal mechanisms and adequate resources to develop a strong monitoring and enforcement function. Moreover, many regulatory tools are not clearly documented or, if documented, are not implemented transparently. A major example of this challenge is the tariff-setting procedures, which create an unpredictable investment environment that limits the attractiveness of the power sector to foreign investors, and thus sector development. There are no clear performance standards for technical and operational quality and reliability for the activities of each energy SOE. Although the regulator is mandated to develop and supervise the performance reporting and monitoring framework for energy sector SOEs,

implementation has been slow, and implementation of key performance indicators has not yielded reliable data. The end result is high customer dissatisfaction because voltage and frequency fluctuations are common, as are interruptions of service to consumers—particularly during the winter.

47. **Another major sector challenge is declining sector financials.** The Kyrgyz Republic operates with a quasi-fiscal deficit from the sale of electricity in the domestic market, which approximated 0.8 percent of GDP in 2018, emerging from less-than-cost-recovery tariffs, under-collection of revenue (approximately 95 percent in 2020), and excessive technical losses. The sector is heavily indebted, with cumulative debt of KGS 133 billion (US\$1.5 billion, or around 20 percent of GDP), placing a heavy fiscal burden on the country. The overall share of energy sector entity debt is 83 percent of total SOE debt on-lent by the government, or one-third of the country's outstanding public debt. The annual debt service obligations of electric power plants and JSC National Economic and Social Council account for 96 percent of total energy sector debt. Although borrowing is long term and on concessional terms, energy sector SOEs have been unable to service their debts to the government fully in recent years. Energy sector SOEs are not considered capable of servicing their debt in full without making major reforms to strengthen their financial viability, as evidenced by recurring debt rollovers from at least 2015.⁷¹ Most of the current loan balance is from foreign banks and governments, followed by budgetary loans from MoF. Most direct operating subsidies transferred to nonfinancial and financial SOEs are channeled to energy companies, including subsidies to cover the cost of supplying heat to residential customers and power to remote and difficult-to-reach areas.

48. **Sector financials are significantly affected by low tariffs, which the government has been trying to address for several years.** The country reports one of the lowest electricity tariff rates in the world, and weighted average cost recovery is about 50 percent. To increase end-user tariffs gradually and reach cost recovery by mid-2017, the government introduced a multiyear tariff policy for 2014-2017. However, the policy underwent several revisions, and the tariffs did not match the original plan. The revised policy resulted in large consumers and nonresidential users bearing the weight of the increases. In 2020, a new tariff policy was approved, which kept tariffs at 2015 levels and introduced new categories of electricity consumers, with no plans for further tariff increases. A year later, however, another new tariff policy was approved, which increased the tariff for industrial consumers and introduced new categories such as crypto-mining and high-intensity power consumers. The policy also included an annual consumer price index adjustment for all consumer categories. However, the lack of a strategy, poor execution, and frequent revisions in the tariff policy are further undermining the sector's financial stability. On February 14, 2023, the government announced yet another new tariff policy, proposing a 30 percent increase for residential consumers and a consumer price index adjustment for other categories. The recent increase may provide some relief if it is implemented consistently, and if the energy regulator regains its independent function. Such a move would increase transparency, competition, and direct oversight of the energy market. These measures would help ensure that tariff policies are formulated and executed in a strategic, predictable, and financially sustainable manner, benefiting all market participants.

⁷¹ World Bank (2021). Integrated State-Owned Enterprises Framework Assessment for the Kyrgyz Republic <https://cfr.worldbank.org/sites/default/files/2022-03/Kyrgyz-Republic-Integrated-State-Owned-Enterprises-Framework-iSOEF-Assessment.pdf>

49. **Although the power generation sector has been lagging, there is immense potential, particularly in hydroelectric and solar energy.** Multilateral development banks have shown interest in supporting renewable energy projects, including the construction and rehabilitation of hydropower facilities, construction of new solar plants, and scale-up of hydro and solar power with private financing, as well as the International Finance Corporation-led Scaling Solar project currently in the pre-feasibility stage in the Issyk-Kul region. The successful launch of this project could serve as a starting point for roadshows to promote the sector for sustainable private investments. However, the country's international credit rating may pose challenges. To address this issue, a robust project preparation exercise could be conducted in collaboration with MoF, PPP Center, and NIA. Credit enhancement mechanisms, government support agreements, and investor incentives could be explored to facilitate investment in the sector. By adopting these measures, the Kyrgyz Republic could unlock the potential of its renewable energy sector and contribute to sustainable development.

Recommendations

- **Continue to consistently implement tariff reform.** The government should continue to implement tariff reform aimed at increasing revenues and strengthening the sector's financial viability. A carefully designed cost recovery tariff structure for different consumer types will be instrumental in ensuring the sector's long-term financial sustainability while still offering essential protections for the most vulnerable members of society. Moreover, it is crucial to comprehensively evaluate existing government subsidies for electricity tariffs to address the current system's shortcomings and create a more efficient distribution of resources. To achieve this, the government should continue to work closely with development partners, including the World Bank, to implement suitable tariff reform measures considering the country's unique circumstances.
- **In addition to tariff reform, the Kyrgyz Republic could explore various measures to enhance the financial sustainability of the power generation sector.** The government could explore opportunities for regional energy integration to promote cross-border electricity trade, as well as exploring options to crowd in private investments in energy infrastructure.
- **The government should upgrade ageing assets and expand distribution capacity through targeted investments.** Going hand-in-hand with the recommendations made in the Project Lifecycle subsection, increased strategic planning and coordination of the various investment streams is needed in the sector to ensure that aging infrastructure is maintained, and that future capital investments are targeted and align with national and sector strategies.
- **Restoring the energy regulator's independent functions is vital for sector development.** An independent energy regulator can improve sector management by strengthening the legal and regulatory framework, supporting renewable energy development, fostering energy security, and protecting consumer rights. By developing clear rules and regulations, the regulator can create a stable environment for investment and adherence to best practices. Additionally, fostering market liberalization and encouraging renewables will lead to better services, lower prices, and a sustainable energy mix. Capacity building and institutional strengthening will improve sector

performance, while regional cooperation will support energy security and sustainable development across the region.

- **Improve weak sector corporate governance and the inadequate regulatory framework to ensure that SOEs under NEHC are governed efficiently and transparently.** Although this is not a legislative requirement, because the NEHC has only one shareholder (MoE), the government should consider establishing a board for NEHC, given it is the largest and one of the most important SOEs in the country. Moreover, given the importance of NEHC to the country’s energy security and economic stability, its board should be established in line with best corporate governance standards, and good practices should be expanded to subsidiaries. Additionally, although the NEHC and its subsidiary companies adhere to financial accounting and reporting practices in line with the International Financial Reporting Standards, their disclosure could be significantly improved. It is unclear whether NEHC applies universal accounting practices across all its subsidiary companies and conducts proper consolidation procedures each reporting period.
- **Diversify energy sources to ensure the nation’s long-term energy security and stable consumption patterns.** Priority investments have been selected and implemented on an ad hoc basis, with no underlying least-cost planning exercise. Achieving energy security and supply reliability remains a planning and procurement challenge. Developing and implementing a comprehensive, long-term strategy to diversify the nation’s power mix is advisable, by incorporating alternative renewable energy sources, such as solar and wind power. Furthermore, through regional electricity market integration, the authorized state body should secure long-term import contracts within the EEU to address mid-term energy security concerns and secure a stable electricity supply. The regional integration and power mix diversification would set the stage for electricity export potential.

B. Digital

State of Play

50. **Digital development is one of the key priorities in the country’s development strategies and action plans.** The Kyrgyz Republic National Development Strategy 2018-2040 highlights the digital economy and the wide use of innovative and advanced technologies as key components of digital transformation and effective governance.⁷² In particular, the 2022-2026 Action Plan of the Cabinet of Ministers for the Implementation of the National Development Program prioritizes building and effectively managing a sustainable ICT infrastructure.⁷³ Prior to that, the Roadmap for the Implementation of the Digital Transformation Concept “Digital Kyrgyzstan, 2019-2023” provided guidance for all interrelated sectors associated with digitalization and prioritized development of digital government, digital economy, digital skills, and cybersecurity.⁷⁴

⁷² <https://www.gov.kg/ru/programs/8>

⁷³ <http://cbd.minjust.gov.kg/act/view/ru-ru/158853/10>

⁷⁴ <https://www.gov.kg/ru/programs/12>

51. **Overall, the legislation governing the ICT sector is technologically neutral.**⁷⁵ Established in 2021, the Ministry of Digital Development (MoDD) is responsible for developing and implementing state policy in the field of digitalization and e-governance.⁷⁶ MoDD has recently presented the draft Digital Code that aims to build the harmonized system of public administration in the field of digital technologies and ensure the application of uniform rules for regulating public relations related to their use.⁷⁷ MoDD has the following subsidiary entities: Infocom State Enterprise, the Kyrgyz Post State Enterprise, the State Archive Service, the State Service for Regulation and Supervision in the Communications Industry, the Department of Population and Civil Registry, and the Special Communications Service. The State Service for Regulation and Supervision of Communications Sector under MoDD issues licenses in the field of communications and permits for using the radio frequency spectrum.⁷⁸

52. **The government is working with international partners to support the implementation of its digital development strategies.** The World Bank is supporting the ICT infrastructure and reforms in the sector through the regional initiative Digital CASA. With a budget of \$50 million, the objective of Digital CASA is to increase access to a more affordable Internet, crowd-in private investment in the ICT sector, and improve the government's capacity to deliver digital government services.⁷⁹ Implementation of the project faced delays in the initial years, but the pace of implementation is now accelerating. The World Bank's engagement has been instrumental in improving coordination in the sector.

⁷⁵ Technological neutrality is a principle that suggests that government policies and regulations are designed to be neutral toward particular technologies or technological solutions. This means that policy-makers do not favor or discriminate against specific technologies or solutions in the development of policies, regulations, or laws, enabling the market and industry to determine the best way to achieve policy objectives using available technologies.

⁷⁶ Specific areas of development include the use of electronic signature, state and municipal electronic services, identification systems, communications, including radio and television broadcasting, population registration, archives, and cybersecurity.

⁷⁷ https://kaktus.media/doc/474169_v_bishkeke_prezentovali_proekt_cifrovogo_kodeksa.html

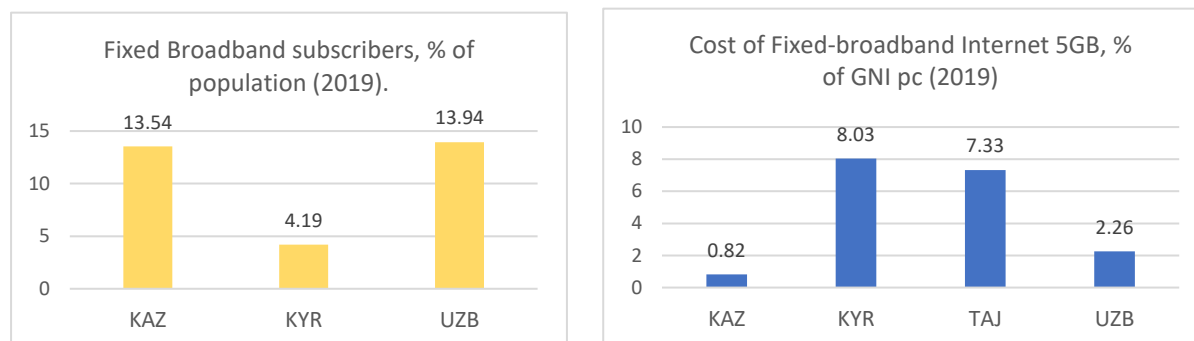
⁷⁸ <https://nas.gov.kg/>

⁷⁹ <https://projects.worldbank.org/en/projects-operations/project-detail/P160230>

Box 2: Internet Access in the Kyrgyz Republic

Per the World Bank Infrastructure Sector Assessments Program (InfraSAP) database, in 2020, 72 percent of the population in the Kyrgyz Republic had access to the Internet, compared to 71 percent in Uzbekistan and 86 percent in Kazakhstan.

The fixed-line broadband penetration rate is relatively low, correlating to its relatively high cost as a percentage of Gross National Income per capita.



Source: World Bank InfraSAP database: <http://w0lxprconn01.worldbank.org:3939/infirasap/>

Meanwhile, in 2022, the Kyrgyz Republic had the cheapest cost of 1GB of mobile data in the Commonwealth of Independent States (former Soviet Union) and sixth-cheapest 1GB of mobile data among 233 jurisdictions in the world. Mobile internet affordability is important in the context of mountainous terrain of the Kyrgyz Republic, where building fixed broadband infrastructure is expensive.

Rank	Name	Average price of 1GB (US\$)
6	Kyrgyz Republic	\$0.17
15	Uzbekistan	\$0.37
16	Kazakhstan	\$0.37
24	Ukraine	\$0.43
30	Russian Federation	\$0.48
58	Belarus	\$0.79
65	Armenia	\$0.91
77	Georgia	\$1.03
122	Azerbaijan	\$1.76
131	Tajikistan	\$1.94
227	Turkmenistan	\$14.27

Source: Worldwide Mobile Data Pricing, 2022: <https://www.cable.co.uk/mobiles/worldwide-data-pricing/>

Key Challenges

53. **The enabling digital environment requires further strengthening of national laws and regulations.** The Kyrgyz Republic scored in the bottom-third among 131 economies included in the 2022 Network Readiness Index (NRI), one of the leading global indices on the application and impact of ICT in economies around the world.⁸⁰ The country's scores were weakened by a low performance in the area of

⁸⁰ <https://networkreadinessindex.org/country/kyrgyzstan/>

adoption of advanced technologies (30.64 of 100) and people pillar (33.48 of 100). Although the country's NRI governance pillar demonstrated better results (51.21 of 100) than other NRI components, a closer look at the governance sub-pillars identified the need to strengthen the ICT regulatory framework that had a score of 48.81 (see Table 3). Specifically, the Kyrgyz Republic needs to improve privacy protection by law content, overall regulatory quality, and regulation of emerging technologies.

Table 3: The Kyrgyz Republic NRI 2022 Governance Sub-pillar Results (of 100)

Governance sub-pillar	Score	Governance sub-pillar	Score	Governance sub-pillar	Score
Trust	35.86	Regulation	48.81	Inclusion	68.97
Secure Internet servers	48.22	Regulatory quality	30.40	E-participation	70.37
Cybersecurity	48.75	ICT regulatory environment	74.71	Socioeconomic gap in use of digital payments	92.28
Online access to financial account	10.62	Regulation of emerging technologies	26.58	Availability of local online content	41.35
Internet shopping	N/A	E-commerce legislation	66.67	Gender gap in Internet use	N/A
		Legal privacy protection of law content	45.70	Rural gap in use of digital payments	71.88

Source: Network Readiness Index 2022.

54. **The national digital infrastructure needs to be upgraded to support innovation and accelerate digital transformation.** In the Global Innovation Index 2022, the Kyrgyz Republic scored 69.5, placing the country in the bottom-third in the ranking of 132 world economies. The index measures and ranks several ICT-related sub-indices, on ICT access, ICT use, government's available online services, and E-participation. The Kyrgyz Republic's ICT infrastructure scores trail behind Kazakhstan and Uzbekistan, demonstrating the necessity to upgrade the ICT infrastructure (see Table 4).

Table 4: Global Innovation Index 2022 Scores for Contiguous Central Asian Countries

	KAZ	KYR	TAJ	UZB
ICT Infrastructure Score	85.7	69.5	37.2	76.1
<i>ICT access</i>	90.2	84.3	66.7	82.7
<i>ICT use</i>	72.2	57.4	15.6	62.3
<i>Government's online services</i>	92.3	64.7	31.8	78.2
<i>E-participation</i>	88.1	71.4	34.5	81.0

Source: Global Innovation Index 2022.

55. **Despite improving Internet accessibility, other measures must be addressed to build a more resilient, cost effective, and collaborative digital infrastructure.** The increasing cost of constructing digital infrastructure serves as a significant bottleneck to efficient delivery of digital services in the Kyrgyz Republic.⁸¹ Currently, the existing internet services providers) operating in the market are not obligated to share their infrastructure, and there is no cap on the prices they can charge for renting out bandwidth. Another existing requirement is the obligation to install surveillance equipment on all communications

⁸¹ Freedom of the Net 2022.

networks, which increases the initial capital investment needed. Moreover, the current regulatory regime for construction of broadband ensures that there are no obligatory public service quotas for the construction of last-mile infrastructure.⁸² This has resulted in rural communities, where last mile broadband installation is often more difficult because of the mountainous terrain, being largely ignored because of the lack of commercial viability.

56. **The digital sector would benefit from higher market competition.** Kyrgyztelecom SOE enjoys monopoly power on the development and provision of core ICT infrastructure in the country.⁸³ According to the IMF, the government's ownership strategy of Kyrgyztelecom SOE needs to articulate its development objectives for digital. As part of this strategy, consideration should be given to enabling the private sector to play a lead role in the sector, including by divesting all or part of this SOE through a competitive tender, and strengthening competition in the sector. Although there is competition in the mobile connectivity sector of the Kyrgyz Republic, state-owned mobile operator MegaCom still holds a strong market position according to data from March 2020, with 38.9 percentage of all mobile communication subscribers, followed by privately owned companies such as Nurtelecom LLC (31.3 percentage), Sky Mobile (28.7 percentage), and Saima Telecom (1.1 percentage). Despite earlier considerations to privatize the MegaCom SOE, in 2023 the government announced no further plans to privatize the sector-leading state-owned mobile operator, whose estimated market value declined from \$233 million in 2019 to \$166 million in 2023. The situation changed in July 2023, when the State Property Management Fund put up 100 per cent of all stocks of MegaCom state-owned mobile operator for auction.⁸⁴

57. **As market regulator, MODD's Communications Service has considerable influence over the regulation and licensing of the mobile market (sometimes to the concern of its businesses), and has a reasonable window into the sector as data on the quality of mobile services is regularly submitted by mobile operators to it.** Currently, the government is developing licensing arrangements for auctioning the 5G spectrum. The licensing process is guided by the Government Regulation "On Approval of the Regulation on Licensing the Use of the Radio Frequency Spectrum" dated November 17, 2017, No. 754, with spectrum access sold through auctioning. The Communication Service monitors market coverage and has the legal mandate to require companies, both public and private, to cover certain geographic areas in order to achieve better 'middle-mile' Internet coverage.⁸⁵ This practice is motivated by the fact that universal mobile coverage is problematic because of the mountainous characteristic of the country. The Communications Service provides generic annual schedules/maps of areas to be covered by each operator. The obligation for a mobile operator to provide coverage to a particular settlement is often pronounced without consultation with businesses and often does not consider the practicalities of infrastructure development or the capacities of each operator (e.g., another operator could ensure coverage of a particular area at smaller expense). The failure to comply with the annual coverage schedule can trigger a loss of a license.

⁸² Last-mile infrastructure is the physical part of a broadband network that serves as the final leg connecting the provider's network to a home or building.

⁸³ <https://www.elibrary.imf.org/view/journals/002/2023/092/article-A001-en.xml>

⁸⁴ <https://economist.kg/ekonomika/2023/07/04/gosudarstvo-vnov-vystavilo-aktsii-mega-na-prodazhu/>

⁸⁵ The 'middle mile' refers to the Internet passage through a country: the national backbone, intercity networks, Internet Exchange Points, and local hosting of content.

58. **The regulatory environment for procuring ICT solutions involves a degree of uncertainty arising from a lack of technical understanding and constantly changing expectations.** Ministerial reshuffles and changes in the structure of line ministries and agencies (e.g., dissolution) can affect the development of ICT solutions and result in lost sunk costs (e.g., when the ICT solutions were being developed, but the ministry/agency is dissolved, the work is halted halfway with the progress lost). The current lack of clarity in the procurement regime as it applies to SOEs, along with a lack of transparency in relations between the government and SOEs working on ICT solutions, has resulted in many government entities attempting to procure ICT solutions by outsourcing the project to Infocom, an SOE with a wide-ranging mandate, including taking fiscal responsibility for closing projects of loss-making SOEs. Additionally, a lack of technical understanding within line ministries on the detailed requirements needed for large-scale ICT procurement often results in the development of terms of reference being outsourced to Infocom, which then often becomes responsible for implementing them. Enhancement of technical capacity of line ministries/agencies on the procurement of ICT solutions is needed.

Recommendations

- **Increased transparency, oversight, and infrastructure-sharing for critical ICT infrastructure will help accelerate digital transformation.** Building hard ICT infrastructure remains costly in a country with a mountainous terrain. The government is encouraged to support the ICT infrastructure-sharing between Internet service providers and mobile operators, contributing to improved competition and increased economies of scale. Increased transparency and effective governance of ICT infrastructure is a prerequisite for the success of further digital transformation.
- **The government must continue promoting fair competition and crowd-in private investment in the ICT sector.** The broadband internet penetration rate throughout the country remains low and Kyrgyztelecom SOE could consider creating incentives for private companies to engage in the broadband internet market more actively outside the major cities to minimize the urban-rural digital divide. While the mobile communication market is competitive, the government should make clear its plans with respect to privatization of MegaCom SOE.
- **The government should review its approach to regulating mobile and broadband segments of the ICT market, to ensure that the sector is not struggling with excessive state interference.** For instance, decisions to oblige a certain operator to provide coverage of a particular settlement should be made in consultation with businesses. The coverage maps and related obligations should consider the practicalities of infrastructure development to optimize the costs of providing services in rural areas. Also, other measures to stimulate ICT services development in rural areas could be considered. These could include tax incentives and having an appropriate regulatory framework that encourages the rapid adoption of modern technologies in rural areas.
- **The government could simplify and expedite the development of broadband infrastructure if it had a policy on infrastructure sharing and co-deployment.** With such a policy, fiber optics cables could be laid simultaneously with other infrastructure construction projects (roads, pipelines, railroads, electric lines, etc.). This would significantly reduce the cost of laying the fiberoptic lines and expedite the timeframe.

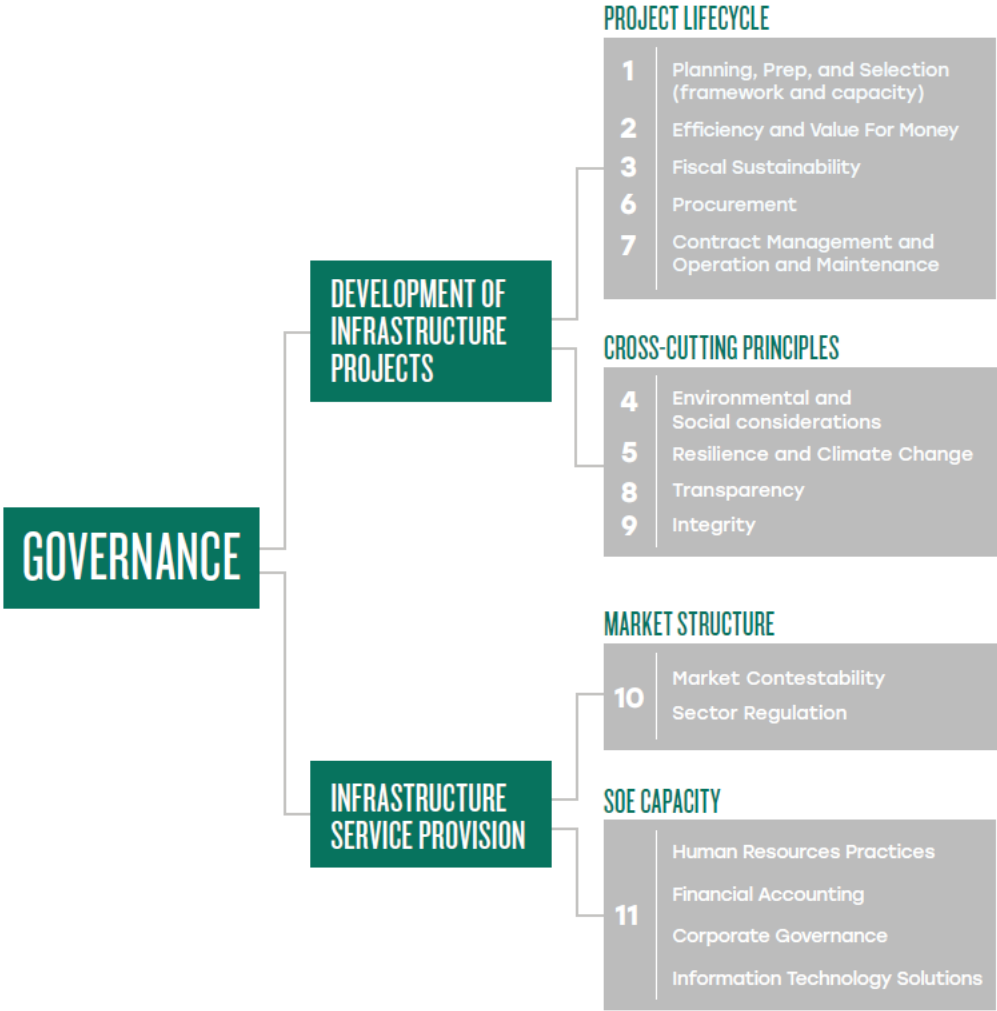
Annex 1. Methodology

- 1. Sustainable, affordable, and cost-efficient infrastructure services are a fundamental pillar of long-term development.** Evidence shows that weak governance arrangements for infrastructure decision-making and implementation impede asset creation and operation. Governance of infrastructure sectors is a critical driver of sector performance, as well as a key determinant of the fiscal risks and investment climate for private finance. Governance of infrastructure sectors is complex and multifaceted, posing significant challenges along various stages of the infrastructure supply chain, and encompassing both regulatory and institutional dimensions.
- 2. The economic crisis arising from COVID-19 has heightened the importance of sound infrastructure governance.** The pandemic and its associated economic downturn have simultaneously increased demand for certain types of infrastructure (whether new or retrofitted), reduced resources available for investment, and intensified the need for value for money (VfM) in infrastructure service provision, including through state-owned enterprises (SOEs). Infrastructure investment is likely to feature as a key component of economic recovery packages. Increased transparency and integrity will be critical given that there may be pressure to accelerate spending. In addition, investment will need to pay increased attention to social benefits, including employment generation, climate and environmental aspects, and impact on economic growth. Planning capacities and the governance of infrastructure planning, procurement, and delivery will also be critical in making infrastructure an effective part of economic recovery initiatives.
- 3. The Infrastructure Governance Assessment Framework was developed in 2019 by the World Bank's Governance Global Practice and the Public-Private Partnership, Infrastructure Finance and Guarantees Group and Infrastructure Chief Economist.** The purpose of applying the InfraGov assessment framework is to help countries address governance challenges around infrastructure service provision and enable them to achieve VfM. The InfraGov forms one of the three pillars of the Infrastructure Sector Assessments Programs (InfraSAP) framework, a World Bank-extended core diagnostic, providing a diagnostic approach covering 11 key governance dimensions that contribute to good delivery of infrastructure services.
- 4. The framework provides an overview of the governance that leads to quality infrastructure, and offers resources and methodologies for conducting such an assessment.** The aim is to provide actionable recommendations that result in concrete policy changes. The set of dimensions outlined in this framework builds on existing standards, drawing on the Quality Infrastructure Investment principles developed and endorsed by the G20, MAPS methodology, the World Bank's integrated State-owned Enterprise (iSOE) Framework, Infrastructure Governance for Maximizing Finance for Development, previous InfraSAPs, more than 100 public investment management (PIM) assessments, the 2017 Organization of Economic Cooperation and Development framework "Getting Infrastructure Right," International Monetary Fund (IMF) research, and national government good practices.
- 5. Broadly speaking, the InfraGov framework assesses three major areas of infrastructure governance.** The first area relates to the lifecycle of an infrastructure project, focusing on selection, design, procurement, and implementation of investment projects. The second identifies key cross-cutting issues for good infrastructure, including integrity, transparency, and consideration of social,

environmental, and climate-change risks and opportunities. The third area concerns the ways in which infrastructure services are provided to consumers. It encompasses market structure and competition, the regulatory framework for addressing natural monopoly activities, and corporate governance and governance arrangements around SOEs.

6. **The relevance of these broad areas and dimensions may vary depending on the specific governance arrangements in place for different sectors in different countries.** They are only meant to offer an analytical framework that helps uncover governance issues affecting the provision of infrastructure assets and services. They are not intended to prescribe specific systems or institutions; rather they highlight functional behaviors likely to deliver good infrastructure outcomes, acknowledging that there are many different ways to stimulate these behaviors. This governance assessment framework is illustrated in the Figure below. The aim is to provide problem-driven actionable recommendations that result in concrete policy changes

Figure 4: Proposed Infrastructure Governance Assessment Framework Pillar Flow Chart



Source: WBG, Infrastructure Governance (InfraGov) Assessment Framework, December 2020.

7. **Recognizing the distinct needs of the Kyrgyz Republic, the assessment is methodologically aligned, but not uniform, in terms of coverage of the eleven dimensions of the Infrastructure Governance Framework, allowing for some tailoring to the needs and opportunities present.** Based on the country profile, previous assessments, and the reform priorities of the Government of Uzbekistan, seven dimensions were identified, and two specific infrastructure sectors were chosen to be the focus of this assessment (see Table below). These seven applied dimensions and sectors were selected following a period of desk-based research, internal consultations, and discussion of the strategic priorities of the country. As the dimensions captured in InfraGov Assessment Framework span several topics that are relevant to other areas and sectors within the World Bank (and IMF), this assessment built on such previous analysis, avoiding duplication with any previous work previously. Annex 2 summarizes the recommendations within these reports and provides an update on their implementation progress. This report complements sector-based analyses with the application of a governance lens.

Table 5: Kyrgyz Republic InfraGov Assessment Dimensions and Sectors

APPLIED DIMENSIONS AND SECTORS		
<i>Applied InfraGov Dimensions</i>	Project Lifecycle	Dimension 1: There should be a solid legal framework and institutional capacity in place to plan, assess, prioritize, and select potential infrastructure projects.
		Dimension 2: Economic efficiency and VfM over the infrastructure life cycle are important criteria in the choice of infrastructure investments.
		Dimension 3: The fiscal affordability and fiscal sustainability of infrastructure projects should be assessed and managed throughout their life cycle.
		Dimension 6: Incorporating resilience to climate change, natural disasters, and public health risks is important for infrastructure outcomes.
	Cross-cutting principles	Dimension 5: Incorporating resilience to climate change, natural disasters, and public health risks is important for infrastructure outcomes.
		Dimension 8: Transparent access to adequate information throughout the project cycle is key for project performance and accountability.
Service provision	Dimension 11: SOEs should operate on market terms where possible, with clear reporting and corporate governance standards, and sound approaches to human resources and financial management.	
<i>Identified Sectors</i>	Energy	
	ICT	

8. **This report summarizes the findings from applying the InfraGov Assessment Framework to the Kyrgyz Republic.** This report was generated following a benchmarking exercise, discussions with World Bank Country staff, a review of previous reports from the World Bank and other development partners on PIM and public financial management, and two in-person fact-finding missions to the Kyrgyz Republic. Annex two outlines the progress made on recommendations made in other public infrastructure/investment related assessments (including the 2016 Public Investment Management Assessment, undertaken by the IMF, the 2021 USAID Methodology for Assessing Procurement Systems (MAPS), the 2021 ISOEF, the 2021 Public Expenditure and Fiscal Accountability (PEFA) assessment and the 2020 Public Expenditure Review). When benchmarking infrastructure service delivery in the Kyrgyz Republic against economies in the same region or with the similar level of economic development, the framework looks at efficiency of institutions and processes in their delivery of investments and related services, through the review of studies, collection of new data, and a series of interviews/focus groups with government officials and private sector investors.

Annex 2. Progress on Public Infrastructure-related recommendations

Source	Recommendation	Progress Report
2016-PIMA	Improve and apply guidelines for the appraisal and selection of projects.	No progress - Investment projects are prioritized by the government Fiscal and Investment Council, but there are no standard criteria for their selection.
2016-PIMA	Develop and maintain project database to monitor investment projects implementation.	Partial Progress - Ministries and other bodies responsible for implementing each project submit quarterly reports on project execution, both physical and financial, to the Ministry of Finance (MoF) and Ministry of Economy and Commerce (MoEC), and on agency websites, and are included in annual budget execution reports. However, there is no information on the existence of a project database, which (should it exist) is not publicly available.
2016-PIMA	Public-Private Partnerships (PPPs) should be included in the public investment project (PIP) pipeline to ensure a level playing field in the evaluation of investment projects and assessment of consistency with national priorities.	No progress/no information - Government has launched an ambitious PPP pipeline of 68 projects to be implemented by 2026, in sectors such as energy, healthcare, and transportation. But there is no information on the inclusion of such PPPs in the PIP pipeline.
2016-PIMA	The State Property Management Fund (SPMF) receives very few (and often incomplete) reports from state-owned enterprises (SOEs) even when the submission of financial statements and balance sheets is a regulatory requirement.	Partial Progress - All SOEs under SPMF submit quarterly and audited annual financial reports to sponsor ministries but there is no consolidated report.
2021-PEFA	Continue planned progress toward international public sector accounting standards (IPSAS).	Partial progress - Accounting standards are consistent and disclosed but more progress toward IPSAS is required (and planned).
2020-PER	Lower the public debt-to-GDP ceiling in the fiscal rule from the proposed 70 percent to about 60 percent. (The fiscal rule included in the Budget Code amendments can help ensure fiscal sustainability in the Kyrgyz Republic.)	No progress - Earlier the Kyrgyz Republic had a rule that the ratio of public debt to GDP should not exceed 60 percent of GDP. The Kyrgyz Republic rejected this rule in 2017. Currently the total public debt burden threshold is 70 percent.
2021-PEFA	Ensure all planned audits are implemented.	Partial Progress - In 2019 approximately 73 percent of the planned audits were completed.
2021-PEFA	Improve public access to information by publishing budget documents.	No progress - Only one of the five basic elements of budget documents (the annual budget execution report) is fully provided.
2021-ISOEF	Formulate a unified and comprehensive SOE ownership policy.	No progress - Currently no unified and comprehensive SOE ownership and oversight policy is in place.
2021-ISOEF	Strengthen SOE transparency by assuring compliance and reinforcing current reporting and disclosure requirements.	Partial progress - Audited accounts of the SOEs under SPMF are published within nine months of year-end, but there is no overall consolidated report.
2021-USAID Methodology for Assessing Procurement Systems (MAPS)	The Public Procurement Law does not specifically address the participation of SOEs but does not include any provisions that give them favorable treatment.	No progress - Competitive bidding should remain an integral part of the public procurement law and should extend to SOEs. Currently SOEs are exempt.

Source	Recommendation	Progress Report
2021-USAID MAPS	Standard reports can be generated from the procurement e-portal, however, the system is not being used to systematically analyze trends, levels of participation, efficiency and economy of procurement, and compliance with requirements.	Partial progress - The public procurement portal is currently undergoing an upgrade to meet the requirements of the new law on public procurement adopted in 2022. The updated version of the portal is expected to become operational in 2023.
2016-PIMA	Strengthen the medium-term budget framework by developing a process for tracking multiyear commitments, reporting the full costs of capital projects in the budget documentation, and better integrating capital and current budgets.	Partial progress - The medium-term budgets covering the whole of central government expenditure are concerned with recurrent expenditure and include provision for capital investment projects only where external finance is known to be available.

Annex 3. Glossary

Term	Definition
Accountability	Accountability refers to being held responsible for correctly carrying out a defined set of duties or tasks, and for conforming with rules and standards applicable to a particular post.
Bid	An offer or proposal for goods and/or services submitted in response to a government agency's invitation.
Bidder	A person, commercial company, or other organization that offers to provide goods, services, or works in response to a request from a public organization.
Climate-change adaptation	The process of adjustment of human and natural systems to actual and expected adverse effects of climate variability and change.
Climate-change resilience	The capacity of human and natural systems to learn, adapt, and transform in response to risks induced or exacerbated by climate variability and change.
Climate risks	A function of the interaction between (a) environmental hazards triggered by climate variability and change; (b) exposure of human, natural, and infrastructure systems to those hazards; and (c) the systems' vulnerabilities (e.g., its sensitivity or susceptibility to hazards, and the constraints on capacity to adapt and cope).
Corruption	The abuse of public office for private gain.
Digitalization	The use of digital technologies and data and interconnection resulting in new or changes to existing activities.
Efficiency	The extent to which the intervention delivers, or is likely to deliver, results in an economic and timely way.
Environmental Impact Assessment (EIA)	A procedure that evaluates a project's potential environmental risks and impacts in its area of influence; examines project alternatives; identifies ways of improving project selection, siting, planning, design, and implementation by preventing, minimizing, mitigating, or compensating for adverse environmental impacts and enhancing positive impacts; and includes the process of mitigating and managing adverse environmental impacts throughout project implementation.
Environmental protection	Includes all activities and actions that have as their main purpose the prevention, reduction, or elimination of pollution as well as any other degradation of the environment.
Feasibility study	A preliminary exploration of a proposed project or undertaking to determine its merits and viability.
Financing	The way in which the resources required to undertake the upfront investment are raised. Financing increases public debt and must be repaid to the financing source.
Foreign direct investment (FDI)	Foreign direct investment is the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor.
Funding	Funding comes either from users or taxpayers that pay for the infrastructure services, either directly or through the government and or government subsidies. Grants are a form of funding.
Governance	The process by which authority is conferred on actors, who make or modify and then enforce rules and regulations.

Term	Definition
International financial institution (IFI)	IFIs are entities established by two or more countries whose remit revolves around international financial issues (e.g., balance of payments distortions, promotion of sustainable economic development) and which are subject to international, not national, law. Perhaps the two most influential IFIs are the Bretton Woods institutions (IMF and World Bank).
Institutional framework	The systems of formal laws, regulations, procedures and informal conventions, customs, and norms that shape activities and behavior of an entity.
Joint Stock Company (JSC)	A legal entity that issues shares to raise funds for its operation.
Lifecycle costs	Total cost of ownership (including maintenance) of public infrastructure assets.
Monitoring	A continuous process of collecting and analyzing information to better understand how well a program is operating against expected outputs/outcomes.
Monopoly	A situation where there is a single or dominantly influential seller in the market.
Project	A group of activities (and associated expenditures) with clearly defined objectives and outputs implemented over a fixed time schedule and within a fixed budget.
Project lifecycle	All the stages during the lifetime of a public asset, starting from planning, prioritization, and funding, to design, procurement, construction, operation, maintenance, and decommissioning.
Public integrity	Public integrity refers to the consistent alignment of, and adherence to, shared ethical values, principles, and norms for upholding and prioritizing the public interest over private interests in the public sector.
Public investment	Investment in physical infrastructure (e.g., roads, government buildings, etc.) and soft infrastructure (e.g., innovation support, research, and development, etc.) with a productive use that extends beyond a year.
Public investment management (PIM)	According to <i>the PIM Reference Guide</i> ,* a PIM system should be concerned with the acquisition (or major improvement) of fixed assets, which is synonymous with capital expenditures. The PIM system should deal with investment delivered through projects. *See https://openknowledge.worldbank.org/handle/10986/33368
Public-Private Partnership (PPP)	A long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility.
Public procurement	The process of purchasing goods, services, or works by the public sector from the private sector.
State-owned enterprise	An entity has its own, separate legal personality; is at least partially controlled by a government unit; and which engages in commercial or economic activities and/or has public service obligations to deliver noncommercial services.
Tender	The process through which a government invites bids for a purchase or project.
Total cost of ownership	The purchase price of an asset plus the costs of operation.

Term	Definition
Transparency	Transparency refers to an environment in which the objectives of policy, its legal, institutional, and economic framework, policy decisions and their rationale, data and information related to policies, and the terms of agencies' accountability are provided to the public in a comprehensible, accessible, and timely manner.
Value for Money	The optimum combination of whole-of-life costs and quality (or fitness for purpose) of the good or service to meet the user's requirements.