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IMPLEMENTATION COMPLETION AND RESULTS REPORT

Credit Number 6218-KG and Grant Number D293-KG

ON A

DEVELOPMENT POLICY CREDIT

IN THE AMOUNT OF SDR 8.3 MILLION (US\$12 MILLION EQUIVALENT)

AND DEVELOPMENT POLICY GRANT

IN THE AMOUNT OF SDR 8.3 MILLION (US\$12 MILLION EQUIVALENT)

TO THE

KYRGYZ REPUBLIC

FOR THE

KYRGYZ REPUBLIC ECONOMIC GOVERNANCE DPO (P163983)

December 27, 2021

Macroeconomics, Trade And Investment Global Practice
Europe And Central Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective December 22, 2021)

Currency Unit = Kyrgyzstani som (KGS)

KGS 84.79 = US\$1

US\$ = SDR 1

FISCAL YEAR

January 1 - December 31

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ABBREVIATIONS AND ACRONYMS

BEEPS	Business Environment and Enterprise Performance Survey
CPS	Country Partnership Strategy
CPF	Country Partnership Framework
ECA	Europe and Central Asia
EEU	Eurasian Economic Union
FBO	Food-Business Operator
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
HACCP	Hazard Analysis Critical Control Point
ICT	Information and Communication Technologies
ICR	Independent Complaints Review
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
KGS	Kyrgyzstani Som
MoF	Ministry of Finance
PA	Prior action
PPL	Public Procurement Law
SBD	Standard Bidding Document
SDR	Special Drawing Rights
SOE	State-Owned Enterprise
TA	Technical Assistance
TI CPI	Transparency International Corruption
US\$	United States Dollar
VAT	Value added tax
WBG	World Bank Group
WGI	World Governance Indicators



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DATA SHEET

BASIC INFORMATION

Product Information

Project ID P163983	Program Name Kyrgyz Republic Economic Governance DPO
Country Kyrgyz Republic	Financing Instrument Development Policy Lending

DPF Options

Programmatic No	Regular Deferred Drawdown Option No	Catastrophic Deferred Drawdown Option
Crisis or Post Conflict No	Sub-National Lending No	Special Development Policy Lending No

Organizations

Borrower Ministry of Finance	Implementing Agency Ministry of Finance
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Program Development Objective (PDO)

Program Development Objective (PDO)

The objective of the operation is to support policy reforms to improve the stewardship of public resources, increase fiscal space and enhance the competitiveness of the economy.

PROGRAM FINANCING DATA (USD)

	Approved Amount	Actual Disbursed
World Bank Administered Financing		
IDA-62180	12,000,000	11,464,541



IDA-D2930	12,000,000	11,464,541
Total	24,000,000	22,929,082

KEY DATES

Concept Review	Decision Review	Approval	Effectiveness	Original Closing	Actual Closing
21-Dec-2017	21-Dec-2017	08-Nov-2018	07-Dec-2018	30-Sep-2019	31-Dec-2019

RATINGS SUMMARY

Program Performance

Overall Outcome	Relevance of Prior Actions	Achievement of Objectives (Efficacy)
Unsatisfactory	Moderately Satisfactory	Unsatisfactory

Bank Performance

Moderately Unsatisfactory

RATINGS OF PROJECT PERFORMANCE IN ISRs

No.	Date ISR Archived	DO Rating	IP Rating	Actual Disbursements (US\$M)
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SECTORS AND THEMES

Sectors

Major Sector/Sector	(%)	Mitigation Co-benefits (%)	Adaptation Co-benefits (%)
Public Administration	70	2.60	0.00
Central Government (Central Agencies)	65	4	0
Other Public Administration	5	0	0
Energy and Extractives	5	0.00	0.00
Other Energy and Extractives	5	0	0



Industry, Trade and Services	25	0.00	0.00
Agricultural markets, commercialization and agri-business	10	0	0
Other Industry, Trade and Services	15	0	0
Themes			
Major Theme/ Theme (Level 2)/ Theme (Level 3)			(%)
Economic Policy			10
Fiscal Policy			10
Fiscal sustainability			10
Private Sector Development			30
Business Enabling Environment			30
Investment and Business Climate			20
Jobs			20
Public Sector Management			50
Public Finance Management			50
Public Expenditure Management			40
Domestic Revenue Administration			10
Public Administration			40
Transparency, Accountability and Good Governance			30
E-Government, incl. e-services			30
Human Development and Gender			10
Nutrition and Food Security			10
Food Security			10
Environment and Natural Resource Management			3
Climate change			3
Mitigation			3
ACCOUNTABILITY AND DECISION MAKING			
Role	At Approval	At ICR	
Regional Vice President:	Ceyla Pazarbasioglu-Dutz	Anna M. Bjerde	



Country Director:	Lilia Burunciuc	Tatiana A. Proskuryakova
Director:	John Panzer	Lalita M. Moorty
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I. PROGRAM CONTEXT AND DEVELOPMENT OBJECTIVES

A. Context at Appraisal

Context

This development policy operation (DPO) supported the government's reform priorities as detailed in its medium-term plan *Unity, Trust, Creation* (2018-2022) aimed at strengthening the macro-fiscal foundations for growth, enhancing transparency and anti-corruption in the public sector, and sharpening private sector competitiveness. It was aligned with the objectives of the then just-introduced *Country Partnership Framework* (FY2019-2022) relating to inclusive growth-oriented macroeconomic management, improved conditions for private investment and diversification, and the development of an e-economy with improved digitalization. Several WBG knowledge and capacity-building interventions provided the foundations for the operation, notably support for the implementation of the *Public Sector Reform* roadmap; public procurement reforms; a public financial management (PFM) capacity-building project; joint donor efforts to support the implementation of private sector development reforms; investment and competitiveness TA provided by IFC; and consultations with the Bank's *Doing Business* team. Moreover, joint missions and technical work with the IMF, such as a broad review of subsidies, technical assistance on the development of a rules-based fiscal framework, and macroeconomic and debt analysis informed the operation.

The stand-alone operation in the amount of \$24 million¹ equivalent, divided equally between an IDA credit and a grant, built on an earlier DPO series, which had also aimed to enhance public sector governance and improve the business environment. This operation embodied a sharper focus on fiscal management in light of growing macroeconomic imbalances. It provided a new element of support for reduction of vulnerability to climate change risks and natural hazards through expanded internet connectivity – an important foundation for effective mitigation. At appraisal, the country enjoyed political stability, which proved to be temporary. Standards of governance were weak, and corruption was widespread. Efforts to build resilient institutions and drive reforms had faltered, eroding the level of public trust in the institutions of governance. The economy felt the stresses of macroeconomic imbalances and volatile growth that rested on narrow export foundations, high migrant remittances, and aid dependence. It lacked a robust private sector with the capacity to expand employment primarily due to heavy regulatory burden, administrative complexity and corruption in getting licenses and permits. Despite a sharp fall from very high levels in the mid-2000s, the poverty rate stood at a still elevated 19.3 percent in 2017; moreover, a large share of the population was clustered just above the poverty line, thereby remaining vulnerable to economic shocks.

At appraisal, the economy was recovering from the commodity price-induced severe external shocks of 2014-15, but by 2017 exports had recovered strongly, largely driven by gold output. A counter-cyclical massive public investment program over 2014-17, helped dampen the downturn but also resulted in rising debt vulnerability and depleted fiscal buffers and deficits in the range of 4.6 to 6.3 percent of GDP in the years preceding appraisal: domestic debt had risen to 5.8 percent of GDP in 2017, although total public debt declined to 58.8 percent of GDP reflecting a Russian debt write-off. Monetary policy remained accommodative. The central bank maintained a managed float for the local currency, which depreciated against the US dollar cumulatively by 54 percent in the three years preceding appraisal, thereby helping to cushion external shocks on the real economy.

¹ Throughout this document reference is made to the US dollar.



Table 1: Key Macroeconomic Indicators, 2014-20

	2014	2015	2016	2017	2018	2019	2020
Real GDP growth, %	4.0	3.9	4.3	4.7	3.8	4.6	-8.6
Non-gold GDP growth, %	5.0	4.9	4.3	5.1	3.7	3.8	-9.0
Consumer price inflation, end-year, %	10.5	3.4	-0.5	3.7	0.5	3.1	9.7
Consumer price inflation, average, %	7.5	6.5	0.4	3.2	1.5	1.1	6.3
Current account balance, % of GDP	-17.0	-16.1	-11.6	-6.3	-12.1	-12.1	4.5
Fiscal balance, % of GDP	-4.1	-3.0	-6.3	-4.6	-1.6	-0.6	-4.2
Public debt, % of GDP	53.6	67.2	59.1	58.8	54.8	51.6	68.1

Source: Kyrgyz authorities

Growth was projected to gradually return to potential - around 4.5 percent - over 2019-21, thanks to a more benign external environment and improved export prospects. Under the DSA's baseline scenario, debt indicators did not exceed their indicative thresholds, although stress-tests suggested vulnerability to shocks. Public and publicly guaranteed external debt, in present value terms, was estimated to remain well under the 36 percent of GDP-plus-remittances threshold and to decline continuously under the baseline scenario over the projection period.

At appraisal, the principal macroeconomic challenge lay in bringing fiscal policy back to a sustainable path, while continuing to provide adequate support to the economy. In light of fiscal pressures, the government adopted an adjustment program: in 2018 and 2019, the authorities intended to contain the fiscal deficit to 2.5 percent of GDP through measures to increase tax revenues and curtail current spending, while maintaining capital expenditures. The credibility of these commitments was to be buttressed by the adoption of a fiscal rule. The Achilles' heel of the economy has long been the dire inefficiency and finances of the energy sector; the country has among the lowest energy tariffs in the world with electricity and heating services delivered at well below cost-recovery, necessitating massive budget subsidies, a steady buildup of debt in the energy sector, and dangerously low levels of operations and maintenance spending as well as investment outlays. Successive governments have resisted raising tariffs and undertaking related reforms. This operation did not directly address this central issue as the next necessary policy steps (e.g., adoption of a new medium-term tariff policy and its effective implementation) were not agreed. It was envisaged that over 2018 and 2019, the government would concentrate on reforming the management structure of the energy sector, strengthening the implementation of anti-corruption measures, and improving the performance of energy companies. Nevertheless, the effective implementation of the new tariff policy, together with coordinated actions to promote greater efficiency and affordability was declared to be central to any future Bank-financed DPO engagement.

To address structural impediments to inclusive growth, the government had adopted a development roadmap for the medium-term that accorded priority to governance in a range of areas (from economic management to public services delivery), digitalization of the economy, and promote spatially balanced economic development.

Original Program Development Objective(s) (PDO) (as approved)

The Program Development Objectives were to support the government of the Kyrgyz Republic in:



- 1. Strengthening macro-fiscal foundations for growth** through reforms aimed at enhancing budget discipline and transparency, and increasing revenue mobilization;
- 2. Enhancing transparency and anti-corruption in the public sector** through measures to improve public sector integrity, including in public procurement; and
- 3. Boosting private sector competitiveness** through measures to facilitate trade, improve the business environment, and promote greater digital connectivity.

Original Policy Areas/Pillars Supported by the Program (as approved)

Pillar I: Macro-fiscal foundations for growth

Reforms under the first pillar supported two policy objectives: (i) enhancing budget discipline and transparency; and (ii) increasing domestic revenue mobilization. These reforms were selected because they addressed both short-term imperatives of fiscal consolidation as well as medium-term needs for rules-bound fiscal management and oversight. Given high levels of public debt, prudent fiscal management was essential to ensuring macroeconomic stability – a pre-condition for attracting investment in a perceived high-risk destination. Moreover, a large infrastructure gap, combined with elevated public debt and already high levels of public expenditure as a share of GDP, meant that new spending priorities could be accommodated only by maximizing the efficiency of spending. Finally, the vulnerability to external shocks required re-building fiscal buffers through enhanced revenues.

Pillar II: Transparency and Anti-Corruption in the Public Sector

Reforms under the second pillar supported two policy objectives: (i) improving the integrity of government decisions; and (ii) enhancing the efficiency and transparency of public sector procurement. These were key reforms to address weaknesses in governance: corruption in public procurement and in decision making by officials arising from conflicts of interest. Improving governance and lowering the level of perceived corruption were seen as crucial steps to alleviating the key constraints to growth; both the 2013 *Business Environment and Enterprise Performance Survey* (BEEPS) and the World Economic Forum's 2016–2017 *Global Competitiveness Report* had identified corruption as one of the most problematic factors for doing business in the Kyrgyz Republic. Negative perceptions of governance persist in the energy and mining sectors, as well as in the area of public financial management, particularly public procurement.

Pillar III: Private Sector Competitiveness

Reforms under the third pillar supported three policy objectives: (i) promoting trade, in the context of accession to the EEU; (ii) improving the business environment for firms; and (iii) supporting the development of the digital economy. Accomplishing these goals was to allow businesses to reduce compliance costs and sharpen competitiveness, thereby improving penetration of EEU markets. In addition, expanding internet connectivity to rural areas was to help shared prosperity and permit efficient early warning systems against natural hazards. Reform efforts in recent years had not translated into an improved business environment; some indicators pointed to reversals because legislative and institutional reforms were poorly implemented, a heavy regulatory burden persisted as did administrative complexity and corruption against the backdrop of a maze of licenses,



permits and procedures. Specifically, complex tax administration hampered private sector growth. Weak ICT infrastructure and internet connectivity constrained private sector activity, particularly in the services sector.

B. Significant Changes During Implementation

There have been no changes to government’s policy priorities, or the reform agenda as formally stated; however, there has been backsliding in implementation that are described in later sections of this report.

II. ASSESSMENT OF KEY PROGRAM DESIGN AND OUTCOMES

Table 2: Prior Actions and Results Indicators

Prior Actions	Results Indicators (original and revised)
PILLAR I: Macro-fiscal foundations for growth	
<p><u>Prior Action 1:</u> The government of the Kyrgyz Republic approves and submits to its Parliament, amendments to the Budget Code to:</p> <ul style="list-style-type: none"> – Introduce a fiscal rule that provides a debt anchor supplemented by an operational deficit target for the purpose of ensuring a sustainable fiscal policy; and – Revise Article 115 to stipulate that any request to the Budget and Finance Committee of Parliament to pre-authorize unbudgeted expenditure shall be deficit neutral and compliant with fiscal rule parameters. 	<p><u>Result Indicator 1:</u></p> <ul style="list-style-type: none"> • Improvements in the PEFA indicator PI-2 on “Composition of expenditure out-turn compared to original approved budget” from D+ in 2014 to B by 2019. Not achieved. <i>Baseline (2014): D+</i> <i>Target (2019): B</i> <i>Current status (2020): D+</i> • Decreased variance in functional composition of expenditure out-turn from 54 percent in 2016 to under 10 percent by 2019. Not achieved. <i>Baseline (2016): 54 percent</i> <i>Target (2019): 10 percent</i> <i>Current status (2020): 15.2 percent</i> • A declining deficit path (excluding on-lending) to 2.5% of GDP in 2018 and 2019. Achieved. <i>Baseline (2017): 3.3 percent</i> <i>Target (2018 and 2019): 2.5 percent</i> <i>Current status (2018): 1 percent, (2019): 0 percent</i>
<p><u>Prior Action 2:</u> The Government of the Kyrgyz Republic has approved procedures requiring information on transfers, refinancing and restructuring of budget loans for State-Owned Enterprises to be included in the Republican</p>	<p><u>Result Indicator 2:</u> Enhanced public scrutiny by the legislature and the public over the operations of SOEs and their fiscal implications and debate over the (in-)adequacy of the business model of SOEs operating in the energy sector, as measured by the</p>



<p>Budget Law, starting from the 2018 budget submission.</p>	<p>number of Parliamentary hearings on the issue (at least once a year). Not achieved. <i>Baseline (2017): none</i> <i>Target (2019): one</i> <i>Current status (2020): none</i></p>
<p><u>Prior Action 3:</u> The Parliament of the Kyrgyz Republic enacts amendments to the Tax Code increasing basic excise rates on tobacco by 16.7 percent and the government of the Kyrgyz Republic adopts a Resolution increasing excise rates on alcohol by 25 percent.</p>	<p><u>Result Indicator 3:</u> Increase in excise rates collected from tobacco and alcohol by at least KGS 1 billion in 2018 and 2019 relative to 2017. Achieved. <i>Baseline (2017): 5,754.2 KGS million</i> <i>Target (2018 and 2019): increase by KGS 1 billion</i> <i>Current status (2018 and 2019): 6727.4 KGS million and 6,703.3 KGS million</i></p>
<p>PILLAR II: Transparency and anti-corruption in the public sector</p>	
<p><u>Prior Action 4:</u> The Parliament of the Kyrgyz Republic enacts the <i>Law on Conflict of Interest</i>, to define conflicts of interest and to provide mechanisms for their prevention and sanction.</p>	<p><u>Result Indicator 4:</u> Increase in the percentage of declarations of personal interests of public officials reviewed and verified by the Commissions on Ethics to identify potential conflicts of interest from 0% in 2017 to 15% of all filed declarations in 2019. Not achieved. <i>Baseline (2017): 0 percent</i> <i>Target (2019): 15 percent</i> <i>Current status (2020): no data</i></p>
<p><u>Prior Action 5:</u> The Government of the Kyrgyz Republic, through the Ministry of Finance, adopts an Order on the “Regulation on the procedure for the work of an Independent Complaints Review Commission” which adopts procedures to strengthen the objectivity and transparency of complaints handling.</p>	<p><u>Result Indicator 5:</u></p> <ul style="list-style-type: none"> • Increase in PEFA PI-19 (iv) sub-score based on 2011 PEFA methodology from D in 2014 to C in 2019. Achieved. <i>Baseline (2014): D</i> <i>Target (2019): C</i> <i>Current status (2020): A</i> • Increase in the overall PEFA PI-19 score from B in 2014 to B+ in 2019. Achieved. <i>Baseline (2014): B</i> <i>Target (2019): B+</i> <i>Current status (2020): A</i> • Reduction in the average processing time for review of cases by the ICRC reduced from 10 days in 2017 to 7 days in 2019. Achieved. <i>Baseline (2017): 10 days</i> <i>Target (2019): 7 days</i> <i>Current status (2019): 7 days</i>



<p><u>Prior Action 6:</u> The Government of the Kyrgyz Republic, through the Ministry of Finance, adopts Standard Bidding Documents for pharmaceuticals and other medical products, as well as for the design, supply and installation of plant and equipment, to streamline procurement, while enhancing value for money.</p>	<p><u>Result Indicator 6:</u></p> <ul style="list-style-type: none"> Increased uptake of the new SBD by procuring entities in the Health Sector, from 0% in 2017 to 50% in 2019. Not achieved. <i>Baseline (2017): 0 percent</i> <i>Target (2019): 50 percent</i> <i>Current status (2020): 0 percent</i> Gradual uptake of the new SBD for large procurement requiring turnkey solutions. Not achieved. <i>Baseline (year): no use</i> <i>Target (year): in use</i> <i>Current status (2019): no use</i>
<p>PILLAR III: Private sector competitiveness</p>	
<p><u>Prior Action 7:</u> The Government of the Kyrgyz Republic has approved and submitted to its Parliament the draft <i>Law on Food Safety</i> to strengthen the technical and institutional framework for quality controls and certification in respect to food safety.</p>	<p><u>Result Indicator 7:</u></p> <ul style="list-style-type: none"> Increase in the number of firms implementing HACCP principles from 43 in 2016 to 58 in 2019. Achieved. <i>Baseline (2016): 43</i> <i>Target (2019): 58</i> <i>Current status (2021): according to data received during the ICR mission the baseline (2016) figure should be 9 and the current (2021) figure is 31</i> Increase in the number of firms included in the EEU register of FBOs and allowed to export to the EEU from 43 in 2016 to 54 in 2019. Achieved. <i>Baseline (2016): 43</i> <i>Target (2019): 54</i> <i>Current status (2021): according to data received during the ICR mission the baseline (2016) figure should be 9 and the current (2021) figure is 188</i>
<p><u>Prior Action 8:</u> The Government of the Kyrgyz Republic adopts a Resolution establishing a deadline for the nation-wide roll out of the transfer of social insurance payments administration from the Social Fund to the State Tax Service in 2019.</p>	<p><u>Result Indicator 8:</u></p> <ul style="list-style-type: none"> Increase in the share of firms filing reports on social contributions with the STS from to 100% by end-December 2019. Achieved. <i>Baseline (year): firms filing reports to 2 pilot tax offices</i> <i>Target (2019): 100 percent</i> <i>Current status (2019): 100 percent</i>



	<ul style="list-style-type: none"> • Reduction in tax compliance cost measured by Doing Business (DB) “Paying taxes” indicator from 225 hours per year in 2016 (DB 2018 report) to 205 in 2019. Not achieved. <p><i>Baseline (2016): 225</i> <i>Target (2019): 205</i> <i>Current status (2018): 220</i></p>
<p><u>Prior Action 9:</u> The Government of the Kyrgyz Republic has (a) adopted amendments to the <i>Law on Electronic and Postal Communications</i> to promote competition in the issuance of the radio spectrum resource for providing data transmission; and (b) adopted through its State Committee of Information Technologies and Communication a procedure for dispute resolution between electronic communications service providers.</p>	<p><u>Result Indicator 9:</u></p> <ul style="list-style-type: none"> • Increase in the International Telecommunications Union internet bandwidth indicator from 5,008 Mbps in 2016 to 6,500 Mbps in 2019. Achieved. <p><i>Baseline (2016): 5,008 Mbps</i> <i>Target (2019): 6,500 Mbps</i> <i>Current status (2019): 203,229 Mbps</i></p> <ul style="list-style-type: none"> • Dispute resolution mechanism between electronic communications service providers is operational. Achieved. <p><i>Baseline (2017): not exist</i> <i>Target (2019): operational</i> <i>Current status (2020): operational</i></p>
<p><u>Prior Action 10:</u> The Parliament of the Kyrgyz Republic, adopts laws to lay key governance foundations for the development of the digital economy and e-service delivery.</p>	<p><u>Result Indicator 10:</u> Increase in the Number of visitors to the State Portal for E-Services from 0 in 2017 to 100,000 in 2019. Achieved.</p> <p><i>Baseline (2017): 0</i> <i>Target (2019): 100,000</i> <i>Current status (9 months 2021): 161,700</i></p>

A. Relevance of prior actions

Rating: **Moderately Satisfactory**

Most prior actions (six out of ten) had a strong and direct link to the achievement of the PDOs. However, some (four out of ten) did not; these actions could at best provide only a modest contribution to the attainment of the PDOs because the theory of change was not well defined and consequently the linkages between the actions and the PDOs were weak.

Pillar I: Macro-fiscal foundations for growth

PDO: Strengthening macro-fiscal foundations for growth through reforms aimed at enhancing budget discipline and transparency and increasing revenue mobilization.



Enhancing budget discipline and transparency. Prior actions related to budget discipline and transparency had a clear and direct relationship to the PDO. PA#1 required the introduction of a fiscal rule that provided a debt anchor and was supplemented by an operational deficit target. This action was fundamental to the attainment of fiscal discipline in a medium-term context that would be rules-based. The rule itself was designed through World Bank-IMF technical assistance to be international best practice. The action relating to the revision of an article in the budget code to ensure that any unbudgeted expenditure revisions would be deficit neutral and fiscal rule compliant (PA#1) was an essential building block to strengthened fiscal discipline. However, the requirement of greater disclosure of information on budget loans for state-owned enterprises (PA#2) was only a first step towards improved budget transparency and discipline; in order to be relevant to the PDO the prior action needed to be more action oriented. In all three of these areas, prior actions needed to be followed up by legislation and effective implementation to achieve the intended results.

Increasing revenue mobilization. PA#3 required tax code amendments to raise excise taxes on alcohol and tobacco. These increases were estimated to raise 1 billion soms in additional revenues (less than 1 percent of total tax revenues) and hence represented a very modest fiscal effort. More relevant actions were needed to address the fundamental weaknesses in revenues: broadening of the base through elimination of exemptions and revision of tax rates, improving the VAT refund mechanism, improving taxpayer segmentation, and in tax administration improving e-filing, taxpayer registration and risk-based auditing.

Pillar II: Transparency and Anti-Corruption in the Public Sector

PDOS: Improving the integrity of government decisions and enhancing the efficiency and transparency of public sector procurement.

Improving the integrity of government decisions. PA#4 required the enactment of a law on conflict of interest on the part of public officials that was designed to be good practice; highly relevant to the circumstances.

Enhancing the efficiency and transparency of public sector procurement. The first measure (PA#5) sought to improve the functioning of the Independent Complaints Review Commission on public procurement decisions, which would help to improve transparency in procurement awards; the second (PA#6) supported the adoption of good practice standard bidding documents to enhance efficiency and transparency of the procurement process. Both prior actions were tightly linked to the PDO.

Pillar III: Private Sector Competitiveness

PDOS: promoting trade in the context of accession to the EEU, improving the business environment for firms, and supporting the development of the digital economy.

Promoting trade in the context of accession to the EEU. The measure relating to strengthened food safety (PA#7) was intended to improve access to the EEU markets. However, firms exporting to or planning to export to EEU markets did not require a law to raise food safety standards, but had in any case to satisfy EEU standards, which many were doing. The relevance and impact of this measure on exports is at best modest. The law proposed would greatly help to improve food quality in the domestic market but was unlikely to be a significant stimulant to exports. The key measures that would have promoted EEU exports relating to, *inter alia*, trade facilitation, standards beyond food, energy sector reforms, were not included in the DPO.

Improving the business environment for firms. The change in the collection of social insurance payments from the Social Fund to the State Tax Service (PA#8) was expected to lead to an improvement in efficiency and



reduction in business costs but was not central in relevance to improvements in the business climate. The WBG had long worked on critical elements such as unjustified inspections, poor practices related to corporate and VAT payments, lack of finance for SMEs, incentives towards informalization, and unreliability of utilities, which are of key relevance in this area, and which were not included in the DPO prior actions.

Supporting the development of the digital economy. The two prior actions relating to allocation of radio spectrum and dispute resolution between service providers (PA#9) and establishing governance rules for the digital economy and e-service delivery (PA#10) were directly relevant to the PDO.

B. Achievement of Objectives (Efficacy)

Rating: **Unsatisfactory**

The PDOs for Pillars A and B were not achieved. The PDOs for Pillar C were partly achieved.

Pillar I: Macro-fiscal foundations for growth. Not Achieved

PDO: Strengthening macro-fiscal foundations for growth through reforms aimed at enhancing budget discipline and transparency and increasing revenue mobilization.

The results indicators were partly relevant; they were all measurable and the targets were set at appropriate levels.

Enhancing budget discipline and transparency. Although the government submitted the fiscal rule to Parliament in 2018, the rule never went into effect as Parliament failed to consider the submission (it only went through the first reading). In subsequent years, the government did not actively push consideration of the rule because of other priorities; moreover, the fiscal rule amendments and changes of Article 115 were recently withdrawn from Parliament with the intention of resubmitting them in a new budget code that the authorities are planning to develop in 2022. Similarly, the action on un-budgeted expenditures was not put into effect. As a result, two results indicators were not met: the PEFA indicator on variance of expenditures remained at D+ (in contrast to a targeted improvement to B by 2019) and the fall in expenditure variance to 10 percent by 2019 was also missed by a wide margin. The indicator on a declining deficit path was met in 2019 largely for exogenous reasons (gold exports and related revenues) but the deficit rose sharply beyond 2019 as revenues fell and spending increased because of the COVID-19 pandemic and the measures to contain the spread of the disease. Disappointingly, the measures recently submitted to Parliament by the government to amend the budget code do not include the fiscal rule, nor amendment of Article 115 relating to expenditure variance. Thus, the prior actions have effectively been totally reversed.

The quality of information on SOE fiscal relations has improved in accordance with the prior action, but the results indicator on parliamentary scrutiny of SOE operations has not been met: parliament has not scheduled the hearings necessary.

Increasing revenue mobilization. The result was achieved. A cumulative increase in excise tax revenues in 2018 and 2019 amounted to 1.9 KGS billion, well above the target of 1 KGS billion. However, the relevance of the action to the PDO was marginal. The tax to GDP ratio fell from 19.8 percent (average 2017-2018) to 18.7 percent (average 2019-2021). Hence the PDO was not achieved.

Pillar II: Transparency and Anti-Corruption in the Public Sector. Not Achieved



PDOs: Improving the integrity of government decisions and enhancing the efficiency and transparency of public sector procurement.

The results indicators were relevant; they were all measurable and the targets were set at appropriate levels.

Improving the integrity of government decisions. The law on conflict of interest is not being enforced in the manner necessary to root out corruption and establish transparency in the public sector. Although in some cases public officials are required to fill out declarations, such documents are not properly reviewed or verified by the commissions on ethics. Mechanisms for prevention and sanction of conflict of interest as provided under the law do not function. The results indicator on the percentage of declarations reviewed cannot be verified as aggregate data from the commissions is not tabulated.

Enhancing the efficiency and transparency of public sector procurement. The good practice public procurement law was gutted through the passage of amendments that removed the obligation to use exclusive e-procurement portals, introduced paper procurement, raised ceilings on procurement exempt from best practice methods to unreasonable levels. These amendments, not based on any consideration of possible shortcomings in the procurement law, reduce the efficiency and effectiveness in procurement and introduce high risks of malfeasance. As a result, the prior action relating to the complaints commission is rendered nugatory. The results indicators relating to the improvements in PEFA scores were met. The processing time for review of cases by the complaints commission was met.

Similarly, the standard bidding documents that had been adopted to international good practice standards under the procurement reforms were abolished in 2019 and current documents employed are of poor quality in terms of appropriate allocation of responsibilities, risks, and liabilities. This constitutes a further reversal in total of a prior action. The results indicators are all missed as they related to the use of earlier bidding documents.

Pillar III: Private Sector Competitiveness. Partly Achieved

PDOs: promoting trade in the context of accession to the EEU, improving the business environment for firms, and supporting the development of the digital economy.

Two results indicators were relevant, two were not. They were all measurable and the targets were set at appropriate levels.

Promoting trade in the context of accession to the EEU. As noted, the relevance of the law on food safety to exports to the EEU is slender. The results indicators on firms implementing HACCP principles and those included in the EEU register for food-based operators were met.

Improving the business environment for firms. As noted, the prior actions were only tenuously linked to the PDO; nonetheless, the indicator on share of firms filing reports on social contributions through the tax service was attained, whilst the sought-for improvement in the *Doing Business* indicator on “paying taxes” from 225 hours in 2016 to 205 hours in 2019 was not met with the number of hours required in 2018 standing at 220.²

Supporting the development of the digital economy. The prior actions have been maintained; however, with frequent changes of government and in the structure of government leadership on digitalization too changed

² The DB results for 2019 were not available as the WB stopped preparing the DB Report in 2021.



frequently. The results indicator on improvements in the bandwidth was achieved mainly thanks to the private sector's efforts. The indicator on dispute resolution mechanism cannot be verified as government counterparts did not exist at the time of the ICR mission. However, the dispute resolution mechanism is available and could be used by the electronic communications service providers if necessary. The number of visitors to the state portal for e-services at 161,000 has exceeded the target, according to the state enterprise "Electronic interoperability center Tunduk".

Major factors affecting the efficacy of the operation

Role of ASA and TA. A key strength of the operation was the solidity, quality, and relevance of the ASA and TA, much of which was funded by the Bank and other development partners. Work on the macro-fiscal foundations of growth involved joint participation by the IMF covering the fiscal rule and taxation; indeed, the IMF provided advice on the macro-framework supporting the operation.³ The Bank has provided long-standing ASA and TA support, in which a capacity-building project has played a major role, in PFM analysis and PEFA work. The Bank has also provided deep analysis and technical assistance over several years on public procurement reforms and has attempted to instill best practice methods. Finally, the Bank provided analytical work that undergirded the proposed reforms in digitalization. Nonetheless, ASAs could not always influence reforms because of technical or political obstacles.

Political economy. Political economy factors have proven to be a major hindrance to progress throughout the DPO agenda, but particularly so on fiscal discipline and transparency, anti-corruption in the public sector, and advances in digitalization implementation. The period 2019-2021 was characterized by growing political instability and weakening institutions that tore into the implementation of reforms. The year 2019 was one of relative calm and offered an opportunity to introduce the fiscal rule and Art 115 reforms in particular. However, political uncertainty increased substantially following popular protests that led to the abrogation of the results of the parliamentary elections of 2020, followed by an unexpected resignation of the president of the republic, the election of a new president, and far-reaching changes to the structure of government. These political and administrative changes have led to a loss of policy focus and weakened implementation capacity. Lack of coordination of the reform agenda within the government and between the government and Parliament has hindered the implementation, in particular, of fiscal and SOE reforms. The pandemic crisis exacerbated these factors by sapping the strength of the economy and diverting the attention of policymakers.

Governance continues to be a major impediment to sustainable reforms. Institutional and capacity weaknesses are rampant and have worsened in many areas (such as key ministries and in key sector functions such as health or digitalization). Public perceptions of corruption remain high.⁴ It is hard to understand the reversal of procurement reforms without any analytical work or any explanation given or lack of proper implementation of conflict of interest except in terms of vested shared interests amongst lobbyists, suppliers, and public officials. Parliament has failed to take up consideration of key fiscal and transparency reforms.

Ownership. The major reversals of the prior actions in two pillars relating to the foundations for growth and transparency and anti-corruption highlight the limited ownership of reforms. Recent actions such as the omission of the fiscal measures from the budget code amendments just submitted to Parliament or persistence with the defective procurement practices show that ownership is yet to be established. The commitment to the

³ The IMF provided TA support on a rules-based fiscal framework in 2017 and 2018.

⁴ The Kyrgyz Republic ranked 126 out of 180 countries on the corruption perception index of the Transparency International in 2019.



digitalization agenda has clearly been stronger, but the commitment has not been followed up by effective action largely because of institutional weaknesses.

Monitoring and evaluation. The ministry of finance is responsible for overall monitoring and evaluation of the operation and for coordinating actions among other ministries and agencies. In practice, M&E systems are weak and have made little progress despite a long history of DPOs administered by the ministry. There is little tracking of progress and feedback mechanisms do not exist within the government system. Dialogue with the Bank and the implementation of other projects such as TA activities on public sector reforms or IFC dialogue with the private sector provide opportunities for monitoring.

C. Overall Outcome Rating and Justification

Rating: **Unsatisfactory**

The overall outcome rating of this DPL series is derived through the combination of the relevance and efficacy ratings.

This DPO supported important fiscal reforms as well as efforts to improve governance and stimulate private sector-led growth through stronger competitiveness. The objectives of this operation remain highly relevant to both the government and the Bank's engagement in the country. Most prior actions had a direct link to the achievement of PDOs, but a substantial minority did not (four out of 10), despite a body of ASA that had identified the critical actions with strong linkages to PDOs. The efficacy of the operation has been disappointing in view of the policy and prior action reversals in the core reform areas of fiscal policy sustainability and transparency and anti-corruption in the public sector. In the area of competitiveness, measures on trade and business climate were at best of tangential relevance to the PDOs. The measures on digitalization were well designed, but institutional turmoil has prevented an effective follow-up.

III. OTHER OUTCOMES AND IMPACTS

A. Poverty, Gender and Social Impacts

The measures supported under this DPO were expected to have a beneficial impact on poverty reduction and shared prosperity through promoting fiscal sustainability, strengthening public governance, creating stronger foundations for private-sector-led growth and job creation. By supporting stronger macro-fiscal foundations and addressing some of the binding constraints to an improved business climate, the operation was expected to improve prospects for sustainable growth which, poverty analysis showed, was a key driver of poverty reduction. The operation was also expected to reduce opportunities for corruption, which disproportionately affected the poor. The fiscal measures supported under the operation were assessed to be mostly distribution neutral and are unlikely to damage the poorest segments of the population.

As the efficacy of the operation was low, these beneficial effects could not be expected to have materialized. It is likely that with the loosening of procurement and public management standards, the opportunities for corruption significantly increased and the poor suffered as a consequence. The business community had supported the earlier procurement law as they could better defend themselves against corrupt public officials; this defense was considerably weakened. Thus, the social impact of the operation was not realized.

B. Environmental, Forests, and Natural Resource Aspects



The specific policies supported by the DPO program were expected to have favorable effects on the environment and natural resources through climate mitigation co-benefits by promoting increased attention over the fiscal cost of energy subsidies. Procurement reforms through best practice bidding documents would allow for the consideration of factors, beyond prices, such as life cycle cost, energy efficiency of the equipment, fuel efficiency and climate impact. Food safety measures would also have favorable impacts. However, with the reversal of fiscal and anti-corruption reforms such effects could not be expected to have been attained.

C. Institutional Change/Strengthening

Not applicable.

D. Other Unintended Outcomes and Impacts

Not applicable.

IV. BANK PERFORMANCE

Rating: **Moderately Unsatisfactory**

Bank performance is rated as Moderately Unsatisfactory in view of the moderate shortcomings in both the preparation and implementation aspects of the operation as discussed below.

Preparation

The design of the operation benefited from sound analytical underpinnings provided by ASA and TA activities. The quality of analytical work was generally high and salient to all the three pillars of the DPO. The design of Pillar I (macro-fiscal foundations of growth) was shaped by technical work (jointly with the IMF) on the fiscal rule, by Public Expenditure Reviews, PEFA assessments, and specific reports by the IMF (e.g., tax). The analytical background for Pillar II (transparency and anti-corruption) rested upon TA on conflict of interest and long-standing advisory work on procurement, e.g., through country fiduciary reports. Pillar III (competitiveness) relied upon intensive WBG advisory work, specific work on cross-border digital connectivity and the CASA digital project.

The DPO documentation provided a candid analysis of some of the major risks faced, noting that risks were high or substantial by every measure. However, the severity of political and implementation risk was not fully recognized, despite the track record of past DPOs. Moreover, the mitigating measures proposed in the operation were insufficient to address the burden of the risks. It noted high governance risks and that implementation of commitments was often delayed but outlined no pro-active strategy to address these well recognized and very long-standing risks. High or substantial risks in policies and implementation were noted but adequate mitigation measures were lacking; thus, a mitigation factor advanced was the “Bank’s track record of sustained DPO engagement and commitment to extend its support in the future, based on satisfactory adherence to agreed-upon reforms.” But clearly the track record was one of repeated failures in past DPOs to adhere to reforms (especially in energy) and commitments to extend future support in the face of such slippages



hardly constituted a force for mitigation.⁵ More pro-active engagement with a spectrum of stakeholders, including parliament and its committees and civic society might have paid dividends.

A central weakness of preparation lay in the choice of prior actions and policy instruments. The omission of energy sector reforms detracted severely from credible efforts at both macro-fiscal stability and anti-corruption. Moreover, within the PDOs the instruments chosen (as described earlier in this document) were tangential to PDO objectives, despite the availability of core instruments that had been identified in ASA and TA.

Past ICRs had drawn the lesson that the M&E system associated with DPOs was weak and the ministry of finance should play an effective role in monitoring progress and taking pro-active or anticipatory course corrections. The preparation of this operation failed to address this lacuna.

The operation was well coordinated with the IMF – especially important given the absence of a supporting IMF program. The documentation does not explain coordination with the ADB which had DPOs in operation or planned or with budget support-type operations from the EU and the Eurasian Development Bank.

Implementation

The implementation of the operation was bedeviled by growing political instability, compounded by frequent changes of administration and key officials responsible for the reform areas of the operation. Institutional expertise and memory within the government was lost in important cases to the detriment of the implementation momentum. Although such factors complicated implementation, it appears that supervision was patchy. Thus, in Pillar II procurement was closely supervised with pro-active participation of staff in providing warnings and advice and engaging with various levels of the government including two presidents, often with reliance upon senior country management. However, on the macro-fiscal pillar, whilst updating reports were prepared, no structured dialogue was established formally to address prior action reversals or failures to follow up. Similarly, the institutional reversals and failures to follow through on digitalization were not taken up in a systematic dialogue or supervision.

At the heart of weak implementation, lay a failure by the Bank to appropriately assess the government's commitment and implementation capacity. This document has outlined weak ownership in several key areas. Particularly on public sector reforms and digitalization, capacity and commitment were too weak to deliver on the expected results.

Except in the area of procurement, the Bank did not proactively identify and effectively respond to the risks to the achievement of the PDOs during implementation. A cause may lie in the absence of formal supervision and structures to monitor progress on each prior action jointly with the authorities.

V. RISK TO SUSTAINABILITY OF DEVELOPMENT OUTCOMES

In Pillar I (macro-fiscal foundations for growth) and in Pillar II (transparency and anti-corruption in the public sector), no development outcomes were achieved. Hence, a discuss of risks to sustainability is moot.

⁵ See IEG report on the series of DPOs over [2010-2017] for an extended discussion of this point, *forthcoming November 2021*.



In Pillar III (private sector competitiveness), the prior actions on food safety and transfer of social insurance payments had only a highly tenuous link to the PDO and hence minor impact. Any such impact that may be felt on private sector competitiveness is likely to be sustained as government ownership in these two areas is present. On digitalization, the ownership is strong but the capacity and ability to enforce the laws and implement reforms is weak. Hence the sustainability to development outcomes is questionable.

VI. LESSONS AND NEXT PHASE

Lessons Learned

DPOs should learn from their history in considering political economy constraints, securing credible commitment at the highest levels and backing up these commitments with implementation actions at the prior action level, and not merely undertakings to submit to the parliament. Any policy reform operation should be based on acting on the thorough understanding of the underlying political economy constraints that the Bank has already achieved, particularly in an environment where governance-related risks are exceptionally high. Sufficient support for reforms from across a wide range of stakeholders, and not merely the ministry of finance, should be ascertained. Experience has shown that weak incentives for change and low accountability (on policy slippages) will lead to reversals of prior actions.

The design of DPLs should rest on a shared strategy that reflects the highest-impact priorities. Energy sector reforms, particularly pricing, must lie at the heart of future DPOs in the Kyrgyz Republic – this was the Bank’s clear adopted position conveyed by its management to the authorities, yet the operation was allowed to proceed with no energy commitments. Furthermore, prior actions chosen were in certain cases only tangential to the realization of objectives, despite a body of ASA that provided sound guidance as to the most effective instruments.

Given the high risks to any DPO operation, careful attention must be placed on mitigating measures. Such operations must be carefully monitored, and implementation supported with structured dialogue and supervision, reflecting a pro-active approach to solving problems. Strong external partnerships are important in this respect.

A system of monitoring and evaluation should be established and seen to be effectively functioning with effective inter-ministerial coordination before the approval of any DPO operation.

Certain complex reforms may be better pursued with a results-based operation – rather than with a DPO. This approach would sharper focus on one or two critical reforms, always including energy pricing, link disbursements to the attainment of implementation indicators, ease the implementation burden on the authorities, and make Bank supervision more effective.



ANNEX 1. RESULTS FRAMEWORK

RESULTS INDICATORS

Pillar: Macro-fiscal foundations for growth

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
PEFA indicator PI-2 on "Composition of expenditure outturn compared to original approved budget"	Text	D+ 31-Dec-2014	B 31-Dec-2019	D+ 31-Dec-2020

Comments (achievements against targets):

The target was not met. According to the 2021 PEFA assessment, indicator PI-2 received score D+ reflecting sub-scores on expenditure composition outturn by function (D), expenditure composition outturn by economic type (B), and expenditure from contingency reserves (A).

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Variance in functional composition of expenditure out-turn	Percentage	56.00 31-Dec-2016	10.00 31-Dec-2019	15.20 31-Dec-2020

Comments (achievements against targets):

The target was not achieved. According to the 2021 PEFA, expenditure composition outturn by function deviated from the budget by 15.2 percent and received score D.



Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Fiscal deficit (as % of GDP, excl. on-lending) for 2018 and 2019	Percentage	3.30 31-Dec-2017	2.50 31-Dec-2019	0.00 31-Dec-2019
<p>Comments (achievements against targets): The indicator on deficit path was met in 2019. But it was largely for exogenous reasons (gold exports and related revenues). The deficit rose sharply beyond 2019 as revenues fell and spending increased because of the COVID-19 pandemic and the measures to contain the spread of the disease.</p>				
Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Revenues from excises for alcohol and tobacco	Text	Excise tax revenue from alcohol and tobacco in 2017 was KGS 5.7 billion 31-Dec-2017	Increase in revenues from excises on tobacco and alcohol by at least KGS 1 billion in 2018 and 2019 relative to 2017 31-Dec-2019	Increase in excise tax from alcohol and tobacco in 2018 and 2019 amounted to KGS1.9 billion 31-Dec-2019
<p>Comments (achievements against targets): The target was achieved. A cumulative increase in excise tax revenues in 2018 and 2019 amounted to 1.9 KGS billion, well above the target of 1 KGS billion. However, the relevance of the action to the PDO was marginal.</p>				



Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Number of Parliamentary hearings on (in-)adequacy of the business model of energy SOEs	Text	None 31-Dec-2017	At least once a year 31-Dec-2019	None 31-Dec-2019

Comments (achievements against targets):

Based on the information collected by the ICR team no Parliamentary hearings on energy SOEs' business model were held during 2019-20. Therefore, the target was missed.

Pillar: Transparency and anti-corruption in the public sector

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Percentage of declarations of personal interests of public officials verified by the Ethics Commissions to identify potential conflicts of interest (average across all entities)	Text	There is no system in place for managing and sanctioning conflicts of interest 31-Dec-2017	Ethics Commissions in ministries, central government and regulatory agencies have reviewed 15% of all filed declarations 31-Dec-2019	No data available 31-Dec-2020

Comments (achievements against targets):

Although in some cases public officials are required to fill out declarations, such documents are not properly reviewed or verified by the commissions on ethics. The results indicator on the percentage of declarations reviewed cannot be verified as aggregate data from the commissions is not tabulated. Therefore, the ICR team concludes that the target was not achieved.



Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Competition, value for money, and controls in public procurement PEFA (PI 19) score	Text	B 31-Dec-2014	B+ 31-Dec-2019	A 31-Dec-2020
<p>Comments (achievements against targets): The target was achieved. According to the 2021 PEFA assessment, all key aspects of procurement management – i) procurement monitoring, ii) procurement methods, iii) public access to procurement information, iv) procurement complaints management – received score A.</p>				
Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
PEFA indicator PI-19 (iv) sub-score	Text	D 31-Dec-2014	C 31-Dec-2019	A 31-Dec-2020
<p>Comments (achievements against targets): The target was achieved. According to the 2021 PEFA assessment, PI-19 (iv) sub-indicator - procurement complaints management – received score A.</p>				
Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Average processing time for review of cases by the ICRC	Days	10.00 31-Dec-2017	7.00 31-Dec-2019	7.00 31-Dec-2020



Comments (achievements against targets):

The average processing time for review of cases by the ICRC was reduced to 7 days from 10 days in 2017. The target was met.

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Uptake of the new SBD by procuring entities in the Health Sector	Percentage	0.00 31-Dec-2017	50.00 31-Dec-2019	0.00 31-Dec-2020

Comments (achievements against targets):

The target was not achieved. The SBDs that had been adopted to international good practice standards under the procurement reforms were abolished in 2019 and current documents employed are of poor quality in terms of appropriate allocation of responsibilities, risks, and liabilities.

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
New SBD for large procurement requiring turnkey solutions	Text	Not used 31-Dec-2017	In use 31-Dec-2019	Not used 31-Dec-2019

Comments (achievements against targets):

The target was not achieved. The SBDs that had been adopted to international good practice standards under the procurement reforms were abolished in 2019 and current documents employed are of poor quality in terms of appropriate allocation of responsibilities, risks, and liabilities.



Pillar: Private sector competitiveness

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Number of firms implementing HACCP principles	Number	43.00	58.00	31.00
		31-Dec-2016	31-Dec-2019	31-Dec-2019

Comments (achievements against targets):

According to the data collected by the ICR team, the number of firms implementing HACCP principles increased 9 in 2016 to 31 in 2021. Based on this, the ICR team concludes that the target was met.

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Number of firms included in the EEU register of FBOs and allowed to export to the EEU	Number	43.00	54.00	188.00
		31-Dec-2016	31-Dec-2019	31-Dec-2019

Comments (achievements against targets):

According to the data collected by the ICR team, the number of firms included in the EEU register increased 9 in 2016 to 188 in 2021. Based on this, the ICR team concludes that the target was met.



Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Share of firms filing reports on social contributions to the State Tax Service	Text	Businesses in 2 pilot tax offices 31-Dec-2014	100% of businesses country-wide 31-Dec-2019	100% of businesses country-wide 31-Dec-2019

Comments (achievements against targets):

The target was achieved. Based on the information collected by the ICR team, administration of the social contributions has been transferred to the State Tax Service from the Social Fund.

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Tax compliance cost measured by DB "Paying taxes" indicator	Text	225 hours per year 31-Dec-2016	205 hours per year 31-Dec-2019	220 hours per year 31-Dec-2018

Comments (achievements against targets):

The DB results for 2019 were not available as the WB stopped preparing the DB Report in 2021. Since the progress towards to target was modest as the 2018 DB results indicate, the ICR team concludes that the target was not met.

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
International Telecommunications Union,	Text	5,008 Mbps 31-Dec-2016	6,500 Mbps 31-Dec-2019	203,229 Mbps 31-Dec-2019



International internet bandwidth indicator				
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Comments (achievements against targets):
 The target was achieved mainly thanks to the private sector’s efforts. Based on the data collected by the ICR team, the international bandwidth indicator was 5,008 Mbps in 2013 and 81,310 Mbps in 2016, which increased to 203,299 Mbps in 2019.

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Dispute resolution mechanism between electronic communications service providers	Text	Non-operational 31-Dec-2017	Operational 31-Dec-2019	Operational 31-Dec-2019

Comments (achievements against targets):
 The dispute resolution mechanism is available and could be used by electronic communications service providers if necessary. Therefore, the ICR team concludes that the target was met.

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Number of visitors to the State Portal for E-Services	Number	0.00 31-Dec-2017	100,000.00 31-Dec-2019	161,700.00 30-Sep-2021

Comments (achievements against targets):



According to the Government's Electronic interoperability center Tunduk, the number of visitors amounted to 161,700 during January-September 2021. The target was achieved.

ANNEX 2. BANK LENDING AND IMPLEMENTATION SUPPORT/SUPERVISION PROCESSES

A. TASK TEAM MEMBERS

Name	Role
Preparation	
Supervision/ICR	
Appolenia Mbowe	Task Team Leader(s)
Irina Goncharova	Procurement Specialist(s)
Garik Sergeyan	Financial Management Specialist
Gregory Kisunko	Team Member
Christopher David Miller	Team Member
Bakyt Dubashov	Team Member

B. STAFF TIME AND COST

Stage of Project Cycle	Staff Time and Cost	
	No. of staff weeks	US\$ (including travel and consultant costs)
Preparation		
FY17	3.000	20,124.74
FY18	47.844	273,496.55
FY19	.325	2,699.71
Total	51.17	296,321.00
Supervision/ICR		
FY20	0	180.41
Total	0.00	180.41



ANNEX 3. BORROWER, CO-FINANCIERS, AND OTHER DEVELOPMENT PARTNERS' /STAKEHOLDERS' COMMENTS

**КЫРГЫЗ РЕСПУБЛИКАСЫНЫН
ФИНАНСЫ МИНИСТРЛИГИ**



**МИНИСТЕРСТВО ФИНАНСОВ
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21.12.2021 № 26-3/6691
□ _____ № _____

**Офис Всемирного банка
в Кыргызской Республике**

Министерство финансов Кыргызской Республики выражает Всемирному Банку глубокую благодарность за поддержку, оказываемую нашей стране по приоритетным направлениям социально-экономического развития Кыргызской Республики.

Настоящим, рассмотрев письмо от 13 декабря 2021 года относительно Предварительного варианта Отчета о завершении реализации и результатах проекта «Разработка политики экономического управления Кыргызской Республики», Министерство финансов Кыргызской Республики в приложении направляет свои комментарии к вышеуказанному Отчету о завершении реализации и результатах (ICR) и не возражает на публикацию данного Отчета.

Пользуясь случаем, Министерство финансов Кыргызской Республики в очередной раз хотело выразить Всемирному Банку свое глубокое почтение и благодарность за непосредственно оказываемую поддержку и надежду на продолжительное плодотворное сотрудничество.

Приложение: на ___ л.

Заместитель министра

Р.С. Татиков



“On the letterhead of the Ministry of Finance of the Kyrgyz Republic”

21 December 2021

Ref. #26-3/6691

**Office of the World Bank
in the Kyrgyz Republic**

The Ministry of Finance of the Kyrgyz Republic expresses its gratitude to the World Bank for the support that the World Bank provides to our country under priority areas of socio-economic development of the Kyrgyz Republic.

Having reviewed the letter of 13 December 2021 related to the draft Implementation Completion and Results Report, herewith the Ministry of Finance is sending its comments for the Report (please see the attachment) and confirms that it does not have any objections for making this Report available to the public.

The Ministry of Finance of the Kyrgyz Republic would like to use this opportunity to render its deep respect and gratitude to the World Bank for the direct support, and expresses its hope for fruitful long-term cooperation.

R. S. Tatikov,

Deputy Minister /signed/



Комментарии к Отчету о завершении и результатах реализации проекта по кредиту на политику развития в размере 8,3 млн.СДЗ и гранту на политику развития в размере 8,3 млн.СДЗ, предоставляемые Кыргызской Республике для программной операции в поддержку развития в области экономического управления

Министерство финансов выражает благодарность за возможность предоставить комментарии на проект Отчета о Завершении и Результатах Реализации Операции по Поддержке Политики Развития в области Экономического Управления (ОППР). ОППР был подготовлен в 2018 году и реализовывался в 2019-20 годах.

Целями ОППР в области Экономического Управления являлись оказание Правительству Кыргызской Республики поддержки в:

1. Укреплении макрофискальных основ роста посредством проведения реформ, направленных на повышение бюджетной дисциплины и прозрачности, наряду с увеличением мобилизации доходов;

2. Повышении прозрачности и усилении борьбы с коррупцией в государственном секторе посредством принятия мер по повышению добросовестности государственного сектора – в том числе, в области государственных закупок; и

3. Повышении конкурентоспособности частного сектора посредством принятия мер по содействию торговле, улучшению условий предпринимательской деятельности и повышению цифровой связанности.

В целом, Отчет представил подробную оценку реализации, достижение программных целей Операции по Поддержке Политики Развития в области Экономического Управления, а также выполнение реформ, представленные в Программе, как предварительные действия. В целом, Отчет представил подробную оценку реализации, достижение программных целей Операции по Поддержке Политики Развития в области Экономического Управления (далее ОППР), а также выполнение реформ, представленных в Программе, как предварительные действия.

Министерство финансов в целом согласно с описанием контекста подготовки ОППР. Цели, поставленные перед ОППР, соответствовали стратегическим целям развития Кыргызской Республики, которые были обозначены в программах Правительства КР «40 шагов», «Таза Коом» и программа Правительства на 2019 год. В подготовке ОППР также использовались аналитические отчеты и отчеты технических миссий, касающиеся вопросов улучшения макро-фискального управления, укрепления управления государственного сектора и повышения конкурентоспособности частного сектора.

Подготовка ОППР происходила в период восстановления экономики после глобальных шоков вызванных падением цен на сырьевые товары. В этот период Кыргызская Республика смогла удержать положительные темпы роста экономики, проводя соответствующую налогово-бюджетную и кредитно-денежную политики. Однако, в результате влияния внешних шоков, увеличились дефицит бюджета и уровень государственного долга. В связи с этим, реформы ОППР направлялись на укрепление макро-фискальных основ для устойчивого роста, улучшение прозрачности и сокращение коррупции в государственном секторе и поддержке развития частного сектора. Для оценки достижений в этих направлениях Кыргызская Республика намеревалась улучшить показатели развития принятых в международных исследованиях, таких как Doing Business, PEFA, International Corruption Transparency.

Релевантность предварительных действий

Министерство финансов провело собственный сбор информации и данных по индикаторам результатов ОППР. Эти информация и данные в основном совпадают с информацией и данными приведенными в таблице I: Предварительные действия и индикаторы результатов в проекте Отчета с небольшими комментариями.



В разделе «В. Достижение целей (эффективность)» статус оценки «Неудовлетворительно» изменить на статус «Умеренно удовлетворительно».

По компоненту I. Макрофискальные основы роста. Статус «Не достигнуто» изменить на статус «Достигнуто частично».

Предварительное действие №1. «Правительство Кыргызской Республики направляет в Жогорку Кенеш поправки, вносящие в Бюджетный кодекс следующее:

- ввести бюджетное правило, которое устанавливает целевой показатель по долгу, дополненный целевым показателем операционного дефицита, для обеспечения устойчивой фискальной политики; и

- изменения в статье 115, которые устанавливают, что любая заявка на предварительное утверждение дополнительных расходов Правительства Комитетом по бюджету и финансам Парламента без внесения соответствующих поправок к Закону о республиканском бюджете должна быть исключительно нейтральной относительно величины дефицита бюджета и полностью соответствовать параметрам бюджетного правила».

В настоящее время на рассмотрение Жогорку Кенеша Кыргызской Республики внесен проект Бюджетного кодекса, в рамках которого предусмотрено уточнение понятия дефицита/профицита бюджета без учета официальных трансфертов из внешних источников (гранты). Данная норма позволит отразить реальные возможности бюджета на покрытие собственных расходов без привлечения внешних ресурсов.

Предварительное действие №2. «Правительство Кыргызской Республики издает приказ о составлении проекта республиканского бюджета и внесении поправок в республиканский бюджет, устанавливающий требование раскрывать подробную информацию о передаче, рефинансировании и реструктуризации кредитов для ГП в Пояснительной записке к Закону о республиканском бюджете, и предоставляет такую информацию в бюджетной заявке в 2018 году.».

Распоряжением Правительства Кыргызской Республики от 31 января 2019 года №9-р предусмотрены сроки подготовки проекта Основных направлений фискальной политики Кыргызской Республики на 2020-2022 годы и проекта Закона Кыргызской Республики «О республиканском бюджете Кыргызской Республики на 2020 год и прогнозе на 2021-2022 годы».

В соответствии со статьей 71 Закона Кыргызской Республики «О Регламенте Жогорку Кенеша Кыргызской Республики» профильный комитет Жогорку Кенеша Кыргызской Республики проводит парламентские слушания по проекту закона о республиканском бюджете.

Предварительное действие №3. «Жогорку Кенеш Кыргызской Республики принимает поправки к Налоговому кодексу, предусматривающие повышение базовых ставок акцизного сбора на табачные изделия на 16,7 процента, а Правительство Кыргызской Республики принимает постановление о повышении ставок акцизов на алкогольную продукцию на 25 процентов».

Законом Кыргызской Республики от 28.04.2017 года № 65 «О внесении изменения в Налоговый кодекс Кыргызской Республики» установлены ставки акциза на сигареты с фильтром и без фильтра на период 2018-2022 года, кроме того постановлением Правительства Кыргызской Республики от 26 декабря 2019 года № 711 «О внесении изменений в некоторые решения Правительства Кыргызской Республики» увеличены ставки на алкогольную продукцию, производимую на территории Кыргызской Республики и ввозимую на территорию Кыргызской Республики, дифференцировано с 1 января 2020 года и по 31 декабря 2023 года.

Поступление по акцизному налогу в 2018 году составило -10 296 332,7 тыс.сомов, в 2019 году составило - 9 944 963,3 тыс.сомов.

По компоненту II: Прозрачность и борьба с коррупцией в государственном секторе. Статус «Не достигнуто» изменить на статус «Достигнуто частично».



По Предварительным действиям №5 «Правительство Кыргызской Республики, приказом Министерства финансов, приступает к пересмотру Положения о порядке работы независимой межведомственной комиссии по рассмотрению жалоб в целях повышения объективности, прозрачности и устойчивости рассмотрения жалоб» и №6 «Правительство Кыргызской Республики, приказом Министерства финансов, принимает стандартную конкурсную документацию для закупок лекарственных средств, а также для проектирования, поставки и монтажа установок и оборудования с целью рационализировать закупки, наряду с повышением эффективности расходования средств.»

Реформы в секторе государственных закупок ведутся с 2015 года и продолжаются до настоящего времени.

Действительно, в последние годы в закон о государственных закупках активно вносились дополнения и изменения. Многие из них были направлены на совершенствование законодательства, оптимизацию процедур закупок или устранение отдельных недостатков. Однако, сложно сказать, что все поправки в законодательство носили положительный характер. Некоторые из них являются достаточно спорными и могут привести к ухудшению качества закупок. Учитывая это, Департамент государственных закупок начал работу по проведению анализа действующего закона о государственных закупках с целью приведения его к международным стандартам и адаптации к местным условиям.

Следует отметить, что в настоящее время все государственные закупки осуществляются исключительно в электронном формате, начиная от этапа планирования закупок до заключения договора, что позволило повысить прозрачность процесса государственных закупок и создать равные условия конкуренции среди поставщиков (подрядчиков).

На октябрь 2021 года на Веб-портале государственных закупок зарегистрировано 29 928 поставщиков (подрядчиков) и 4 228 закупающих организаций. Внедрен электронный каталог «TANDOO», который позволил повысить прозрачность процедур закупок стандартизированных товаров, работ и услуг.

По компоненту III: Конкурентоспособность частного сектора. Статус «Достигнуто частично» изменить на статус «Достигнуто».

По Предварительному действию №8 «Правительство Кыргызской Республики принимает постановление, устанавливающее жесткий срок для общереспубликанского развертывания в 2019 году работы по передаче Социальным фондом Государственной налоговой службе функции администрирования взносов на социальное страхование».

В целях обеспечения качественного исполнения органами налоговой службы функций по администрированию страховых взносов по государственному социальному страхованию принято постановление Правительства КР «О внесении изменений в некоторые решения Правительства Кыргызской Республики» от 01.07.2019 года №335, согласно которому предусматривается увеличение штатной численности центрального аппарата и территориальных управлений ГНС на 290 единиц.

В целом, Министерство финансов согласно с оценкой Отчета касательно релевантности предварительных действий и считает, что большинство предварительных действий ОППР имели прямую связь с целями развития ОППР.



Comments on the Implementation Completion and Results Report for the SDR 8.3 million Development Policy Loan and SDR 8.3 million Development Policy Grant to the Kyrgyz Republic for the Economic Governance Development Policy Operation

The Ministry of Finance appreciates the opportunity to provide comments on the draft Implementation Completion and Results Report of the Economic Governance Development Policy Operation (EGDPO). The EGDPO was prepared in 2018 and implemented in 2019-20.

The objectives of the Economic Governance DPO were to support the Government of the Kyrgyz Republic in:

1. Strengthening the macro-fiscal foundations for growth through reforms aimed at improving fiscal discipline and transparency, along with increasing revenue mobilization;
2. Increasing transparency and strengthening the fight against corruption in the public sector through measures to improve public sector integrity-including in public procurement; and
3. Improving the competitiveness of the private sector through measures to facilitate trade, improve the business environment and increase digital connectivity.

Overall, the Report presented a detailed assessment of implementation, achievement of the program development objectives of the Development Policy Operation in the field of Economic Governance, as well as implementation of the reforms presented in the Program as prior actions.

The Ministry of Finance generally agrees with the description of the context at the preparation stage of the DPO. The objectives set for the DPO were consistent with the strategic development goals of the Kyrgyz Republic, which were outlined in the programs of the KR Government "40 Steps", "Taza Koom" and the Government's program for 2019. The preparation of the DPO also benefited from analytical reports and technical mission reports related to improving macro-fiscal management, strengthening public sector management and enhancing private sector competitiveness.

The preparation of the FPSA took place during a period of economic recovery from the global shocks caused by falling commodity prices. During this period, the Kyrgyz Republic was able to maintain positive economic growth rates by pursuing appropriate fiscal and monetary policies. However, as a result of the impact of external shocks, the budget deficit and the level of public debt increased. In this regard, the reforms supported by the DPO were aimed at strengthening the macro-fiscal framework for sustainable growth, improving transparency and reducing corruption in the public sector, and supporting private sector development. To assess achievements in these areas, the Kyrgyz Republic intended to improve



development indicators adopted in international surveys such as Doing Business, PEFA, and International Corruption Transparency.

Relevance of preliminary actions

The Ministry of Finance has conducted its own collection of information and data on the indicators of the results of the DPO. This information and data mostly coincide with the information and data given in Table 1: Prior Actions and Outcome Indicators of the draft Report with minor comments.

Under "B. Goal Achievement (Effectiveness)" change the rating status from "Unsatisfactory" to "Moderately Satisfactory."

On Pillar I: Macro-fiscal foundations for Growth. Change the "Not Achieved" status to "Partially Achieved".

Preliminary Action #1: "The Government of the Kyrgyz Republic submits to the Jogorku Kenesh amendments to the Budget Code as follows:

- Introduce a budget rule that establishes a debt target supplemented by an operating deficit target to ensure sustainable fiscal policy; and
- amend Article 115 to state that any request for prior approval of additional government expenditures by the Budget and Finance Committee of Parliament without appropriate amendments to the Republican Budget Act must be exclusively neutral on the size of the budget deficit and fully consistent with the parameters of the budget rule."

Currently, a draft of the Budget Code, which provides for clarification of the concept of budget deficit/surplus without taking into account official transfers from external sources (grants), has been submitted to Jogorku Kenesh of the Kyrgyz Republic for consideration. This norm will reflect the real possibilities of the budget to cover its own expenditures without attracting external resources.

Prior Action #2: "The Government of the Kyrgyz Republic shall issue an order on drafting the republican budget and amendments to the republican budget, establishing the requirement to disclose detailed information on the transfer, refinancing and restructuring of loans for SOEs in the Explanatory Note to the Law on the Republican Budget, and provide such information in the budget request in 2018."

Order of the Government of the Kyrgyz Republic of January 31, 2019 № 9-r provides for the terms of preparation of the draft Basic Fiscal Policy of the Kyrgyz Republic for 2020-2022 and the draft Law of the Kyrgyz Republic "On the Republican Budget of the Kyrgyz Republic for 2020 and the forecast for 2021-2022".

In accordance with Article 71 of the Law of the Kyrgyz Republic "On the Rules of Procedure of the Jogorku Kenesh of the Kyrgyz Republic" the specialized committee of the Jogorku Kenesh of the Kyrgyz Republic shall hold parliamentary hearings on the draft law on the national budget.



Prior action #3: "The Jogorku Kenesh of the Kyrgyz Republic adopts amendments to the Tax Code to increase the basic excise duty rates on tobacco products by 16.7 percent, and the Government of the Kyrgyz Republic adopts a resolution to increase the excise duty rates on alcohol products by 25 percent."

The Law of the Kyrgyz Republic of 28.04.2017 No. 65 "On Amendments to the Tax Code of the Kyrgyz Republic" established excise duty rates for cigarettes with filter and without filter for the period 2018-2022, in addition, the Government of the Kyrgyz Republic of December 26, 2019 No. 711 "On amendments to some decisions of the Kyrgyz Government" increased rates for alcohol products produced in the Kyrgyz Republic and imported into the Kyrgyz Republic, differentiated from January 1, 2020 and until December 31

Excise tax proceeds in 2018 amounted to -10,296,332.7 thousand soms, in 2019 amounted to - 9,944,963.3 thousand soms.

On Pillar II: Transparency and combating corruption in the public sector. To change "Not Achieved" status to "Partially Achieved".

On Prior Actions #5: "The Government of the Kyrgyz Republic, by order of the Ministry of Finance, shall initiate the revision of the Regulations on the Procedure of the Independent Interagency Commission for Review of Complaints in order to improve objectivity, transparency and sustainability of complaints." and #6: "Government of the Kyrgyz Republic, by order of the Ministry of Finance, shall adopt standard tender documents for procurement of drugs, as well as for design, supply and installation of facilities and equipment in order to rationalize

Reforms in the public procurement sector have been underway since 2015 and continue to the present.

Indeed, in recent years, there have been active additions and amendments to the law on public procurement. Many of them were aimed at improving the legislation, optimizing procurement procedures or eliminating certain shortcomings. However, it is difficult to say that all amendments to the legislation were positive. Some of them are quite controversial and may lead to the deterioration of the quality of procurement. Taking this into account, the Department of Public Procurement began to work on the analysis of the current law on public procurement in order to bring it to international standards and adapt it to local conditions.

It should be noted that at present all public procurements are made exclusively in electronic format, from the stage of planning procurement to contract conclusion, which has increased the transparency of the public procurement process and created a level playing field for competition among suppliers (contractors).

As of October 2021, 29,928 suppliers (contractors) and 4,228 procuring entities were registered on the Public Procurement Web Portal. The electronic catalog "TANDOO" was introduced, which increased the transparency of procurement procedures for standardized goods, works and services.



On Pillar III: Competitiveness of the private sector. To change the status "Partially Achieved" to "Achieved".

On Prior Action #8: "The Government of the Kyrgyz Republic adopts a resolution setting a tight deadline for nationwide roll-out in 2019 for the Social Fund to transfer to the State Tax Service the function of administering social insurance contributions".

In order to ensure qualitative performance of functions of administration of state social insurance premiums by tax authorities, the Decree of the Government of the Kyrgyz Republic "On amendments to some decisions of the Government of the Kyrgyz Republic" from 01.07.2019 №335, which provides for an increase in the staff number of the central office and territorial departments of STS by 290 units.

In general, the Ministry of Finance agrees with the assessment of the Report regarding the relevance of the preliminary actions and considers that most of the prior actions of the EGDPO had a direct link with the development objectives of the EGDPO.



ANNEX 4. SUPPORTING DOCUMENTS

1. Sustainable Development Strategy of the Kyrgyz Republic 2018-40
2. Kyrgyz Republic Government's Medium-Term Plan *Unity, Trust, Creation* (2018-2022)
3. Kyrgyz Republic FY14-17 Country Partnership Strategy
4. Kyrgyz Republic FY19-22 Country Partnership Framework
5. Kyrgyz Republic Public Expenditure Review Reports, 2014
6. Kyrgyz Republic Public Expenditure and Financial Accountability Performance Assessment Report (PEFA), 2021
7. World Bank, Macro-Poverty Outlook, Kyrgyz Republic, October 2018
8. World Bank, Macro-Poverty Outlook, Kyrgyz Republic, October 2019
9. World Bank, Macro-Poverty Outlook, Kyrgyz Republic, October 2020
10. Kyrgyz Republic: Fourth and Fifth Reviews under the Three-Year Arrangements under the Extended Credit Facility, and Request for Modification of Performance Criteria-Press Release; Staff Report, February 2018
11. Kyrgyz Republic: 2019 Article IV Consultation-Press Release; and Staff Report; July 2019
12. World Bank, Doing Business Report, 2020