

**SECTOR ASSESSMENT (SUMMARY):  
PUBLIC SECTOR MANAGEMENT—PUBLIC EXPENDITURE AND FISCAL MANAGEMENT**

**Sector Road Map**

**1. Sector Performance, Problems and Opportunities**

1. **Public Financial Management.** The last Kyrgyz Republic Public Expenditure and Financial Accountability Assessment (PEFA) (Table 1),<sup>1</sup> disclosed to the public, was conducted in 2015. Public Financial Management (PFM) rated well for (i) budget credibility; (ii) comprehensiveness; (iii) policy-based budgeting; (iv) predictability and control of budget executions; (v) accounting, recording and reporting; (vi) external scrutiny and audit; and (vii) financial information provided by donors for budgeting and reporting on project and program aid.

**Table 1: PEFA Assessments Comparison, 2009 and 2015**

<b>Dimension</b>	<b>Average Score 2009</b>	<b>Average Score 2015</b>
Credibility of the budget	C	B
Comprehensiveness and transparency	B-	B
Policy-based budgeting	B	B
Predictability and control in budget execution	D+	B
Accounting, recording and reporting	C	A-
External scrutiny and audit	C-	B-
Overall Average Score (all indicators)	C	B

PEFA = Public Expenditure and Financial Accountability Assessment.  
Source: World Bank.

2. However, despite the mentioned achievements a number of weaknesses remain, including: (i) weak revenue forecasting; (ii) a weak system of control over expenditures during budget execution; (iii) insufficient transition to the practical application of budget execution on a program basis; (iv) deficient investment planning and estimation of recurrent expenditures; (v) state-owned enterprise performance and quasi-fiscal deficit of the energy sector are yet to be improved; and (vi) financial management information system (FMIS) not fully integrated.

3. **PFM systems.** The Asian Development Bank's (ADB) financial management assessments for new project investments generally describe the PFM system as weak, which adversely affects transparency and accountability in economic management and public service delivery, while PFM implementation capacity is described as limited. Also, weaknesses in public investment planning and management at the sector level result in capital spending lacking a proper strategic basis. Another problem is that the low salary level makes it difficult for executing and/or implementing agencies to attract qualified staff. Compliance audit undertaken by the Chamber of Accounts (COA) covered about 4/5th of central government entities each year, but other types of audits were limited. The annual audit report on the previous year's budget execution was submitted to the Jogorku Kenesh (Parliament) within five months of year-end, and there is

<sup>1</sup> Program financed by Multi-Donor Trust Fund Project «Capacity building for Public Finance Management» and managed by the World Bank the supported the government in conducting Public Expenditure and Financial Accountability Assessment in 2015.

clear evidence of follow-up on audit recommendations. The legislative scrutiny of audit reports has improved since 2009 but remains protracted.

4. **Public procurement.** The public procurement system is overall relatively well-functioning, in particular as regards the legislative and regulatory framework and the integrity of the system. However, several weaknesses remain, including absence of strategic procurement planning, procurement processes delays and late payments to contract. An important feature of the procurement system of the Kyrgyz Republic is that since May 2015 public sector entities have fully converted their procurement transactions from manual to electronic procurement as mandated by the Public Procurement Law.

5. **Vulnerability to corruption.** Transparency International's Corruption Perceptions Index (CPI) ranked the Kyrgyz Republic 124<sup>th</sup> of 180 countries in 2020.<sup>2</sup> While the Corruption Perceptions Index score as well as the relative ranking have both improved slightly from 2012–2020, it is clear that corruption among public officials and politicians continues to be perceived as very high. In 2020, the Kyrgyz Republic was perceived to be among the 60 most corrupt countries in the world, and 91% of households in the country agree that corruption is a very serious problem (footnote 2). Guided by the recommendations of the United Nations Convention Against Corruption, Kyrgyz Republic has made relatively good progress on prevention of the corruption in public financial control and audit and public procurement. For example, public procurement information, documentation, tender opportunities and contract award notices are available from the e-Portal. The e-Portal is being managed by the Public Procurement Department since 2013 and is now being widely used by all procuring entities for simplified procurement, one-stage and direct contracting. The Ministry of Finance (MOF) in 2014 issued an order that requires all procuring entities to publish their procurement plans with cost estimates on the e-Portal following approval of the Public Procurement Department. All state bodies are subject to oversight by the COA. The 2015 Public Procurement Law introduced an anti-bribery clause, violation of which can lead to debarment from public procurement.

## 2. Government's Sector Strategy

6. In 2016, the Government of the Kyrgyz Republic (the government) approved a PFM Reform Strategy for 2017–2025<sup>3</sup> with a 3-year Action Plan, which covers a number of areas, including revenue and expenditure budgeting, budget comprehensiveness and transparency, budget execution, accounting and reporting standards, internal audit and external audit. The Strategy stipulates three phases of implementation (i) budgetary discipline; (ii) fiscal sustainability and efficient allocation of resources; and (iii) quality service delivery. These planned initiatives are relevant given the existing weaknesses of the PFM system and they thus provide the PFM reform agenda with a positive trajectory. The government had previously adopted a 'Strategy for Developing Corporate Financial Reporting and Audit for 2014–2020 that complements the PFM Reform Strategy. Starting 2017, the MOF has incorporated the statement of fiscal risks in an explanatory note to the budget.

7. A number of PFM developments have taken place since 2015, including: (i) the Budget Code came into force in May 2016, establishing the framework for budget management as regards the budgeting process, organizational responsibilities, budget structures, inter-governmental fiscal relations and borrowing requirements; (ii) the medium-term budget framework

---

<sup>2</sup> Transparency International. 2020. [Corruption Perceptions Index](#). Berlin.

<sup>3</sup> Government of Kyrgyz Republic. 2016. *Strategy for the Development of Public Financial Management in the Kyrgyz Republic for 2017–2025*. Approved by Resolution No. 696 of the Government on 22 December 2016.

was developed using the program budgeting approach on a rolling three-year basis; (iii) the Treasury Single Account system was launched, covering all 59 regional treasury departments and directly linked to the interbank payment system; (iv) transparency in taxpayer obligations and the effectiveness of tax administration had increased significantly; (v) an automated Treasury Budget Information System improved budget predictability and execution through better monitoring and cash planning; (vi) MOF has improved monitoring and control of public debt, including shifting to monthly reports of stocks and flows of both external and domestic debt; (vii) internal audit units have been established in 20 agencies; (viii) timeliness and coverage of financial reporting has improved; (ix) the annual financial statements and annexes prepared by the Treasury provide comprehensive information of revenues, expenditures, financial assets and liabilities, and non-financial assets; (x) MOF's Training Center has developed several e-learning courses regarding treasury single account, program budgeting, and inter-governmental fiscal relations; and (xi) the COA has made progress in strengthening external audit, including evidence on the follow-up on audit recommendations.

8. The government completed the first phase of the PFM Strategy (2017–2019) related to the quarterly monitoring of the budget discipline in terms of implementation, and it is published on the MOF's website. Furthermore, the implementation of the second phase on fiscal sustainability has begun with the realization of the PFM Action Plan for 2020–2022 approved by the MOF within this Program.<sup>4</sup>

9. In addition, the government has approved a new Strategy for Public Debt management for 2020–2023, with the inclusion of (i) accounting standards for long-term liabilities due to the need to provide private partners with state guarantees as part of the PPP scheme, (ii) expansion of time horizons, and (iii) determination of the most profitable strategy for the implementation of government borrowing for the medium term.

### **3. ADB Sector Experience and Assistance Program**

10. Development partners have supported several specific PFM reform activities in the past few years. The World Bank has the leading role in the PFM reform support agenda, and jointly with the Delegation of the European Union (EU) and the Swiss Agency for Development and Cooperation are implementing a PFM technical assistance project through the establishment of the Multi-Donors Trust Fund, which focuses on budget planning and execution, capacity building, inter-governmental fiscal relations and subnational PFM. They also implemented a three-year Capacity Building in Public Financial Management Project, which was approved in December 2017, that aims to strengthen budget planning and execution (including medium-term budget framework, revenue and expenditure forecasting, and budget transparency), build MOF's PFM capacity (through implementation of the PFM reform plan, certification of internal auditors, and carrying out a training needs assessment), and strengthen inter-governmental fiscal relations and sub-national PFM.

11. In the past, ADB has provided support to strengthen tax administration, and is currently implementing a project to improve the capacity of the government to manage development projects. ADB is also supporting line ministries in preparing sector strategies with multi-year investment plans as well as improving the financial management system of state-owned power and heat companies and introducing mandatory external audits to meet international standards.

---

<sup>4</sup> Government of Kyrgyz Republic. 2020. Order on approval of detailed Action Plan on PFM Strategy implementation for 2020–2023, No. 409 dated August 4, 2020.

12. The proposed policy-based loan will focus on deepening the domestic debt market, enhancing the enabling environment for public debt management, and ensuring that the coronavirus disease (COVID-19) emergency response support is within prudent debt limits. The proposed program aims to support several critical reforms, including the adoption of the medium-term debt strategy for 2020–2023; establishing a fiscal buffer within the level of 1.0% of total budget expenditure; the approval of the PFM Action Plan for the second implementation phase of 2020–2022, with the focus on fiscal sustainability; and the approval by the Parliament of fiscal rules that ensure overall debt sustainability in the medium-to-long term by adopting a public debt anchor, introducing enforcement and corrective mechanisms, and embedding operational targets. The program will complement ADB’s interventions in the financial and power sectors and will contribute to improving the fiscal resilience to any possible exogenous threats. It will also be in line with lessons learned from the completed projects that suggested having comprehensive and a more coherent approach to developing the country’s economy. ADB will be coordinating its assistance with the World Bank and the International Monetary Fund to enhance economic management and harmonize its efforts with other international donors to support the government’s reform agenda.

## PROBLEM TREE

