



## Concept Note

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**PUBLIC**

Project Number: 57193-001  
November 2023

### Proposed Programmatic Approach, Policy-Based Loan and Grant for Subprogram 1, and Technical Assistance Grant

### Kyrgyz Republic: Sustainable Fiscal Management and Governance Improvement Program

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Asian Development Bank



## **CURRENCY EQUIVALENTS**

(as of 13 November 2023)

|               |   |            |
|---------------|---|------------|
| Currency unit | – | som (Som)  |
| Som1.00       | = | \$0.01119  |
| \$1.00        | = | Som89.3135 |

## **ABBREVIATIONS**

|          |    |  |
|----------|----|--|
| ADB      | –  | Asian Development Bank                                     |
| AML/CFT  | –  | anti-money laundering/combating the financing of terrorism |
| CGC      | –  | Corporate Governance Code                                  |
| COA      | –  | Chamber of Accounts  |
| COVID-19 | –  | coronavirus disease  |
| CPI      | –  | Transparency International Corruption Perception Index     |
| CSPRA    | –  | Country and Sector Procurement Risk Assessment Report      |
| GDP      | –  | gross domestic product                                     |
| GRPFM    | –  | Gender Public Expenditure and Accountability Assessment    |
| IMF      | –  | International Monetary Fund                                |
| MOF      | –  | Ministry of Finance  |
| NDS      | -- | National Development Strategy of the Kyrgyz Republic       |
| NRA      | –  | National Risk Assessment                                   |
| PBL      | –  | policy-based loan  |
| PEFA     | –  | Public Expenditure and Financial Accountability            |
| PEMU     | –  | public enterprises monitoring unit                         |
| PFM      | –  | public financial management                                |
| SAPPM    | –  | State Agency for Public Property Management                |
| SDG      | –  | Sustainable Development Goal                               |
| SOE      | –  | state-owned enterprise                                     |
| STS      | –  | State Tax Service  |
| TA       | –  | technical assistance                                       |
| VAT      | –  | value-added tax  |

## **NOTES**

In this report, "\$" refers to United States dollars, unless otherwise stated.

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

## PROGRAM AT A GLANCE

| Project Data  |  |   |   |
|---|--|---|---|
| <b>Project number</b>   | 57193-001  | <b>Project name</b>                     | Sustainable Fiscal Management and Governance Improvement Program (Subprogram 1)   |
| <b>Country</b>  | Kyrgyz Republic  | <b>Executing or implementing agency</b> | Ministry of Finance   |
| <b>Borrower</b>   | Kyrgyz Republic  | <b>Geographical location</b>            | Kyrgyz Republic   |
| <b>Sector office</b>  | Public Sector Management and Governance  | <b>Sector</b>                           | Public Sector Management  |
| <b>Sector</b>   | Public Sector Management   | <b>Subsector</b>                        | Public administration<br>Public expenditure and fiscal management<br>Reform of state-owned enterprises  |
| <b>Country economic indicators</b>                                    | <a href="http://www.adb.org/Documents/LinkedDocs/?id=57193-001-CEI">http://www.adb.org/Documents/LinkedDocs/?id=57193-001-CEI</a>  | <b>Portfolio at a glance</b>            | <a href="http://www.adb.org/Documents/LinkedDocs/?id=57193-001-PortAtaGlance">http://www.adb.org/Documents/LinkedDocs/?id=57193-001-PortAtaGlance</a> |
| <b>Operational priorities</b>   | OP2: Accelerating Progress in Gender Equity<br>OP3: Tackling Climate Change, Building Climate and Disaster Resilience, and Enhancing Environmental Sustainability<br>OP6: Strengthening Governance and Institutional Capacity<br>OP7: Fostering Regional Cooperation and Integration | <b>Sustainable Development Goals</b>    | SDG 1.5<br>SDG 5.c<br>SDG 13.2, 13.a<br>SDG 16.5, 16.6<br>SDG 17.1  |
| <b>Lending modality</b>   | Programmatic Approach Policy-Based Lending (Loan)  |   |   |
| Financing   |  |   |   |
| <b>ADB Financing</b>  | <b>Amount (\$ million)</b>   |   |   |
| Concessional ordinary capital resources loan                          | 43.00  |   |   |
| Special Funds resources (ADF grant)                                   | 7.00   |   |   |
| <b>Cofinancing</b>  | <b>Amount (\$ million)</b>   |   |   |
| None  | 0.00   |   |   |
| <b>Counterpart</b>  | <b>Amount (\$ million)</b>   |   |   |
| Government  | 0.00   |   |   |
| <b>Total</b>  | <b>50.00</b>   |   |   |
| <b>ADB Climate Financing</b>  |  |   |   |
| <b>ADB</b>  |  |   |   |
| Adaptation  | 5.42   |   |   |
| Mitigation  | 9.87   |   |   |
| <b>Cofinancing</b>  |  |   |   |
| Adaptation  | 0.00   |   |   |
| Mitigation  | 0.00   |   |   |
| <b>Total</b>  | <b>15.29</b>   |   |   |
| Climate Change  |  |   |   |
| <b>Absolute GHG emissions (tCO<sub>2</sub>e per year)</b>             | 0  |   |   |
| <b>Relative GHG emissions (tCO<sub>2</sub>e per year)</b>             | 0  |   |   |
| <b>Climate change risk on the project without adaptation measures</b> | Low  |   |   |
| Private Sector Development  |  |   |   |
| <b>Private capital mobilized (\$):</b>                                | None   |   |   |
| Safeguards  |  |   |   |

|                          |  |  |                            |                                       |                             |
|--------------------------|--|--|----------------------------|---------------------------------------|-----------------------------|
| <b>Category</b>          | Environment:   | <input type="checkbox"/> A   | <input type="checkbox"/> B | <input checked="" type="checkbox"/> C | <input type="checkbox"/> FI |
|                          | Involuntary resettlement:                                | <input type="checkbox"/> A   | <input type="checkbox"/> B | <input checked="" type="checkbox"/> C | <input type="checkbox"/> FI |
|                          | Indigenous peoples:                                      | <input type="checkbox"/> A   | <input type="checkbox"/> B | <input checked="" type="checkbox"/> C | <input type="checkbox"/> FI |
| <b>Gender Equality</b>   |  |  |                            |                                       |                             |
| <b>Category</b>          | <input type="checkbox"/> Gender equity theme (GEN)       | <input checked="" type="checkbox"/> Effective gender mainstreaming (EGM) |                            |                                       |                             |
|                          | <input type="checkbox"/> Some gender elements (SGE)      | <input type="checkbox"/> No gender elements (NGE)                        |                            |                                       |                             |
| <b>Poverty Targeting</b> |  |  |                            |                                       |                             |
| <b>Category</b>          | <input checked="" type="checkbox"/> General intervention | <input type="checkbox"/> Individual or household (TI-H)                  |                            |                                       |                             |
|                          | <input type="checkbox"/> Geographic (TI-G)               |  |                            |                                       |                             |

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## PROGRAM CONCEPT NOTE

|   |   |                                     |  |
|---|---|-------------------------------------|--|
| <b>1. Program Overview</b>                    |   |                                     |  |
| <b>Program number</b>                         | 57193-001   | <b>Program name</b>                 | Sustainable Fiscal Management and Governance Improvement Program     |
| <b>Country and borrower</b>                   | Kyrgyz Republic   | <b>Sector office</b>                | Public Sector Management and Governance Sector Office, Sectors Group |
| <b>Modality</b>                               | Policy-based loan and grant   | <b>PBL type or financing option</b> | Programmatic approach  |
| <b>2. The Proposal</b>                        |   |                                     |  |
| <b>Program description</b>                    | <p>The proposed Sustainable Fiscal Management and Governance Improvement Program supports the Kyrgyz Republic to improve governance and climate and gender-responsive public financial management (PFM), strengthen governance of state-owned enterprises (SOEs), strengthen tax policy and administration, and adopt anticorruption measures. The program is aligned with the National Development Strategy of the Kyrgyz Republic for 2018–2040 (NDS 2040),<sup>a</sup> which aims to ensure economic well-being, social welfare, and sound governance; and with ADB’s Country Partnership Strategy for the Kyrgyz Republic, 2023–2027<sup>b</sup> through its support for PFM reforms, improved infrastructure and service delivery, and strengthened capacity and standards. The program aligns with the following operational priorities (OPs) of ADB’s Strategy 2030:<sup>c</sup> OP2 (accelerating progress in gender equality); OP3 (tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability); OP6 (strengthening governance and institutional capacity); and OP7 (fostering regional cooperation and integration). Based on the Joint MDB Methodological Approach for Assessment of Paris Agreement Alignment, the Program is aligned with the goals of the Paris Agreement.</p> |                                     |  |
|   | <p><sup>a</sup> Government of the Kyrgyz Republic. 2018. <a href="#">National Development Strategy of the Kyrgyz Republic for 2018–2040</a>. Bishkek.</p> <p><sup>b</sup> ADB. 2023. <a href="#">Country Partnership Strategy: Kyrgyz Republic, 2023–2027—Fostering Inclusive, Resilient, and Private Sector-Led Growth</a>. Manila.</p> <p><sup>c</sup> ADB. 2018. <a href="#">Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific</a>. Manila.</p>  |                                     |  |
| <b>Choice of modality</b>                     | <p>The government requested a \$100 million policy-based loan (PBL) to be disbursed over two subprograms. Subprogram 1 in January 2022–June 2024 will lay the foundation for the implementation of policy actions for new laws and regulatory and institutional frameworks. Subprogram 2 in July 2024–June 2026 will build on earlier policy actions to ensure full implementation of the reform program. The programmatic approach and long implementation period between subprograms will help sequence complex and politically sensitive institutional reforms (e.g., for strengthened PFM systems and tax administration, improved SOE governance and transparency, and accountability in public administration) to ensure that they support resilient and inclusive economic growth. For instance, a Climate PFM assessment in Subprogram 1 will lead to the implementation of a Climate PFM Framework in Subprogram 2 to strengthen government’s capability to respond to climate and disaster hazards.</p>   |                                     |  |
| <b>3. Program Rationale</b>                   |   |                                     |  |
| <b>Background and development constraints</b> | <p><b>Development context.</b> The government has limited capacity to respond to macroeconomic shocks, finance climate mitigation and resilient investments, and weak governance and transparency undermine investor confidence. Achieving sustainable economic growth necessitates reinforcing institutions, ensuring sound governance, and establishing climate-sensitive, effective, and transparent PFM systems. Since 1991, the country has encountered political instability accompanied by economic and social fragility. The extreme poverty rate was about 1% during 2014–2019, while the overall national poverty rate decreased by 10 percentage points to 20%. The pandemic caused a sharp reversal, pushing the poverty rate up to 25% in 2020 and a significant increase to 33% (2.2 million people) in 2021. This surge was primarily due to an unprecedented rise in extreme poverty, equivalent to 5% of the population, which was seven times higher than in 2020.<sup>d</sup> Tackling this escalating</p>   |                                     |  |

poverty by enhancing economic prospects stands as a paramount objective for the Kyrgyz Republic. The government is committed to reduce greenhouse gas emissions and adapt to climate change aligned with national priorities and the Sustainable Development Goals (SDGs).

**Macroeconomic and Fiscal performance.** The coronavirus disease (COVID-19) crisis resulted in a substantial 8.4% contraction of economic growth, the most severe since the 1990s. After large countercyclical fiscal efforts in 2020–2021 to counter health and economic disruption from COVID-19, fiscal policy turned more expansionary as the general government fiscal deficit grew from 0.2% of gross domestic product (GDP) in 2021 to 1.1% in 2022. Although the government undertook tax reforms and revenues increased, expenditures rose from 29.3% of GDP in 2021 to 33.8% in 2022. Higher outlays were exacerbated by an increase in annual inflation from 6.3% in 2020 to 11.9% in 2021 and further to a decade-high of 13.9% in 2022, mainly on higher global prices for food and energy, wage growth, and a surge in demand from an influx of relocating Russians. Fiscal policy aims to create space for priority spending on infrastructure, health, education, and social protection and restore fiscal buffers, contain the build-up of public debt, and alleviate financing constraints. Despite global and regional shocks, growth rebounded to 6.2% in 2021, and 6.3% in 2022 (ADO, 2023). As per International Monetary Fund (IMF) Article IV Report (2022) the external debt-to-GDP ratio is 44.1% in 2022 and the risk of overall debt distress is moderate. Most of the external debt is in the form of concessional debt owed to international organizations and other countries. The general direction of macroeconomic conditions and policies is deemed satisfactory despite continued disruptions in trade logistics, food and energy prices, and a global economic slowdown.

**Climate Change Impacts to Macroeconomic and Fiscal sustainability.** Climate change poses a substantial risk to various aspects of the country. Over the past two decades, hydrological hazards such as floods and landslides have inflicted the most significant material damage and loss of life. These hazards also carry substantial fiscal burdens. The Kyrgyz Republic is dedicated to addressing climate change by ratifying the Paris Agreement. Their updated Nationally Determined Contributions outlines a low-carbon transformation by 2030 and mainstream adaptation actions, aligning with national priorities and SDGs. Financing this would require significant international support, the creation of fiscal space to allow public funding without compromising debt sustainability and catalyzing green private investment.

**Weaknesses in Public Financial Management.** Although the country appears to have the fundamental components of PFM in place, notable gaps were observed by the 2021 Public Expenditure and Financial Accountability (PEFA) assessment. Specifically, the government needs to strengthen PFM and PIM systems to improve budget credibility and reliability, integrate gender- and climate-responsive management in budget processes, enhance climate-sensitive fiscal risk management and debt management to encompass SOEs and public–private partnerships, and align project prioritization and public investment projects with national priorities and the medium-term fiscal framework.

**Weak SOE Governance and Transparency.** The Kyrgyz Republic is home to 136 SOEs, primarily covering the energy sector, telecommunications, mining, and financial services. The government introduced key performance indicators for SOEs in 2018 to assess performance, but their universal adoption is incomplete. Furthermore, various SOEs bear the cost of mandated public service obligations without corresponding government reimbursement. The government endorsed a Corporate Governance Code (CGC) in 2020 to improve SOE efficiency and effectiveness, but implementation remains inconsistent.

**Lack of transparency in Procurement by SOEs.** The 2022 public procurement law excluded SOEs, accounting for around 47% by value of public procurement.<sup>d</sup> The government needs to revise the temporary draft rules for SOE procurement to align with principles for competitive and transparent procurement.

**Deficiencies in Tax Policy and Administration.** The World Bank Public Expenditure Review (2021) revealed significant weaknesses in the tax administration



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|  |  | <p>system, including: (i) outdated tax administration business processes coupled with a lack of full automation of core tax administration processes; (ii) an unstructured approach to compliance and institutional risk management; (iii) limited accuracy of key data in the taxpayer registration database; and iv) limited rollout of e-filing. There was also an absence of compliance risk management across key tax administration functions and proactive measures to ensure accurate reporting. The level of informality remains high, and formal and informal barriers continue to affect entrepreneurs, mainly small and medium-sized enterprises, in adapting to the formal business environment. Widespread tax exemptions and loopholes undermine tax revenue and weaken tax compliance. Deficiencies in tax administration include a weak risk-based approach, resulting in inadequate attention to large taxpayers and emphasis on minor compliance issues. The State Tax Service (STS) needs to enhance operational efficiency and transparency from taxpayer registration, filing, and payment to verification, audit, dispute resolution, and arrears management. On the international taxation front, there is a notable absence of tax avoidance rules, and the government needs to strengthen legal, administrative, institutional, and international cooperation arrangements.</p> <p><b>High Perceived Corruption.</b> ADB recognizes the significant challenge of corruption and integrity in the Kyrgyz Republic. The global ratings of corruption in the Kyrgyz Republic slipped downwards on both the Transparency International Corruption Perception Index (from 31 in 2021 to 27 in 2022) and the World Governance Indicators Control of Corruption Index (percentile rank from 17.3 in 2019 to 13.0 in 2021). ADB has engaged with the government to focus on specific areas for improving transparency and accountability, coordinating closely with other development partners. The government began the process of developing a new anti-corruption strategy and action plan in 2021, which is currently under consideration by government agencies. The STS is working to reduce corruption in the collection of taxes and customs administration. The Eurasian Anti-Money Laundering Group Mutual Evaluation Report (2023) has assessed Kyrgyz Republic at or near compliance with 39 of the 40 Financial Action Task Force Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) recommendations. However, while the Kyrgyz Republic is ahead of its Central Asian peers in terms of its legal framework for AML/CFT, it lags on the effectiveness of managing related risks. Strengthening risk-based AML/CFT supervision and monitoring is pivotal, focusing on detecting and recovering money laundering–related proceeds.</p> <p><b>Gender disparities.</b> Despite certain advancements, gender disparities continue, with instances of gender-based violence and entrenched social norms putting women and girls at a disadvantage. The involvement of women in the workforce remains limited, leading to a higher unemployment rate for women compared to men. Women earn approximately two-thirds of men's wages and are concentrated in lower-paying fields such as education, health care, and social services. Even though the country has implemented legislative policies aimed at fostering gender equality, including elements of gender-responsive budgeting, the progress in putting these policies into action has been inadequate.</p> |
|  |  | <p><a href="#">Sector Assessment (Summary): Public Sector Management</a><br/> <sup>d</sup> IMF. 2023. <i>Kyrgyz Republic: Selected Issues in IMF Staff Country Reports</i>. Volume 2023, Issue 092.</p>  |
| <p><b>Reform areas, ADB's value addition, and sustainability</b></p> |  | <p>In line with the NDS 2040, sustainable economic growth and reform can be achieved by improving the efficiency and transparency of PFM and public investment management, strengthening SOE financial performance, and improving tax policy and administration, especially for climate investments, underpinned by enhancing transparency and accountability in public administration.</p> <p><b>Reform area 1: Quality of Public Financial Management Strengthened.</b> The objectives of this reform area are to strengthen PFM by integrating gender- and climate-sensitive management into budget planning and execution. Aligned with <i>the Strategy for the Development of Public Financial Management in the Kyrgyz Republic for 2017–2025</i> (PFM Strategy), the government will implement PFM reforms to improve budget creditability; strengthen fiscal risk management arising from climate change, SOEs and PPPs; implement accounting standards in compliance with International Public Sector Accounting Standards (IPSAS); and record all PIPs into</p>  |

the Treasury Single Account system to improve cash management. To strengthen the link between PFM and debt management, the government will update annually the debt management strategy, centralize all debt management functions, and enhance debt transparency by disclosing debt-related information. The government will conduct a Gender PFM assessment to enhance gender-responsive budgeting across budgetary institutions and a Climate PFM Assessment to develop a Climate PFM framework to respond more effectively to climate events and disasters. To strengthen public investment management, the government will establish a gateway process requiring that all projects to be approved by a Council under the Cabinet of Ministers before projects are developed, to ensure cost-benefit analysis of projects and their alignment with government priorities and the medium-term fiscal framework. The government will conduct a Climate Public Investment Management Assessment (C-PIMA) in coordination with the IMF to assess gaps and accordingly integrate climate into the public investment management system. The government will also strengthen public procurement by implementing an e-contracting module and disclosing post-tender information on the e-government portal, and publishing monitoring and compliance reports on procurement.

**Reform area 2: Governance of SOEs Improved.** The objectives of this reform area are to improve corporate governance of SOEs, improve transparency in their operations and procurement, and mainstream gender in decision-making, and to ensure that SOEs operate on an equal footing with private enterprises in competitive sectors and to minimize the risks for market distortions. The government will consolidate oversight and coordination by establishing a coordinating agency for all SOEs. It will also approve and implement an SOE strategy and roadmap, which will cover SOE governance issues such as ownership rights and policies, climate and gender-sensitive policies, disclosure of audited financial statements, corporatization, and private sector development in SOE-dominated markets. The government will require compliance with the CGC across all majority joint-stock SOEs and publish an annual report on compliance with the CGC. To promote gender diversity in decision-making, the government will mandate not more than 70% of one gender in the appointment of Board members in majority state-owned joint stock companies. In relation to SOE procurement, the government will approve and implement standardized rules for SOEs aligned to the core procurement principles on openness and transparency of procurement processes and fair competition, implement an SOE e-procurement portal and publish consolidated quarterly procurement monitoring reports, and disclose recommendations from audits conducted by the Chamber of Accounts.

**Reform area 3: Tax Policy and Administration Strengthened:** The objectives of this reform area are to be aligned to *the PFM strategy and the Development Strategy of the Tax Service under the Ministry of Finance of the Kyrgyz Republic for 2023–2025*. Key objectives are broadening the tax base through more efficient and transparent tax policies and administration; promoting formalization of small business through simplified tax filling; gender inclusiveness and equality; incentivize climate-responsive investments by the private sector; and taxpayer service and compliance through technology. The government will publish annual tax expenditure reports to ensure transparency in tax expenditures. To promote sustainable and inclusive taxation, the government will conduct gender-inclusive tax policy analysis to identify implicit biases that exacerbate gender inequality, and a climate-responsive tax policy analysis. To facilitate formalization, the government will introduce reduced and simplified tax rates for small and micro businesses, a majority of which are women-owned enterprises. It will expand value-added tax (VAT) collection to foreign e-commerce entities through an online registration portal to level the playing field with domestic entities operating electronic trade of goods and services. The government will automate VAT compliance risk management and a VAT cash back and risk-based VAT refund mechanism. It will enhance taxpayer compliance by allowing the STS the right to obtain bank information during tax investigations and implement a pilot for digital real-time payment information sharing system with banks. To promote international investment and protect the domestic tax base, the government will implement international tax transparency standards for exchange of information and

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|  |   | <p>minimum standards under the Group of 20 Base Erosion and Profit Shifting Inclusive Framework.</p> <p><b>Reform area 4: Transparency and Accountability in Public Administration Improved.</b> The objectives of this reform area are to improve transparency and accountability and enhance the compliance and effectiveness of AML/CFT measures. The government will implement the Anticorruption Strategy and assign a lead agency to coordinate and monitor the Strategy and Action Plan. Additional actions include approval of a Constitutional Law ensuring independence and funding of the Chamber of Accounts (COA) and approval of a Decree of the President on Code of Ethics for Civil Servants. To foster participation in the formulation and implementation of the state budget, the government will (i) enhance transparency of budget documents; (ii) regulatory guidelines for conducting budget hearings and deliberations; and (iii) implement an online mechanism for consultation and feedback from interested parties ensuring open access to government responses to the citizens' budget proposals and inquires. To strengthen oversight, (i) COA will introduce an audit system allowing for public participation in the audit activities of the COA as well as define roles, rights, and obligations of the public in the audit process; and (ii) the Prosecutor General's Office will implement an online reporting management system to receive and address online public complaints. In addition, the STS will mandate income declarations for senior management and all technical staff within STS and develop and implement auditor guidelines to detect corruption. It will implement codes of conduct/ethics, including rules on conflict of interest, confidentiality of tax information, bribery, and gifts. To support AML/CFT, Parliament will approve a law to regulate the procedure for handling information related to bank secrecy and to ensure access to this information by relevant supervisory agencies. The government will also approve and implement an AML/CFT National Risk Assessment.</p> <p><b>ADB's value addition and sustainability.</b> ADB and the government have a trusted partnership through policy-based loans and in designing countercyclical responses. Technical assistance (TA) is essential to build institutional capacity for reform-related policies. The proposed program builds on ADB TAs and dialogue with the government for supporting climate and gender responsive PFM, procurement reform, debt policy, tax policy and administration, and SOE governance. The program is actively coordinating with the IMF, including through the Caucasus, Central Asia, and Mongolia Regional Capacity Development Center (CCAMTAC), World Bank on PFM and tax administration, United States Agency for International Development (USAID) and the European Union on public service delivery and governance reform measures. Key lessons from ADB Independent Evaluation Department's Evaluation on PBLs (2018) include: (i) ADB should support policy reforms through long-term programmatic assistance; and (ii) the government and ADB should pursue a small number of targeted and realistic policy actions backed by TA support to ensure the reform program can be carried out effectively and that implementing agencies are fully connected to the process.</p> |
|  | <b>Expected outcome of the reform</b>                 | The expected outcome is climate responsive, transparent, and fiscally sound governance and public investment management. To support this outcome, the government will strengthen PFM; improve corporate governance of SOEs; enhance the transparency and accountability of tax policy and administration; and implement anticorruption measures.   |
|  | <b>Development financing needs and budget support</b> | The government's financing needs are estimated from the budget deficit as \$526.6 million (or 4.4% of GDP) in 2024 and \$653 million (or 4.8% of GDP) in 2026 (IMF Article IV, 2022). The government has requested (i) a concessional loan of \$43 million from ADB's ordinary capital resources, and (ii) a grant not exceeding \$7 million from ADB's Special Fund resources (Asian Development Fund) to help finance Subprogram 1, which will support 10% of the government's total development financing needs in 2024. Subprogram 2 will contribute \$50 million to meet development financing needs in 2026.   |
|  | <b>Implementation arrangements</b>                    | The Ministry of Finance (MOF) will be the executing agency. The key implementing agencies are the MOF, the Ministry of Economy and Commerce, the STS, the State Agency for Public Property Management, the Chamber of Accounts, the National Bank of the Kyrgyz Republic, and the State Financial Intelligence Service. The implementation period will be from January 2022 to June 2024 for subprogram 1 and  |

|           |   |   |
|-----------|---|---|
|           |   | from July 2024 to June 2026 for subprogram 2. The proceeds of the loan will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2022, as amended from time to time).   |
| <b>4.</b> | <b>Technical Assistance</b>             |   |
|           | <b>Technical assistance description</b> | A proposed TA, to be approved with the concept note, will focus on improving the efficiency and transparency of PFM and PIM, strengthening SOE financial performance, and improving tax policy and administration, especially for climate investment. The TA will support (i) design and implementation of detailed policy actions under the ensuing program; (ii) development of capacity in the executing and implementing agencies; and (iii) policy dialogue with the government to improve awareness and understanding of international standards, best practices, and lessons learned. The TA financing amount is \$1,100,000, of which \$500,000 and \$600,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF 7 and TASF 6, respectively).   |
|           |   | <a href="#">Technical Assistance Report: Preparing the Sustainable Fiscal Management and Governance Improvement Program</a>   |
| <b>5.</b> | <b>Due Diligence</b>                    |   |
|           | <b>Due diligence requirements</b>       | Due diligence will continue across each reform area and will include assessments of the technical capacity of key implementing agencies, risk assessment and risk management plan, fiduciary, governance, social, and gender assessments. The program will prepare a safeguard assessment matrix to confirm that reforms under the PBL do not have any adverse environmental or social impacts. The program will undertake a climate assessment to ensure alignment with the goals of the Paris Agreement. Climate change financing is estimated at 30%, mostly in terms of mitigation and adaptation. Subprograms 1 and 2 are expected to be categorized <i>effective gender mainstreaming</i> . The proposed safeguard categorization for environment, involuntary resettlement, and indigenous peoples is C.   |
|           | <b>Risks and mitigating measures</b>    | The program is considered low risk as: (i) the loan amount does not exceed \$50 million; (ii) the MOF has previously executed ADB-financed operations; (iii) ADB has extensive previous experience in PFM reforms in the country; and (iv) the program is not expected to be classified category A for any safeguard category. Weak government coordination and delays because of overstretched staff and other external shocks may affect program implementation. However, the government places a high priority and commitment on structural reforms to improve fiscal sustainability, domestic resource mobilization, and public financial and investment management to address climate challenges and poverty reduction. The programmatic assistance will require frequent review missions and continued policy dialogue to help the government manage risks, and the planned TA will remain a crucial mitigation factor. |
| <b>6.</b> | <b>Stakeholder Engagement</b>           |   |
|           |   | Policy reform consultations between ADB and the government have been ongoing since 2022. ADB has recently conducted two in-country missions in April and September 2023. The mission teams met with officials from the Anti-Corruption Business Council, the Chamber of Accounts, the MOEC, the MOF, STS, the State Agency for State Property Management, State Financial Intelligence Service, National Bank of the Kyrgyz Republic, Eurasian Fund for Stabilization and Development, IMF, World Bank, European Union, and USAID. Consultations with stakeholders will continue during program preparation, including consultations with civil society organizations through ADB's NGO and Civil Society Center.   |
| <b>7.</b> | <b>Program Category</b>                 |   |
|           |   | <input checked="" type="checkbox"/> Track 1 (No-objection procedure) <input type="checkbox"/> Track 2 (Full Board discussion)   |
| <b>8.</b> | <b>Resource Requirements</b>            |   |
|           |   | ADB staff with experience in advising on and implementing reforms for public finance and investment management, SOE governance, and tax policy and administration will process the program. A total of 14 person-months of international and national staff support will be needed.   |
| <b>9.</b> | <b>Key Issues</b>                       |   |

|                                |   |   |
|--------------------------------|---|---|
|                                | Political economy issues and capacity constraints of implementing agencies are the key issues, particularly around key reforms related to SOE procurement and anticorruption, which will be addressed by extensive stakeholder consultations, well-coordinated development partner support, TA, and evidence-based policy dialogue. |   |
| <b>10. Indicative Timeline</b> |   |   |
|                                | <b>Milestone</b>  | <b>Expected Completion Date</b>   |
|                                | Concept note clearance  | November 2023   |
|                                | Fact-finding mission  | March 2024  |
|                                | ADB approval  | June 2024   |
|                                | Loan signing  | July 2024   |
| <b>9. Team Composition</b>     |   |   |
|                                | <b>a. ADB Program Team</b>  |   |
|                                | <b>Team Leader</b>  | Hanif A. Rahemtulla, Principal Public Management Specialist, Public Sector Management and Governance Sector Office, Sectors Group (SG-PSMG)   |
|                                | <b>Team Members</b>   | <ol style="list-style-type: none"> <li>1. Aibek Abdybakirov, Procurement Officer, Kyrgyz Resident Mission (KYRM), Central and West Asia Department (CWRD)</li> <li>2. Altynai Abdyldaeva, Gender Officer, Gender Equality Division (CCGE), Climate Change and Sustainable Development Department (CCSD)</li> <li>3. Lilia Aleksanyan, Economist, Office of the Director General, CWRD</li> <li>4. Mel Altoveros; Procurement Specialist, Procurement Division 1; Procurement, Portfolio, and Financial Management Department (PPFD)</li> <li>5. Marina Rose Best, Senior Social Development Specialist (Civil Society &amp; Participation), Fragility and Engagement Division, CCSD</li> <li>6. Arup Kumar Chatterjee, Principal Finance Sector Specialist, Finance Sector Office, Sectors Group, (SG-FIN)</li> <li>7. Kathleen Anne C. Coballes; Climate Change Officer; Climate Change, Resilience, and Environment Cluster (CCRE); CCSD</li> <li>8. Rogerio de Almeida Vieira de Sa, Public Finance Specialist, SG-PSMG</li> <li>9. Bobir Gafurov, Public Management Specialist, SG-PSMG</li> <li>10. Abhishek N. Hegde, Private Sector Development Specialist, Private Sector Development, CWRD</li> <li>11. Yuji Miyaki, Public Management Specialist (Taxation), SG-PSMG</li> <li>12. Navendu Karan, Principal Public Management Specialist, SG-PSMG</li> <li>13. Mart Khaltarpurev, Principal Procurement Specialist, Procurement Division 2, PPF</li> <li>14. Cesar Llorens, Unit Head (Project Administration), KYRM, CWRD</li> <li>15. Llona Isabel L. Marty, Project Analyst, SG-PSMG</li> <li>16. Oksana Nazmieva, Principal Financial Management Specialist, Public Financial Management Division, PPF</li> <li>17. Keiko Nowacka, Senior Social Development Specialist (Gender and Development), CCGE, CCSD</li> <li>18. Ninette R. Pajarillaga, Senior Environment Specialist (Safeguards), Office of Safeguards (OSFG)</li> <li>19. Maria Kenneth C. Pinili, Senior Operations Assistant, SG-PSMG</li> <li>20. Mary Alice Rosero, Senior Social Development Specialist (Gender and Development), CCGE, CCSD</li> <li>21. Aida Satylganova, Social Development Specialist (Resettlement), OSFG</li> <li>22. Laisiasa Tora, Senior Public Management Specialist, SG-PSMG</li> <li>23. Adeliya Zhunussova, Counsel, Office of the General Counsel</li> </ol> |
|                                | <b>b. Supporting Departments</b>  | Controller's Department<br>Economic Research and Development Impact Department<br>Strategy, Policy, and Partnerships Department   |
|                                | <b>c. Sector Peer Reviewer</b>  | Ashish Narain, Principal Economist, SG-PSMG   |