



# Technical Assistance Report

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**PUBLIC**

Project Number: 57193-002  
November 2023

## Kyrgyz Republic: Preparing the 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
GDP	–	gross domestic product
PFM	–	public financial management
SOE	–	state-owned enterprise
STS	–	State Tax Service
TA	–	technical assistance

## **NOTE**

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

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<http://www.adb.org/Documents/LinkedDocs/?id=57193-002-TARreport>

1. Cost Estimates and Financing Plan
2. Terms of Reference for Consultants

## TRANSACTION TECHNICAL ASSISTANCE AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number:</b> 57193-002	
<b>Project Name</b>	Preparing the Sustainable Fiscal Management and Governance Improvement Program	<b>Department/Division</b>	SG/SG-PSMG
<b>Nature of Activity Modality</b>	Project Preparation, Policy Advice Regular	<b>Executing Agency</b>	Ministry of Finance
<b>Country</b>	Kyrgyz Republic		
<b>2. Sector</b>		<b>Subsector(s)</b>	
✓ Public sector management	Public administration	<b>ADB Financing (\$ million)</b>	
	Public expenditure and fiscal management		0.300
	Reforms of state owned enterprises		0.500
			0.300
		<b>Total</b>	<b>1.100</b>
<b>3. Operational Priorities</b>		<b>Climate Change Information</b>	
✓ OP2: Accelerating progress in gender equality		GHG Reductions (tons per annum)	0
✓ OP3: Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability		Climate Change impact on the Project	Low
✓ OP6: Strengthening governance and institutional capacity		<b>ADB Financing</b>	
✓ OP7: Fostering regional cooperation and integration		Adaptation (\$ million)	0.000
		Mitigation (\$ million)	0.000
		<b>Cofinancing</b>	
		Adaptation (\$ million)	0.000
		Mitigation (\$ million)	0.000
<b>Sustainable Development Goals</b>		<b>Gender</b>	
SDG 1.5		Effective gender mainstreaming (EGM)	✓
SDG 5.c			
SDG 13.2		<b>Poverty Targeting</b>	
SDG 16.5, 16.6		General Intervention on Poverty	✓
SDG 17.1			
<b>4. Risk Categorization</b>	Track1		
<b>5. Safeguard Categorization</b>	Safeguard Policy Statement does not apply		
<b>6. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>1.100</b>	
Transaction technical assistance: Technical Assistance Special Fund		1.100	
<b>Cofinancing</b>		<b>0.000</b>	
None		0.000	
<b>Counterpart</b>		<b>0.000</b>	
None		0.000	
<b>Total</b>		<b>1.100</b>	
<b>Currency of ADB Financing:</b> US Dollar			

## I. THE ENSUING PROJECT

1. 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 anticorruption measures. The proposed program will support policy, legal, and institutional reform in four areas (i) strengthened quality of PFM, (ii) improved governance of SOEs, (iii) strengthened tax policy and administration, and (iv) improved transparency and accountability in public administration.<sup>1</sup> These reform areas are aligned with the National Development Strategy of the Kyrgyz Republic for 2018–2040 and Asian Development Bank (ADB) Country Partnership Strategy for the Kyrgyz Republic, 2023–2027.<sup>2</sup> The proposed technical assistance (TA) project will assist the government of the Kyrgyz Republic in implementing reforms under the proposed program.

2. The TA project's support will be channeled to the Ministry of Finance, Ministry of Economy and Commerce, State Financial Intelligence Service, State Tax Service (STS), State Agency for Public Property Management, and Chamber of Accounts. This TA project will complement ongoing ADB TA projects supporting reforms in public debt management, public procurement, SOE governance, automation of tax administration, anticorruption, and anti-money laundering/combating the financing of terrorism (AML/CFT).<sup>3</sup> These TAs will support implementation of complex reforms and serve as a strong demonstration of ADB's value addition.

## II. INTRODUCTION

3. The government of the Kyrgyz Republic requested TA to support the implementation of complex reforms on PFM, SOE, tax policy and administration and transparency and accountability in public administration, as well as building institutional capacity for reform-related policies that provide the basis for the proposed program. ADB consultation missions in May and September 2023 led to an agreement with the government on the scope and coverage of the TA including the results framework, implementation arrangements, and cost estimates. The government is coordinating across development partners including the International Monetary Fund, World Bank, and ADB, to align support in key reform areas.

4. The TA grant of \$1,100,000 will support (i) design and implementation of detailed policy actions under the ensuing program; (ii) development of capacity in the executing and implementing agencies (Table 3); and (iii) policy dialogue with the government to improve awareness and understanding of international standards, best practices, and lessons learned in. Detailed descriptions of the outputs and activities are in Table 1.

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<sup>1</sup> SOEs comprise state enterprises (legal form of state enterprise, equivalent to state-unitary enterprises), commercial enterprises (joint-stock companies or limited liability companies or partnerships) with state ownership in their capital, and municipal enterprises. As of end-2022, there were 42 majority state-owned joint-stock companies.

<sup>2</sup> Government of the Kyrgyz Republic. 2018. [National Development Strategy of the Kyrgyz Republic for 2018–2040](#). Bishkek; and ADB. 2023. [Country Partnership Strategy: Kyrgyz Republic, 2023–2027—Fostering Inclusive, Resilient, and Private Sector-Led Growth](#). Manila.

<sup>3</sup> ADB. 2021. [Technical Assistance for Supporting Debt Management and Transparency](#). Manila; ADB. 2021. [Technical Assistance for Improving Infrastructure and State-Owned Enterprise Governance for Sustainable Investment and Debt Management](#). Manila; ADB. 2022. [DRMTFDC0044 on Improving Risk-based e-Tax Administration System](#). Manila; ADB. 2022. [Technical Assistance to the Kyrgyz Republic for Strengthening Governance and Anti-Corruption in the Kyrgyz Republic](#). Manila; and ADB. 2016. [Developing Anti-Money Laundering and Combating the Financing of Terrorism \(AML/CFT\) Approaches, Methodologies, and Controls](#). Manila.

### III. ISSUES

5. **Weaknesses in Public Financial Management.** Although the Kyrgyz Republic has the fundamental components of PFM in place, notable gaps were observed by the 2021 Public Expenditure and Financial Accountability assessment. Specifically, there is a need to strengthen PFM and public investment management 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.

6. **Weak SOE Governance and Transparency:** The Kyrgyz Republic is home to about 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 in 2020 to improve SOE efficiency and effectiveness, but its implementation remains inconsistent. The 2022 public procurement law excluded SOEs. The SOE procurement framework requires enhancement to ensure competitive and transparent procurement.

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

8. **High Perceived Corruption:** The government and ADB recognize 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). The government has begun 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 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.

#### IV. THE TECHNICAL ASSISTANCE

##### A. Impact and Outcome

9. The expected outcome of the TA project and the program is climate responsive, transparent, and fiscally sound governance and public investment management. TA project will support assessments, policy dialogue and implementation of policy actions in support of program activities to deliver program outputs in four reform areas: (i) public financial management strengthened, (ii) governance of SOEs improved, (iii) tax policy and administration strengthened, and (iv) transparency and accountability in public administration improved. The problem analysis diagram in the sector assessment summarizes the root causes of the core development problem, with an inherent cause–effect logic. To address the issues discussed in paras 5–8, the TA project has three major outputs.

##### B. Outputs, Methods, and Activities

10. The major outputs and activities are summarized in Table 1.

**Table 1: Summary of Major Outputs and Activities**

Major Outputs	Delivery Dates	Key Activities with Milestones
1. Quality of Public Financial Management Strengthened	November 2023–October 2026	<ul style="list-style-type: none"> <li>1.1 Provide guidance for enhancing the new unified chart of accounts by introducing codes and classifications for climate and gender, by December 2025.</li> <li>1.2 Provide guidance to prepare and disclose annual financial statements aligned to the IPSAS, by December 2024.</li> <li>1.3 Provide guidance to introduce a gender-responsive PFM Framework by December 2025.</li> <li>1.4 Provide support to enhance the fiscal risk statements to reflect financial risks arising from climate and disaster hazards, by December 2024.</li> <li>1.5 Assess and provide guidance to strengthen public procurement framework and system by December 2025.</li> <li>1.6 Assess SOE procurement framework and support actions to strengthen SOE procurement, by March 2024</li> <li>1.7 Support adoption of the CGC by SOEs, assist with implementation of CGC, and monitoring framework and enhance climate reporting of SOE including through IFRS and its sustainability disclosure taxonomy and climate-related disclosures, by December 2025.</li> <li>1.8 Support MOF/MOEC in the preparation of a Disaster Risk Financing Strategy, by June 2026.</li> <li>1.9 Build capacity of key personnel through delivery of training to government agencies staff on PFM, PIM and procurement topics, by October 2026.</li> </ul>
2. Inclusive tax policy and automated tax administration improved	November 2023–October 2026	<ul style="list-style-type: none"> <li>1.10 Assessment of existing legal, administrative, and institutional framework in implementing exchange of information, and minimum standards under the G20's base erosion and profit shifting, by January 2024.</li> <li>1.11 Develop a model double-tax agreement and policy framework, by February 2024.</li> <li>1.12 Assess and provide guidance to improve the policy, legal, and institutional framework for tax system with respect to gender equality and climate change by February 2024.</li> <li>1.13 Identify policy measures to promote and diversify trade and investment and foreign direct investment, by September 2024.</li> <li>1.14 Develop and operationalize tools to implement newly adopted revenue forecasting methodologies, and a framework to monitor and evaluate tax</li> </ul>



Major Outputs	Delivery Dates	Key Activities with Milestones
		incentive/preferential measures, as well as data collection framework, including gender-disaggregated data and climate-related data, by December 2024. 1.15 Develop and operationalize a framework for implementing VAT cashback mechanism, and a risk-based automated VAT refund mechanism, by July 2025. 1.16 Develop and implement an automated real-time payment information transmission framework with banks, by December 2025 1.17 Deliver training to STS/MOF/MOEC staff on tax policy, by October 2026.
3. Transparency and accountability in financial and public administration system improved	November 2023–October 2026	1.18 Support implementation of the Anti-Corruption Action Strategy and Action Plan (2023–2025) of the ACBC and STS, by December 2025. 1.19 Support implementation of actions of MOF roadmap on budget transparency, participation and audit, by January 2024. 1.20 Development of a framework to support participatory audits including implementation of pilots, by July 2025. 1.21 Support and operationalize AML/CFT including a National Risk Assessment and framework for virtual assets service providers, by December 2024. 1.22 Deliver trainings to MOF/ACBC/COA, by October 2026 1.23 Deliver trainings to SFIS/STS staff on AML/CFT, by October 2026.

ACBC = Anti-Corruption Business Council. AML/CFT = anti-money laundering/combating financing of terrorism, CGC = corporate governance code, G20 = group of 20, IFRS = International Financial Reporting Standards, IPSAS = International Public Sector Accounting Standards, MOEC = Ministry of Economy and Commerce, MOF = Ministry of Finance, PFM = public financial management, PIM = public investment management, SFIS = State Financial Intelligence Service, SOE = state-owned enterprise, STS = State Tax Service, VAT = value-added tax.

Source: Asian Development Bank.

11. This TA project will strengthen the capacity of implementing agencies (Table 3) in the design and implementation of key reforms across the program areas. For instance, capacity development in PFM will inform reforms in fiscal risk management, public procurement, SOE governance, public debt management, international taxation, and risk-based tax administration reforms. The Asia Pacific Tax Hub is supporting tax administration reforms through training and other capacity development activities. The Project team is exploring additional exploring additional TA grant financing from the Domestic Resource Mobilization Trust Fund to support the government to enhance automation of tax administration.

### C. Cost and Financing

12. The TA financing amount is \$1,100,000, of which \$600,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF 6),<sup>4</sup> and \$500,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF 7). The key expenditure items are listed in Annex 1.

13. The government will provide counterpart support in the form of counterpart staff, office space, office supplies, domestic transportation, and other in-kind contributions. The government was informed that approval of the TA does not commit ADB to finance any ensuing project.

14. The total TA amount is broken down per output in Table 2.

<sup>4</sup> From TASF savings.

**Table 2: Cost Breakdown per Output**

Output	Indicative Cost (\$)	Percentage of TA Amount (%)
Output 1: Public financial management	600,000	54.6
Output 2: Tax policy and administration	300,000	27.2
Output 3: Transparency and accountability in public administration	200,000	18.2
<b>Total</b>	<b>1,100,000</b>	<b>100.0</b>

TA = technical assistance.

Source: Asian Development Bank.

#### D. Implementation Arrangements

15. ADB will administer the TA and staff from the Central and West Asia and Knowledge Solution Division of the Public Sector Management and Governance Sector Office, Sectors Group will select, supervise, and evaluate consultants.

16. Implementation arrangements are summarized in Table 3.

**Table 3: Implementation Arrangements**

Aspects	Arrangements		
Indicative implementation period	November 2023–October 2026		
Executing agency	Ministry of Finance		
Implementing agencies	(i) Ministry of Finance (ii) Ministry of Economy and Commerce (iii) State Financial Intelligence Service (iv) State Tax Service (v) State Agency for Public Property Management (vi) Chamber of Accounts		
Consultants	To be selected and engaged by ADB		
	Individual: Individual selection or firm (quality- and cost-based selection)	International (39 person-months)	\$682,960
	Individual: Individual selection or firm (quality- and cost-based selection)	National (39 person-months)	\$155,320
Disbursement	Disbursement of TA resources will follow ADB's <i>Technical Assistance Disbursement Handbook</i> (2020, as amended from time to time).		

ADB = Asian Development Bank, TA = technical assistance.

Source: Asian Development Bank.

17. **Consulting services.** ADB will engage individual consultants and resource persons, if needed, following the ADB Procurement Policy (2017, as amended from time to time) and its associated project administration instructions and/or staff instructions. ADB will engage total of 39 person-months of international consulting services and 39 person-months of national consulting services. The consultants will be recruited directly or through a firm. The consultants will be engaged on time-based contracts, and lump-sum payments and/or output-based contracts will be considered where appropriate. Any experts required but not identified at this time will be recruited as individual consultants and/or resource persons.<sup>5</sup>

<sup>5</sup> Terms of Reference for Consultants (Annex 2).