ADB

Report and Recommendation of the President to the Board of Directors

PUBLIC

Project Number: 58215-001
June 2026

Proposed Policy-Based Loan for Subprogram 2 Kyrgyz Republic: Sustainable Fiscal Management and Governance Improvement Program

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 9 June 2026)

Currency unit	–	som (Som)
Som1.00	=	$0.01143
$1.00	=	Som87.4568

ABBREVIATIONS

ADB	–	Asian Development Bank
AML/CFT	–	anti-money laundering and combating the financing of terrorism
BEPS	–	base erosion and profit shifting
ESG	–	environmental, social, and governance
FATF	–	Financial Action Task Force
G20	–	Group of Twenty
GDP	–	gross domestic product
IMF	–	International Monetary Fund
IPSAS	–	International Public Sector Accounting Standards
MOF	–	Ministry of Finance
OECD	–	Organisation for Economic Co-operation and Development
PFM	–	public financial management
PIM	–	public investment management
PIMA	–	public investment management assessment
SOE	–	state-owned enterprise
STS	–	State Tax Service
TA	–	technical assistance
VAT	–	value-added tax

NOTE

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

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[1] The International Monetary Fund confirmed on 17 April 2026 that the attached Staff Concluding Statement of the 2026 Article IV Consultation Mission may serve as the International Monetary Fund assessment letter.

Project Classification Information Status: Complete

PROGRAM AT A GLANCE

1.	**Project Data**			
	Project number	58215-001	**Project name**	Sustainable Fiscal Management and Governance Improvement Program (Subprogram 2)
	Country	Kyrgyz Republic	**Executing or implementing agency**	Ministry of Finance
	Borrower	Kyrgyz Republic		
	Sector office	Public Sector Management and Governance Sector Office	**Geographical location**	Country
	Sector(s)	✓ Public sector management	**Subsector(s)**	Public administration Public expenditure and fiscal management Reforms of state owned enterprises
	Country economic indicators	https://www.adb.org/Documents/LinkedDocs/?id=58215-001-CEI	**Portfolio at a Glance**	https://www.adb.org/Documents/LinkedDocs/?id=58215-001-PortAtaGlance
	Strategic Focus Area	✓ Resilience and empowerment	**Sustainable Development Goals**	SDG 1.5 SDG 5.5 SDG 13.2, 13.a SDG 16.5, 16.6 SDG 17.1
	Lending modality	Programmatic Approach Policy-Based Lending (Loan)		
2.	**Financing**			

ADB Financing	**Amount** ($ million)
Concessional ordinary capital resources loan	70.00
Cofinancing	**Amount** ($ million)
None	0.00
Counterpart	**Amount** ($ million)
None	0.00
Total	**70.00**
ADB Climate Financing	
ADB	
Adaptation	8.34
Mitigation	11.96
Cofinancing (ADB-administered)	
Adaptation	0.00
Mitigation	0.00
Total	**20.30**
Currency of ADB Financing: US Dollar	

3.	**Climate Action**	
	Absolute GHG emissions (tCO_2e per year)	
	Relative GHG emissions (tCO_2e per year)	
	Climate change risk on the project without adaptation measures	Low
	Disaster Risk Management, Environment and Nature	Not Applicable
4.	**Private Sector Development**	
	Private capital mobilized ($):	
	PSD classification:	Medium-PSD
5.	**Safeguards**	

Category	Environment: Involuntary resettlement: Indigenous peoples:	☐ A ☐ B ☑ C ☐ FI ☐ A ☐ B ☑ C ☐ FI ☐ A ☐ B ☑ C ☐ FI
6. **Gender Equality**		
Category	☐ Gender equality objective (GEN) ☐ Some gender elements (SGE)	☑ Effective gender mainstreaming (EGM) ☐ Indirect gender benefits (IGB)
7. Poverty Reduction and Inclusion		
Category	☐ Poverty reduction and inclusion focus (PIF) ☐ Poverty reduction and inclusion elements (PIE) ☑ Indirect poverty reduction and inclusion (IPI)	
8. Regional Cooperation and Public Goods		
Category	☐ Pillar 1 ☑ Pillar 2 ☑ Pillar 3 ☐ Not applicable	
9. Digital Transformation		
Category	☐ Level 1 ☐ Level 2 ☑ Level 3 ☐ Level 4 ☐ Not applicable	

Source: Asian Development Bank

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed policy-based loan to the Kyrgyz Republic for subprogram 2 of the Sustainable Fiscal Management and Governance Improvement Program.

2. In June 2024, the Asian Development Bank (ADB) approved a programmatic operation for the Kyrgyz Republic to advance crucial fiscal management and governance reforms.[1] The program supports public financial management (PFM), tax policy and administration, and state-owned enterprise (SOE) governance, while strengthening legal and institutional measures for transparency and accountability. Subprogram 2 builds on subprogram 1 by deepening reforms aligned with the National Development Strategy of the Kyrgyz Republic for 2018–2040[2] and ADB's country partnership strategy for the Kyrgyz Republic, 2023–2027.[3] It reinforces fiscal discipline through measures to improve budget planning, public investment management (PIM), procurement, fiscal risk management, and debt management, while enhancing SOE oversight and disclosure and strengthening tax policy and modernizing tax administration. Subprogram 2 introduces major anti-corruption measures—a cornerstone of governance reforms—including the adoption of legislation on combating corruption and regulations on asset declaration, supported by stronger oversight and enforcement mechanisms. The subprogram integrates digitalization, regional cooperation, climate, gender equality and inclusion, and transparency as cross-cutting themes aligned with the Strategy 2030 Midterm Review.[4]

II. PROGRAM AND RATIONALE

A. Background and Development Constraints

3. **Macroeconomic performance.** The Kyrgyz Republic has recorded strong macroeconomic performance in recent years, supported by robust domestic demand, public investment, elevated trade activity, and remittance inflows.[5] However, the country remains exposed to external, fiscal, and climate related shocks. Gross domestic product (GDP) growth was about 11.1% in 2025, only slightly down from 11.5% in 2024, driven by infrastructure investment, strong services activity, and resilient private consumption as well as broad-based gains across construction and services, supported by economic diversification efforts. Under an early stabilization scenario of the Middle East conflict as assumed in the April 2026 Asian Development Outlook, growth is projected to moderate to 8.9% in 2026 and 8.4% in 2027, reflecting adjustments in construction activity and re-export trade while resilient remittance inflows and real wage growth should support economic activity.[6] More recent ADB analysis suggests that risks have shifted to the downside, as prolonged disruptions and persistent energy supply constraints weigh on regional inflation, with implications for the Kyrgyz Republic.[7] Inflation

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[1] ADB. 2024. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach and Policy-Based Loan and Grant for Subprogram 1 to the Kyrgyz Republic for the Sustainable Fiscal Management and Governance Improvement Program*.

[2] Government of the Kyrgyz Republic. 2018. *National Development Strategy of the Kyrgyz Republic for 2018–2040*.

[3] ADB. 2023. *Country Partnership Strategy: Kyrgyz Republic, 2023–2027—Fostering Inclusive, Resilient, and Private Sector-Led Growth*.

[4] ADB. 2024. *Strategy 2030 Midterm Review: Evolution Approach for the Asian Development Bank*.

[5] International Monetary Fund (IMF). 2026. *IMF Executive Board Concludes 2026 Article IV Consultation with Kyrgyz Republic. Press Release No. 26/185.*

[6] ADB. 2026. *Asian Development Outlook April 2026: The Middle East Conflict Challenges Resilience in Asia and the Pacific*. However, the IMF Article IV Consultation (Press Release No. 26/185, June 2026) projects a moderation of growth to about 6.1% in 2026.

[7] ADB. 2026. *The Impact of the Middle East Conflict on Asia and the Pacific: An Updated Analysis*.

averaged 8.2% in 2025 and is projected to remain above the central bank's target range in 2026–2027, underscoring the need for continued monetary vigilance (footnote 6). Poverty, which increased temporarily during the 2022 inflation shock, has since stabilized and is expected to decline gradually as labor market conditions improve and remittance financed household incomes remain strong. After declining from 42.0% of GDP in 2023 to 36.2% in 2024, public debt rose to about 39.5% of GDP in 2025.[8] This increase reflected the Kyrgyz Republic's debut Eurobond issuance and higher domestic borrowing. According to the IMF's latest assessment, public debt remains sustainable, with moderate risks of external and overall debt distress.[9] Fiscal dynamics are shaped by continued capital spending associated with large-scale public investment and increased public expenditure, including higher wage and investment spending. As a result, the fiscal balance is projected to shift from recent surpluses to moderate and manageable deficits.

4. **External Risks and Vulnerabilities.** Despite these economic strengths, external risks remain elevated. As a net energy importer, the Kyrgyz Republic economy remains exposed to external supply and price shocks, with additional vulnerabilities arising from concentrated regional trade, transit, and remittance channels. While established fuel import arrangements help contain the risk of direct supply disruptions, an escalation of the Middle East conflict is expected to affect the Kyrgyz Republic primarily through indirect spillover channels. Global shocks of this nature can also transmit through tighter financial conditions and elevated inflation expectations. In the Kyrgyz Republic, these initial effects are expected to transmit through the economy via higher import costs and external price pressures—transmitted through key trading partners and regional markets—with subsequent second round impacts on domestic prices. In addition, disruptions to fertilizer and petrochemical supply chains could contribute to higher food prices. Overall, ADB considers the direction and performance of the government's macroeconomic policies satisfactory, while underscoring the need to rebuild buffers and advance structural reforms to sustain inclusive growth, improve productivity and support high-quality job creation.[10]

5. **Binding constraints.** While strong macroeconomic performance provides an enabling environment for sustaining growth and supporting fiscal stability, structural and institutional constraints continue to limit the Kyrgyz Republic's ability to translate growth into durable, inclusive, and resilient outcomes. Despite progress under earlier reforms, further reform deepening in PFM, SOE governance, and tax policy and administration is required to strengthen fiscal efficiency, accountability, and credibility (footnote 5). SOE governance frameworks require more consolidation of the state ownership function, including clearer separation of ownership and regulatory roles, stronger shareholder oversight, and more systematic performance monitoring—with implications for fiscal risk management and private sector participation.[11] Tax administration reforms also need further consolidation, including expanded digitalization and integration of processes, to strengthen revenue mobilization and reduce compliance gaps. In addition, the country faces growing physical and transition risks that undermine fiscal planning, infrastructure resilience, and the investment climate. Even as anti-corruption reforms advance, continued strengthening of transparency, integrity, and financial oversight frameworks is essential to sustain public trust and investor confidence. These interlinked constraints underscore the importance of sequenced, second-generation reforms under subprogram 2 to consolidate earlier gains, institutionalize reforms, and support a transition to more sustainable and inclusive growth.

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[8] ADB. 2025. *Asian Development Outlook 2025: Kyrgyz Republic*.
[9] IMF. 2025. *Kyrgyz Republic: Staff Report for the 2025 Article IV Consultation—Debt Sustainability Analysis*.
[10] Fitch Ratings. 2026. Fitch Affirms Kyrgyzstan at "B"; Outlook Stable. *Context.* 20 April.
[11] SOEs in the Kyrgyz Republic are defined as state enterprises, municipal enterprises, and business entities organized as joint-stock companies or limited liability companies with 50% or more of the shares in the charter capital owned by the government. They are established by state or municipal authorities for specific purposes. Government of the Kyrgyz Republic. 2012. *Law on State and Municipal Enterprises*.

6. **Public financial management: consolidation and deepening.** Assessments by ADB, the International Monetary Fund (IMF), and the World Bank have recognized the Kyrgyz Republic's important strides in PFM.[12] Improvements in budget transparency and centralized accounting, as well as the adoption of a unified chart of accounts, have increased the reliability of fiscal reporting, while oversight and modernization reforms have focused on PIM and procurement systems. Subprogram 2 builds on this foundation by shifting the focus of reforms from the establishment of systems to effective implementation, fiscal resilience, and institutional consolidation. Despite progress, deeper reforms are required to strengthen medium-term fiscal planning; enhance the identification, disclosure, and management of fiscal risks; and ensure that public resources are allocated efficiently and transparently in line with national development priorities. Continued efforts are also needed to (i) systematically integrate climate and gender considerations into fiscal frameworks; (ii) strengthen public investment appraisal, selection, and monitoring across the project life cycle—consistent with recommendations of the IMF's public investment management assessment (PIMA) and Climate-PIMA (C-PIMA);[13] and (iii) modernize procurement to improve efficiency, sustainability, and transparency. At the same time, reinforcing public debt management, fiscal risk oversight (including risks from SOEs and climate shocks), and disaster risk financing is increasingly important to safeguard fiscal sustainability and resilience. These priorities underscore the need for second-generation PFM reforms under subprogram 2 to consolidate earlier gains and institutionalize reforms and incentives that govern fiscal decision-making.

7. **State-owned enterprise governance and transparency.** SOEs play a significant role in the Kyrgyz Republic economy and are an important source of fiscal risk. This underscores the need for robust ownership, oversight, and transparency frameworks, especially in strategic industries such as energy, telecommunications, mining, and financial services.[14] Under subprogram 1, the government strengthened the SOE governance framework. Subprogram 2 builds on this foundation by deepening and consolidating the SOE reform agenda, with a focus on (i) strengthening the state ownership framework, (ii) enhancing governance and disclosure practices,[15] and (iii) improving oversight and management of SOE-related fiscal risks (footnote 11). Continued improvements in SOE transparency and procurement practices—coupled with the

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[12] The assessments include the following: (i) ADB. 2021. *Climate Risk Country Profile: Kyrgyz Republic*; (ii) ADB. 2022. *Country Governance Risk Assessment: Kyrgyz Republic* (unpublished); (iii) ADB. 2022. *Kyrgyz Republic Country and Sector Procurement Risk Assessment Report* (unpublished); (iv) ADB. 2022. *Narrowing the Disaster Risk Protection Gap in Central Asia*; (v) ADB. 2024. *Climate Responsive Public Financial Management (CRPFM) Assessment: Kyrgyz Republic* (unpublished); (vi) ADB. 2024. *Gender-Responsive Public Financial Management (GRPFM) Assessment: Kyrgyz Republic* (unpublished); (vii) ADB. 2024. *Kyrgyz SOE Procurement Risk Assessment Report* (unpublished); (viii) ADB. 2025. *The Enabling Environment for Disaster Risk Financing in the Kyrgyz Republic: Country Diagnostics Assessment*; (ix) IMF. 2023. *Kyrgyz Republic: Article IV Consultation—Staff Report and Executive Board Assessment*; (x) IMF. 2023. *Fiscal Risk Assessment for the Kyrgyz Republic* (unpublished); (xi) World Bank. 2021. *Public Expenditure and Financial Accountability (PEFA) Performance Assessment: Kyrgyz Republic*; and (xii) World Bank. 2022. *Kyrgyz Republic: Fiscal Risk Assessment and SOE Governance Review*.

[13] The IMF's PIMA and climate-PIMA for the Kyrgyz Republic (2026) assess infrastructure governance across the public investment cycle, covering planning, allocation, and implementation. The assessments identified persistent gaps in standardized project appraisal (including cost–benefit and risk analysis); fragmented project selection and pipeline management; limited disclosure of total project costs, particularly for domestically financed investments; and weaknesses in portfolio monitoring, maintenance planning, and ex post review. The climate-PIMA highlighted insufficient integration of climate risks and resilience considerations across investment planning, appraisal, budgeting, and asset management, underscoring the need to strengthen public investment management frameworks to improve efficiency, fiscal sustainability, and climate resilience.

[14] World Bank. 2023. *Kyrgyz Republic: State-Owned Enterprise Assessment Using the Integrated SOE Framework (iSOEF)*.

[15] Organisation for Economic Co-operation and Development (OECD). 2015. *OECD Guidelines on Corporate Governance of State-Owned Enterprises*.

integration of environmental, social, and governance (ESG) considerations—are also essential to sustaining accountability and private sector confidence. These reforms are expected to reduce fiscal risks, foster a more competitive market environment, and enable SOEs to contribute more effectively to sustainable and inclusive growth.

8. **Tax policy and administration.** The Kyrgyz Republic's revenue performance has been strong, with tax revenues rising to about 23.4% of GDP in 2025. This increase reflects the country's progress in tax policy simplification, improvements in tax and customs administration, and favorable cyclical conditions (footnote 7). A predictable and transparent tax system is also essential for a better business environment, as it lowers compliance costs, reduces uncertainty for firms, and supports fair competition by limiting scope for discretionary treatment. In the Kyrgyz Republic, more consistent tax administration and taxpayer services, coupled with improved integrity of enforcement, are important to support investment decisions, formalization, and confidence in the rule of law. Subprogram 2 will build on the gains under subprogram 1 by shifting the focus of reforms to deepening the effectiveness, integrity, and digital maturity of tax administration. This shift emphasizes strengthening compliance risk management, improving taxpayer services, and reducing discretion and fragmentation in enforcement. The reforms also seek to better integrate gender considerations into tax policy design and administration, including by addressing the specific constraints faced by women-led MSMEs through simplified compliance requirements, improved access to tax administration services, and incentives to support formalization. Further, alignment with international tax transparency and cooperation standards is strengthened to safeguard the domestic tax base and support investment.[16] These reforms are expected to improve revenue mobilization efficiency, build trust and predictability in the tax system, and create fiscal space to support inclusive and sustainable growth, while advancing regional cooperation and integration objectives.

9. **Transparency, integrity, and anti-corruption.** The Kyrgyz Republic has taken important steps to strengthen transparency, integrity, and accountability in public administration. Under subprogram 1, the government established key strategic and institutional foundations, including the State Strategy for Combating Corruption in the Kyrgyz Republic for 2025–2030[17] and initial measures to strengthen oversight and enforcement. Subprogram 2 builds on this foundation by deepening and operationalizing the anti-corruption and integrity framework, focusing on enhancing institutional accountability, enforcement credibility, and fiscal and financial transparency across the public sector. Perceptions of corruption remain elevated in the Kyrgyz Republic,[18] underscoring the importance of sustaining reforms. Subprogram 2 consolidates the legal and institutional arrangements to combat corruption, strengthen asset declaration and verification systems, and enhance SOE audit through an expanded mandate of the Chamber of Accounts. In parallel, the government must reinforce integrity frameworks in high-risk institutions—particularly revenue and financial oversight bodies—and strengthen anti-money laundering and combatting the financing of terrorism (AML/CFT) and beneficial ownership transparency to reduce corruption risks, improve compliance, and safeguard public resources. These reforms will support a more predictable, transparent, and rules-based environment for private sector activity, while strengthening public trust and the credibility of state institutions.

[16] Organisation for Economic Co-operation and Development (OECD). 2023. *OECD/G20 Inclusive Framework on BEPS: Peer Review Reports on Action 14 (Mutual Agreement Procedure)*.

[17] Government of the Kyrgyz Republic. 2024. *State Strategy for Combating Corruption in the Kyrgyz Republic for 2025–2030*.

[18] Transparency International. 2026. *Corruption Perceptions Index 2025*.

B. Policy Reform, ADB's Value Addition, and Sustainability

10. **Programmatic approach.** The program adopts a programmatic approach that enables the Kyrgyz Republic to implement complex institutionally demanding reforms in a comprehensive and flexible manner. Implemented through sequenced, policy-based operations supported by ADB technical assistance (TA), the program increases institutional capacity and sustains policy dialogue to ensure reforms are firmly embedded in government systems and remain aligned with other ADB and development partner operations. A post-program partnership framework will sustain reform momentum through continued policy dialogue, targeted TA, and selective investment support, maintaining alignment with the original programmatic framework and theory of change (para. 20).

11. **Accomplishments of subprogram 1.** Subprogram 1 implemented prior actions from January 2022 to June 2024, establishing the core legal, regulatory, and institutional foundations for subsequent reforms. These actions strengthened fiscal discipline, enhanced transparency, and reinforced governance, providing the basis for deeper, implementation reforms under Subprogram 2.

(i) **Reform area 1: Quality of public financial management strengthened.** The government strengthened core PFM systems through centralized accounting, a unified chart of accounts, and adoption of international public sector accounting standards, improving fiscal reporting.[19] It advanced fiscal risk management by publishing its first fiscal risk statement, enabling more systematic identification of fiscal exposures.[20] Analytical assessments supported integration of gender and disaster risk considerations into fiscal decision-making. Public investment management improvements enhanced project prioritization and introduced pilot Treasury Single Account (TSA)-based reporting. Procurement reforms strengthened compliance with the Public Procurement Law and upgraded the e-procurement system to better integrate with budget execution and cash management.

(ii) **Reform area 2: Governance of state-owned enterprises strengthened.** Subprogram 1 strengthened SOE governance and procurement to improve efficiency, transparency, and accountability. The government reinforced compliance with the Corporate Governance Code, established a centralized SOE oversight framework, and introduced minimum gender diversity requirements for boards effective from 2025. Aiyl Bank OJSC[21] adopted an ESG strategy and implementation roadmap, strengthening sustainability and risk management. SOE procurement reforms enhanced transparency through risk-based rules, centralized monitoring, and mandatory electronic disclosure, supported by a dedicated procurement portal.

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[19] The government has adopted standards compliant with the International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards Board, covering (i) the presentation of financial statements; (ii) cash flow statements; (iii) foreign exchange rates; (iv) borrowing costs; (v) inventories; (vi) events after reporting dates; (vii) property, plant, and equipment; and (viii) the conceptual framework for general purpose financial reporting. *International Public Sector Accounting Standards* (accessed January 2026).

[20] The fiscal risk statement covers the impact of key macroeconomic risks and vulnerabilities on the budget and public debt; finances of state-owned enterprises; explicit government guarantees and onlending; and potential shocks from other contingent liabilities, including public–private partnerships. IMF. 2016. *Analyzing and Managing Fiscal Risks—Best Practices*.

[21] Aiyl Bank is a state-owned commercial bank in the Kyrgyz Republic specializing in agricultural and rural finance. It is incorporated as an open joint-stock company under Kyrgyz law, which requires adherence to corporate governance standards and public disclosure obligations.

(iii) **Reform area 3: Strengthen tax policy and administration.** Subprogram 1 strengthened tax policy and administration to simplify compliance, improve transparency, and align with international standards. The government phased out the patent tax regime[22] and introduced simplified lower rates for small businesses and priority sectors to support formalization.[23] Value-added tax (VAT) collection was expanded by requiring foreign e-commerce entities to register and remit VAT through an online portal. The State Tax Service was authorized to access bank account information, and risk-based VAT compliance and digital tax and payment systems were introduced to strengthen enforcement and efficiency. Tax treaty and policy frameworks were aligned with international standards, including Global Forum exchange-of-information requirements and OECD/Group of Twenty (G20) base erosion and profit sharing (BEPS) minimum standards.

(iv) **Reform area 4: Transparency and integrity in public administration improved.** Subprogram 1 improved governance and financial integrity through institutional reforms. The government approved the State Strategy for Combatting Corruption in the Kyrgyz Republic for 2025–2030 (footnote 17) and launched an online public complaint system in the General Prosecutor's Office to increase accountability. The State Tax Service (STS) implemented anti-corruption measures, including an ethics commission, an internal investigation unit reporting to the chair, and mandatory rotation of tax officials. To strengthen the legal and institutional framework for AML/CFT, the new Law on Banks and Banking Activity was enacted to regulate bank secrecy and information sharing. The National Bank of the Kyrgyz Republic also completed a sector AML/CFT risk assessment for banks and payment service providers using updated guidelines. These reforms enhance transparency, enforcement capacity, and compliance with international standards.

12. **Strengthening reforms under Subprogram 2.** Subprogram 2 expands the scope of reforms, supporting deeper and more comprehensive governance improvements and reinforcing the program's responsiveness and impact. It consolidates the achievements under subprogram 1, while introducing targeted PFM enhancements such as a medium-term debt strategy, upgraded debt monitoring systems, and improved fiscal rules. These enhancements complement reinforced SOE governance and modernized tax policy and administration aligned with internationally recognized best practice and standards. Governance improvements are further institutionalized through strengthened anti-corruption oversight and binding legal and regulatory measures on combating corruption, conflict of interest, and asset declaration (Table 1). All 14 prior actions were completed from July 2024 to June 2026, underscoring strong government ownership and execution capacity.

Table 1: Key Enhancements to Program Design

Reform Area	Update in Subprogram 2
Reform area 1: Quality of public financial management strengthened	**Policy action 2.1 (strengthened):** Introduces a unified and binding legal and regulatory framework for program-based budgeting, medium-term expenditure planning, and performance monitoring, representing a significant enhancement in scope and formalization under Subprogram 2. This is further reinforced through binding IPSAS regulations, an implementation roadmap, and IPSAS-compliant disclosures for FY2024 in central government ministries.[a]

[22] Patent tax is a simplified tax regime for individual entrepreneurs and microenterprises with annual turnover not exceeding Som8 million. It requires purchasing a tax patent, which serves as both tax payment and registration. It aims to reduce compliance burden by eliminating bookkeeping requirements and inspections.

[23] Reduced simplified tax rates apply to (i) individual entrepreneurs with annual turnover up to Som8 million who use electronic cash registers; and (ii) priority industries, including trade, agricultural products, manufacturing, tourism, software development, garment production, public catering, and residents of creative industry parks.

Reform Area	Update in Subprogram 2
	Policy action 2.2 (strengthened): Establishes a Cabinet-level framework for fiscal risk management, expanding the initial policy scope into a more systematic and institutionalized approach to identifying and disclosing fiscal risks across government entities, including SOEs. Climate-related risks are integrated into core fiscal policy instruments. **Policy action 2.3 (strengthened):** Advances public investment reform from diagnostic assessment to an operational framework through approval of the Main Directions of the PIM Reform Roadmap 2026–2030, with clearly defined institutional responsibilities. Mandatory centralized reporting of the full public investment portfolio further strengthens oversight, transparency, and consolidation within the treasury system. **Policy action 2.4 (strengthened):** Advances procurement reform from incremental improvements to a binding, system-wide framework through adoption of a medium-term procurement reform program, introducing enforceable rules for sustainable procurement, including life-cycle costing and merit-based evaluation. This is further supported by digital procurement enhancements through international cooperation[b], alongside mandatory standardized disclosure and consolidated reporting. **Policy action 2.5 (strengthened):** Strengthens the debt and guarantee framework by moving from a primarily legal and regulatory focus to operational implementation through deployment of the debt management system (DMFAS) and enhanced fiscal risk controls. This includes strengthened state guarantee management with centralized issuance, risk-based limits, and recognition of guarantees as contingent liabilities.[c]
Reform area 2: Governance of state-owned enterprise strengthened	**Policy actions 2.6 and 2.7 (strengthened):** Deepens and operationalizes Subprogram 2 reforms to strengthen SOE governance and procurement. The Main Direction of SOE Policy 2026–2029 introduces binding provisions on ownership rationale, portfolio classification, separation of functions, governance and disclosure standards, and fiscal risk oversight, while Aiyl Bank embeds ESG and risk management into core operations with GRI-aligned reporting. Policy action 2.7 strengthens procurement integrity by institutionalizing consolidated monitoring, mandatory audit disclosure, and an independent two-tier complaint mechanism, shifting from fragmented controls to a more transparent and enforceable system.
Reform area 3: Strengthen tax policy and administration	**Policy actions 2.8, 2.9, and 2.10 (strengthened):** Advancing integrated, risk-based, and inclusive compliance systems deepens tax administration reforms in line with the program's objectives. Policy action 2.8 strengthens enforcement through operational risk-based audits, end-to-end digital traceability of excisable goods, and automated property tax administration. Policy actions 2.9 and 2.10 complement these reforms by embedding measures to support women's economic participation through targeted legal measures and simplified regimes that support formalization. Digital service delivery is also strengthened through electronic VAT refunds, real-time payment data exchange, and enhanced interagency data sharing. These measures improve compliance, transparency, and service quality while reducing administrative burdens. **Policy action 2.11 (strengthened):** The original reform is deepened through treaty-level measures, including the conclusion of a tax treaty consistent with the updated double taxation agreement model, strengthening safeguards against treaty abuse while protecting the domestic tax base.
Reform area 4: Transparency and integrity in public administration improved	**Policy action 2.12 (strengthened):** Deepens anti-corruption reforms by moving from coordination mechanisms to enforceable institutional and legal measures. Oversight of the Anti-Corruption Strategy (2025–2030) is centralized under the General Prosecutor's Office, supported by formal monitoring regulations and public reporting. The framework is further

Reform Area	Update in Subprogram 2
	strengthened through institutionalization of anti-corruption functions across state bodies and enhancements to the legal regime, including enactment of the Law on Combating Corruption, submission of amendments to the Law on Conflict of Interest, and a reinforced asset declaration and verification system anchored in Cabinet regulations and tax code amendments. **Policy actions 2.13 and 2.14 (no changes)**

ESG = environmental, social, and governance; IPSAS = International Public Sector Accounting Standards; PIM = public investment management; PIMA = public investment management assessment; SOE = state-owned enterprise; VAT = value-added tax.

[a] The 2024 IPSAS-compliant disclosures cover civilian central government ministries within the accrual-based reporting boundary. Defense, internal affairs, and national security entities are excluded due to institutional separation and confidentiality. Consolidation and remaining IPSAS requirements will be implemented progressively in line with the IPSAS implementation plan.

[b] Pursuant to a 2026 Cabinet decision, the government approved an international agreement and grant financing from the Republic of Korea to modernize public procurement, including upgrades to the e-government portal, an SOE portal, and IT infrastructure and capacity. ADB separately supported these efforts through technical assistance, including IT audits and advisory support aligned with international standards.

[c] Amendments to the Budget Code and related regulations centralize issuance of state guarantees under Cabinet decision, introduce eligibility and annual limits linked to the debt strategy, require ex ante risk appraisal, and treat guarantees as fiscal risks through recognition as contingent liabilities, provisioning for expected losses, and reporting of calls in public debt and fiscal risk statements.

Source: Asian Development Bank.

13. **Reform area 1: Quality of public financial management strengthened.** Subprogram 2 strengthens the institutional and legal foundations for PFM to improve fiscal discipline and resilience across the budget cycle. The government has established a unified framework for program-based budgeting, medium-term expenditure planning, performance monitoring, and budget transparency aligned with national development objectives, while mainstreaming climate and gender considerations in core fiscal policy instruments. Fiscal transparency is reinforced through the adoption of an International Public Sector Accounting Standards (IPSAS) implementation road map and binding reporting regulations, supported by early IPSAS-compliant disclosures, laying the groundwork for consistent and credible financial reporting. Fiscal risk management has been elevated through Cabinet-mandated identification and disclosure of fiscal risks—including those from SOEs—and the integration of climate-related risks into medium-term fiscal policy, complemented by a risk-layered disaster risk financing strategy. PIM is strengthened through an approved Main Directions of PIM Reform Roadmap 2026–2030 informed by the IMF's PIMA and climate-PIMA and improved consolidation of externally financed investment reporting within the treasury system. Procurement and debt management reforms enhance efficiency, transparency, and sustainability through stronger regulatory frameworks, digital systems, and disclosure practices. These measures will consolidate earlier gains and anchor a more transparent, accountable, and resilient PFM system, supporting inclusive growth and private sector confidence.

14. **Reform area 2: Governance of state-owned enterprises strengthened.** Subprogram 2 strengthens the institutional foundations of SOE governance to reduce fiscal risks and reinforce market discipline. A key step is the approval of the Main Direction of SOE Policy 2026–2029, setting out the government's strategic direction and commitment to strengthen state ownership policy by (i) clarifying ownership rationales and portfolio intent; (ii) separating ownership and regulatory roles; and (iii) establishing baseline governance, disclosure, and fiscal-risk oversight standards to guide future restructuring and exit decisions. While implementation will be sequenced, this framework is a major step toward a coherent and transparent ownership function. Reforms are complemented by an OECD-aligned corporate governance assessment of majority state-owned joint-stock companies and the mainstreaming of internationally accepted ESG

practices in Aiyl Bank, including Global Reporting Initiative (GRI)-aligned reporting. In parallel, SOE procurement reforms improve transparency and accountability through consolidated monitoring with corrective actions, mandatory annual procurement audits with public disclosure, and a standardized two-tier complaint review with independent scrutiny. These measures improve oversight, competition, and transparency of SOEs, supporting fiscal sustainability and private sector confidence.

15. **Reform area 3: Strengthen tax policy and administration.** Subprogram 2 institutionalize risk-based, digital, and inclusive tax practices to increase compliance, efficiency, and fairness. Reforms embed data-driven compliance management through enhanced audit selection, digital traceability of excisable goods, an integrated property tax system, and strengthened data exchange with banks, improving collections and streamlining taxpayer services. Digitalization increases transparency through real-time e-payments, automated payment notifications, improvements in VAT refund administration, and expanded interagency data sharing. Gender considerations are integrated into tax policy design and administration through legal recognition of women's entrepreneurship, simplified regimes as entry points to formalization for microenterprises led by women, and targeted tax measures supporting skills development and labor market participation, reinforced by an interagency mechanism to integrate gender equity into tax code amendments. In parallel, international tax reforms will strengthen transparency and credibility by advancing accession to global tax transparency frameworks, such as the Global Forum on Transparency and Exchange of Information for Tax Purposes and the Inclusive Framework on OECD/G20 BEPS. Treaty-level measures aligned with the updated model double taxation agreement and international anti-abuse standards will also be implemented. These measures will enhance the integrity, predictability, and inclusiveness of the tax system, support sustainable revenue mobilization, and improve the environment for private sector activity and investment.

16. **Reform area 4: Transparency and integrity in public administration improved.** Subprogram 2 strengthens the institutional foundation for integrity, accountability, and financial transparency. The President has consolidated anti-corruption by assigning the General Prosecutor's Office responsible for implementing and monitoring the Anti-Corruption Strategy and Action Plan 2025–2030, supported by approved monitoring regulations, regular public reporting, and a network of designated anti-corruption commissioners across state bodies. Enactment of the Law on Combating Corruption and the submission of amendments to the Law on Conflict of Interest have advanced the legal framework. This has been complemented by a stronger asset declaration and verification regime operationalized through Cabinet regulations and tax code amendments, enabling systematic cross-checking and enforcement. Financial integrity and internal controls have also been strengthened by risk-based anti-corruption measures in tax administration, comprehensive codes of conduct and disclosure requirements for officials, and the implementation of a national risk-based AML/CFT framework—including regulation of virtual asset service providers and improved customer due diligence and beneficial ownership verification—and improved SOE audit reporting through an expanded Accounts Chamber mandate. These measures will reinforce enforcement credibility, reduce corruption and financial integrity risks, and align governance frameworks with international standards, supporting public trust and investor confidence.

17. **Private sector development**. The program introduces reforms to improve governance and create a transparent, predictable, and competitive environment for private sector growth. Governance measures, including anti-corruption legislation and enforcement, improve accountability and reduce informality—essential for investor confidence and fair competition. Tax policy and international taxation reforms align incentives, reduce excessive burdens, and support

e-commerce, lowering compliance risks and helping businesses grow. The PIM Strategy and Action Plan 2026–2030 guides future infrastructure planning and integrate climate resilience into project appraisal, which will improve connectivity and reduce costs for enterprises. Public procurement reforms will enhance transparency and expand market access through an upgraded e-procurement portal; SOE procurement reforms will strengthen corporate governance and competitive tendering, reducing fiscal risks and promoting fairness for private firms. ESG principles will be embedded in SOE operations through globally recognized standards and disclosure mechanisms, reinforcing sustainability and responsible business practices. Complementary measures, including a risk-layered disaster risk financing strategy, will help stabilize the operating environment and deepen financial markets. These reforms will increase investor confidence, foster competition, and support job creation—accelerating inclusive and sustainable economic development.

18. **ADB's experience and lessons**. ADB's long-standing engagement in the Kyrgyz Republic shows that reforms succeed when they are sequenced, anchored in strong government ownership, and supported by targeted TA and complementary investments. Reinforced by subprogram 1, these lessons build on ADB's broader engagement to advance economic diversification, fiscal resilience, and institutional capacity. Continued collaboration with the IMF and other development partners remains essential to improving fiscal risk management, procurement modernization, SOE governance, and anti-corruption—areas requiring credibility and cross-agency coordination. Policy-based operations deliver the greatest impact when integrated with resilience objectives, linking upstream policy actions to downstream investment mobilization. This linkage is demonstrated through the alignment of fiscal risk management reforms—including the adoption of a risk-layered disaster risk financing strategy—with complementary investment-oriented initiatives such as the Risk Layered Disaster Relief Finance Program, which supports the development of financial instruments to operationalize these policy frameworks.[24] These initiatives translate policy reforms into tangible resilience outcomes and lay the foundation for risk-layered disaster financing instruments such as catastrophe bonds, reinforcing ADB's regional leadership on disaster risk finance in Central Asia Regional Economic Cooperation countries. Program completion reports for ADB's countercyclical programs and the Promoting Economic Diversification Program[25] validate these lessons, confirming that timely support and structured coordination through platforms such as the Development Partner Coordination Council remain integral to the program and the achievement of developmental impact.

19. **ADB's value addition.** Building on lessons from past engagements, ADB adds value to the Kyrgyz Republic's reform agenda through an integrated approach that combines upstream policy reforms with downstream investment financing and targeted TA.[26] This synergy helps to

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[24] ADB. 2025. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Grants, Grants, and Administration of Grant to the Kyrgyz Republic and Republic of Tajikistan for the Risk Layered Disaster Relief Finance Program*.

[25] ADB. 2024. *Completion Report: COVID-19 Active Response and Expenditure Support Program*; ADB. 2024. *Completion Report: Building Resilience with Active Countercyclical Expenditures Program in the Kyrgyz Republic;* and ADB. 2023. *Completion Report: Promoting Economic Diversification Program—Subprograms 1, 2, and 3*.

[26] ADB. 2016. *Technical Assistance for Developing Anti-Money Laundering and Combating the Financing of Terrorism Approaches, Methodologies, and Controls* (Subproject B); ADB. 2020. *Report and Recommendation of the President to the Board of Directors: COVID-19 Active Response and Expenditure Support Program*; ADB. 2021. *Technical Assistance for Improving Infrastructure and State-Owned Enterprise Governance for Sustainable Investment and Debt Management*; ADB. 2021. *Technical Assistance for Supporting Debt Management and Transparency*; ADB. 2022. *Technical Assistance for Delivering a Climate Change Strategy for Central and West Asia*; ADB. 2022. *Report and Recommendation of the President to the Board of Directors: Building Resilience with Active Countercyclical*

ensure that reforms are designed well and implemented effectively, translating policy actions into tangible development outcomes. The program leverages ADB's country and sector diagnostics and knowledge partnerships with development partners to shape evidence-based reform pathways (footnote 12). Complementarities with ADB operations in climate resilience and green investment enhance the impact, linking fiscal and governance reforms to climate-responsive budgeting, green budget tagging, and sovereign green bond issuance under the Advancing Green Investment and Resilient Economic Growth Program (footnote 26). These links increase the Kyrgyz Republic's capacity to manage fiscal risks, mobilize climate finance, and build resilience to shocks, supported by targeted TA and sustained engagement beyond the program.

20. **Sustainability and post-program partnership framework**. Sustainability will be promoted through the institutionalization of reforms in the legal, regulatory, and budgetary frameworks, supported by a post-program partnership framework that maintains policy dialogue and implementation assistance beyond the program period. ADB will provide targeted TA and continue close coordination with development partners to support effective implementation, capacity building, and systems integration in core public financial management, governance, and integrity areas (footnote 26). This approach embeds reforms into routine government processes, strengthening institutional accountability through established monitoring systems, regular reporting obligations, and enhanced oversight mechanisms, while providing a structured platform to consolidate results and address emerging risks beyond the program horizon.

21. **Development coordination.** The program is closely coordinated with development partners to ensure complementarities and clear division of labor across reform areas, supported by established mechanisms for information sharing and alignment to avoid duplication and maximize reform impact. ADB works with the European Union, the Eurasian Development Bank, the IMF, the United Nations Development Programme, the United Nations Office on Drugs and Crime, and the World Bank, as well as bilateral partners such as Switzerland and the United States. These partners support reforms in PFM, PIM, SOE governance, public procurement, tax administration, and anti-corruption. The program is also aligned with initiatives of the Eurasian Group on Combating Money Laundering and Financing of Terrorism and the Council of Europe on AML/CFT.[27] ADB also cochairs the Development Partners Coordination Council, which facilitates structured dialogue between development partners and the government. ADB coordinates closely with the World Bank on policy-based support operations for 2026. The second tranche of the World Bank's Sustainable and Inclusive Growth Development Policy Operation[28] will support energy, social services, and fiscal reforms; the European Union is providing grants for public sector reforms focused on water resource management, climate resilience, and

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Expenditures Program; ADB. 2022. *Technical Assistance to the Kyrgyz Republic for Strengthening Governance and Anti-Corruption*; ADB. 2022. *Technical Assistance for Supporting Debt Management and Transparency*; ADB. 2022. *Report and Recommendation of the President to the Board of Directors: Promoting Economic Diversification Program—Subprogram 3*; ADB. 2023. *Technical Assistance for Achieving Climate Change Objectives through Public Financial Management Reforms*; ADB. 2023. *Technical Assistance for Preparing the Sustainable Fiscal Management and Governance Improvement Program*; ADB. 2024. *Technical Assistance for Developing a Disaster and Climate Risk Transfer Facility in the CAREC Region (Phase 2)*; ADB. 2024. *Report and Recommendation of the President to the Board of Directors: Sustainable Fiscal Management and Governance Improvement Program (Subprogram 1)*; and ADB. 2025. *Report and Recommendation of the President to the Board of Directors: Proposed Programmatic Approach, Policy-Based Loan and Grant for Subprogram 1, and Technical Assistance Grant to the Kyrgyz Republic for the Advancing Green Investment and Resilient Economic Growth Program.*

[27] The Eurasian Group on Combating Money Laundering and Financing of Terrorism is a regional body affiliated with the Financial Action Task Force (FATF). It monitors money laundering and terrorist financing risks and implements FATF standards to support a coordinated global response against organized crime, corruption, and terrorism. FATF. 2023. *International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation: The FATF Recommendations.*

[28] World Bank. 2025. *Kyrgyz Republic – First Sustainable and Inclusive Growth Development Policy Operation*.

governance and digital transformation.[29] ADB also promotes regional knowledge sharing and coordinated support on tax administration and fiscal reforms through the Asia Pacific Tax Hub. The IMF provides macroeconomic, fiscal, and monetary policy guidance and promotes governance and anti-corruption measures in collaboration with ADB through the Caucasus, Central Asia, and Mongolia Regional Capacity Development Center.[30]

C. Expected Outcome of the Reforms

22. The program contributes to the government's objective of strengthening fiscal management and governance to enhance fiscal resilience, transparency, and accountability. The program contributes to the government's objective of strengthening fiscal management and governance to enhance fiscal resilience, transparency, and accountability. Subprogram 2 strengthens upstream fiscal discipline through improved management of fiscal risks, debt, and procurement, which translates into better spending outcomes by embedding gender and climate considerations across budgeting and fiscal planning. Stronger project appraisal, prioritization, and portfolio oversight improve allocative efficiency and alignment with national objectives, while SOE governance and risk-based procurement reforms reinforce accountability, competition, and market discipline. In parallel, modernized tax policy and administration broaden the revenue base through digitalization, compliance, and equity, creating sustainable fiscal space. Integrity measures anchor the reform package by operationalizing the national anti-corruption strategy and strengthening legal and regulatory frameworks on combating corruption, conflict of interest, asset declaration, and AML/CFT, thereby safeguarding fiscal gains through transparency and rule-based enforcement. Together, these reforms strengthen resilience to macroeconomic and climate shocks, support financing for mitigation and adaptation, and build investor confidence.[31] The results framework builds on Subprogram 1 and is refined under Subprogram 2 to better capture revenue performance, fiscal discipline, and sustainable procurement, including calibration of targets to enhance measurement and focus, while maintaining alignment with program objectives and coherence across the program series.

D. Development Financing Needs and Budget Support

23. The program will help the government meet estimated development financing needs of 2.6% of GDP (equivalent to $670 million) in 2026, of which subprogram 2 will provide $70 million (footnote 5). This is an increase by $20 million compared to the financing previously programmed (footnote 1). This is driven by continued capital spending associated with large-scale public investment and increased public expenditure, including higher wage and investment spending (footnote 5). Multilateral and bilateral development partners will provide financing, with the remainder sourced through domestic borrowing.

24. The government has requested a concessional loan of $70 million from ADB's ordinary capital resources to help finance the program. The loan will have a 24-year term, including a grace period of 8 years; an interest rate of 1.0% per year during the grace period and 1.5% per year thereafter, and such other terms and conditions set forth in the draft loan agreement. The program completion date is 30 June 2026; the loan closing date is 30 June 2027.

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[29] European Union. 2025. *EU–Kyrgyz Republic Cooperation: Governance, Water Resource Management, Climate Resilience, and Digital Transformation*.

[30] ADB. 2023. *Technical Assistance for Strengthening ADB's Collaboration with the International Monetary Fund for Macroeconomic Management in the Caucasus, Central Asia, and Mongolia*.

[31] Program Economic Assessment (Annex 4).

E. Implementation Arrangements

25. The Ministry of Finance (MOF) will be the executing agency. The key implementing agencies will be the MOF, Ministry of Economy and Commerce, STS, State Agency for Public Property Management, Chamber of Accounts, General Prosecutor's Office, National Bank of the Kyrgyz Republic, State Financial Intelligence Service, and Aiyl Bank. Interagency coordination and reform oversight is led by the Ministry of Finance, supported by established arrangements for reporting, monitoring, and implementation coordination across relevant government agencies. The implementation period for subprogram 2 will be from July 2024 to June 2026. The proceeds of the policy-based loan will be withdrawn following ADB's *Loan Disbursement Handbook* (2022, as amended from time to time) and detailed arrangements agreed between the government and ADB.

III. DUE DILIGENCE

26. **Safeguards.** In compliance with ADB's Safeguard Policy Statement (2009), the program is categorized C for environment, involuntary resettlement, and Indigenous Peoples. ADB prepared a matrix assessing potential environmental, social, and involuntary resettlement impacts has been prepared for each policy action.[32] Program activities are limited to policy and institutional reforms; no civil works are envisaged. Direct or indirect activities under policy actions will not result in or lead to involuntary resettlement or negatively affect Indigenous Peoples or the environment. Program proceeds will not be used for any activities resulting in physical or economic displacement, as defined by ADB's Safeguard Policy Statement. All policy actions are consistent with ADB's safeguards requirements; activities on ADB's Prohibited Investment Activities List will not be supported.

27. **Poverty and social impacts.** Poverty, as defined by the national poverty line, has declined from its post-pandemic peak but remains high and vulnerable to reversal. The national poverty rate fell from 29.8% in 2023 to 25.7% in 2024 (about 1.87 million people), reflecting strong growth and income gains. However, food insecurity remains significant, and reliance on remittances (equivalent to about one-quarter of GDP) leaves poor and near-poor households exposed to external shocks.[33] Persistent regional disparities and rising inequality risks underscore the importance of protecting priority social spending and strengthening fiscal resilience. Subprogram 2 will generate positive, economy-wide poverty and social impacts through indirect but well-defined institutional transmission channels.[34] Stronger PFM will reduce the risk that shocks translate into expenditure compression that disproportionately affects vulnerable groups. Stronger SOE governance and procurement accountability will limit fiscal pressures and service instability, preserving safeguard resources for social spending. Tax administration reforms focus on compliance, supporting sustainable financing for public services without increasing household burdens. These reforms will protect vulnerable households, improve service delivery, and support more inclusive and resilient growth under heightened uncertainty.

28. **Climate.** The program is aligned with the government's climate commitments and broader efforts to advance climate-responsive and sustainable development. Subprogram 2 will generate climate adaptation and mitigation benefits from eight policy actions. Adaptation benefits are

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[32] Matrix of Potential Environmental and Social Risks and Impacts and Associated Mitigation Measures (Annex 5).

[33] United Nations Development Programme and Food and Agriculture Organization of the United Nations (FAO). 2024. *Food Security and Nutrition Assessment in Kyrgyzstan*; and World Bank. 2024. *Migration and Development Brief: Remittances and Development Trends*.

[34] Poverty and Social Impact Assessment (Annex 8).

estimated at $8.34 million and mitigation benefits at $11.96 million.[35] ADB will finance 100% of climate-related costs to accelerate national priorities for climate change adaptation and mitigation, supporting resilient and inclusive economic growth.

29. **Gender equality.** The program is categorized *effective gender mainstreaming*, as it embeds gender considerations within core fiscal and revenue systems. Building on subprogram 1 diagnostics—including the first gender-responsive PFM assessment and a gender analysis of taxation—subprogram 2 will institutionalize gender equality priorities that translate this strategic directive into practice. The MOF require gender impact analyses before and after MOF-selected budget programs, using standardized templates and a program classification methodology. These reforms strengthen the alignment of public spending with gender-differentiated constraints by embedding mandatory gender analysis in budgeting and reflecting barriers to formalization and economic participation in fiscal prioritization. In parallel, tax policy and administration reforms support gender mainstreaming to address compliance burdens that disproportionately affect micro and small enterprises led by women and strengthen interagency coordination to integrate gender equality objectives into tax code amendments.[36]

30. **Governance.** In 2022, ADB conducted a governance risk assessment in line with the Guidelines for Implementing ADB's Second Governance and Anticorruption Action Plan.[37] It identified no material fiduciary risks or mismanagement of public resources. Governance risks will continue to be monitored through ongoing policy dialogue, complementary diagnostics, technical assistance, and implementation support. In parallel, ADB is undertaking a governance and macro-fiscal pillars assessment, informed by the forthcoming 2026 public expenditure and financial accountability assessment in coordination with ADB, as well as the IMF's PIMA and climate-PIMA diagnostics. With ADB support, the government is preparing a comprehensive PFM strategy for 2026–2030, building on the lessons from the 2017–2025 strategy[38] and aligned with the State Strategy for Combating Corruption in the Kyrgyz Republic for 2025–2030 (footnote 17). The program reinforces this reform architecture by institutionalizing measures that strengthen fiscal transparency, results-oriented PFM, and fiscal resilience. The Kyrgyz Republic has adopted the state assignment framework,[39] underpinned by secondary legislation that will clarify the scope, standards, and financing of public service delivery by state entities. This will reinforce the legal clarity, fiduciary safeguards, and predictability of budget execution.

31. **Risk-mitigating measures.** Major risks and mitigating measures are summarized in Table 2.

Table 2: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
Geopolitical and macroeconomic risk. External shocks—including	ADB will mitigate these risks through its post-program partnership framework, sustaining policy dialogue, flexible

[35] Climate Change Assessment (Annex 6)
[36] Gender Assessment (Annex 7)
[37] ADB. 2022. *Governance Risk Assessment (unpublished)*; and ADB. 2008. *Guidelines for Implementing ADB's Second Governance and Anticorruption Action Plan.*
[38] Government of the Kyrgyz Republic. 2016. *Strategy for the Development of Public Financial Management in the Kyrgyz Republic for 2017–2025.* Approved by Government Resolution No. 696 on 22 December 2016.
[39] State assignment refers to a government-mandated task established through Cabinet of Ministers resolutions pursuant to the Law On Public Procurement. Under the law, designated public or state-controlled entities deliver specified services or works financed by the budget. The framework has been operationalized through secondary regulations that require justification for the use of state assignments; transparent qualification and selection of implementing entities; and public disclosure of contract awards, implementation progress, and results. The reform was supported by TA from the World Bank, with coordinated engagement from ADB and other development partners.

Risks	Mitigation Measures
geopolitical tensions, commodity price volatility, and fiscal constraints—could weaken macroeconomic stability and disrupt the sequencing and timely implementation of reforms, such as resource allocation for program actions.	reform sequencing, and targeted technical assistance. Close coordination with the IMF, World Bank, EU, and other partners will support consistency in policy advice. Ongoing ADB programs on green growth, disaster risk financing, and CAREC regional cooperation will strengthen resilience to external shocks.
Governance risk. Resistance from vested interests and institutional inertia could slow implementation of governance reforms, particularly in procurement, SOE governance, and anti-corruption, weakening accountability and reform credibility.	Risks will be mitigated by embedding reforms in binding legal, regulatory, and institutional frameworks that strengthen transparency, accountability, and implementation continuity. Sustained engagement under ADB's post-program partnership framework, combined with close coordination with development partners, will support reform oversight, policy consistency, and continued momentum in sensitive areas such as procurement, SOE governance, and anti-corruption. Targeted technical assistance and implementation support will strengthen institutional capacity and enforcement mechanisms, while adaptive reform sequencing will help align implementation with institutional readiness without weakening reform commitment.

ADB = Asian Development Bank; CAREC = Central Asia Regional Economic Cooperation; EU = European Union; IMF = International Monetary Fund; SOE = state-owned enterprise.
Source: ADB.

32. Integrity due diligence was conducted on Aiyl Bank, its board, and senior management. They do not appear to constitute a significant or potentially significant integrity risk to the program. ADB's Anticorruption Policy (1998, as amended from time to time) and relevant guidelines and procedures were explained to and discussed with the government, the MOF, and the implementing agencies.

IV. ASSURANCES AND CONDITIONS

33. The government and the MOF have assured ADB that implementation of the program shall conform to all applicable ADB policies, including those concerning anti-corruption measures, safeguards, gender, procurement, consulting services, and disbursement, as described in detail in the draft loan agreement. No disbursement shall be made unless ADB is satisfied that the government has completed the policy actions specified in the policy matrix relating to the program.

V. RECOMMENDATION

34. I am satisfied that the proposed policy-based loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of $70,000,000 to the Kyrgyz Republic for subprogram 2 of the Sustainable Fiscal Management and Governance Improvement Program, from ADB's ordinary capital resources, in concessional terms, with an interest charge at the rate of 1.0% per year during the grace period and 1.5% per year thereafter; for a term of 24 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Masato Kanda
President

9 June 2026

POLICY DESIGN AND MONITORING FRAMEWORK

Country's Overarching Development Objective Economic well-being, social welfare, effective governance, and environmental sustainability[a]	
Outcome Climate responsive, transparent, and fiscally sound governance and public investment management	**Risks and Critical Assumptions** Risk: Heightened global and regional uncertainty—including commodity price volatility and tighter external financing conditions—may constrain fiscal space and slow the pace of reform implementation, affecting fiscal and public investment outcomes. Risk: Interagency coordination, and institutional capacity constraints across government entities may delay or dilute governance, fiscal, and public investment reforms, including those related to revenue administration, public financial management, SOE oversight, procurement, and transparency. Assumption: The government sustains strong political commitment to advancing structural reforms that strengthen fiscal sustainability, domestic resource mobilization, climate-responsive public investment management, and transparency.

Subprogram 1 Prior Actions Completed (January 2022–June 2024)	Subprogram 2 Prior Actions Completed (July 2024–June 2026)	Post-Program Partnership Framework (July 2026–June 2027)	Outcome Indicators[b]
Reform Area 1: Quality of Public Financial Management Strengthened			
1.1. To strengthen public financial management (PFM), integrate climate considerations and gender-responsive management into public finances, the government: (i) implemented a Centralized Accounting system and unified chart of accounts for budgetary institutions; (ii) adopted specific public sector accounting standards for financial reporting compliant with international standards;[c] and (iii) conducted a gender-responsive PFM[d] and Disaster Risk Financing assessments.[e]	**2.1.** To strengthen fiscal transparency, results oriented public financial management, and fiscal resilience, the government: (i) established a unified legal and regulatory framework for program-based budgeting, medium-term expenditure planning, performance M&E, and budget transparency aligned with national objectives and the SDGs; (ii) embedded green priorities in the Main Directions of Fiscal Policy 2026–2030 and strengthened gender integration in fiscal planning, with mandatory ex-ante and ex-post gender impact assessment requirements approved under a Ministry of Finance Order (including methodology, classification, and reporting requirements) and phased in from the next budget cycle; (iii) adopted an IPSAS implementation plan for 2026–2032, issued binding regulations mandating uniform IPSAS-compliant financial statements, and published IPSAS-compliant disclosures for the 2024 financial statements of disclosable central government ministries, ahead of full IPSAS implementation by 2028;[f] and (iv) approved a risk-layered Disaster Risk Financing Strategy and	The Ministry of Finance, with ADB and development partner support, will operationalize the PFM framework by linking program performance and gender impact assessments to medium-term budget decisions, implementing the IPSAS plan through phased standards adoption and compliance monitoring, and integrating a risk-layered disaster financing approach into fiscal risk management frameworks.	By June 2027: (a) The share of combined expenditures allocated to gender equality and climate action in the national budget expenditures achieves at least 25%. (Baseline: NA, aggregate national expenditures allocated to gender equality and climate action are not tagged.) (Source: MOF budget report).

Subprogram 1 Prior Actions Completed (January 2022–June 2024)	Subprogram 2 Prior Actions Completed (July 2024–June 2026)	Post-Program Partnership Framework (July 2026–June 2027)	Outcome Indicators[b]
	Action Plan until 2030 covering sovereign risk retention, market-based transfer, and post-disaster financing.		
1.2. To strengthen fiscal risk management, the government: (i) established an inter-agency committee, assigned roles and responsibilities for monitoring, assessment, and reporting of fiscal risks; (ii) developed and published the 2023–2028 Fiscal Risk Statement based on new methodological guidelines aligned to international standards;[g] and (iii) approved a climate fiscal risk methodology to account for climate expenditure in the Fiscal Risk Statement.	**2.2.** To strengthen fiscal risk management and fiscal transparency, including the identification, disclosure, and mitigation of climate-related fiscal risks, the government, (i) through a Cabinet Resolution institutionalized mandatory identification, documentation, and updating of fiscal risks by executive bodies, under MOF oversight, including explicit disclosure of fiscal risks from state-owned enterprises and entities with state participation; and (ii) integrated climate-related fiscal risks into the Information on Fiscal Risks 2025–2030 and the Main Directions of Fiscal Policy 2026–2030.	The Ministry of Finance, with ADB TA support, will operationalize climate-related fiscal risk management through scenario-based stress testing, integration of results into fiscal planning, strengthened institutional capacity, and enhanced public disclosure.	
1.3. To strengthen public investments and strategic alignment with national and sectoral priorities, the government: (i) approved priority areas for national and public investment projects (PIPs); (ii) adopted and operationalized regulations for strategic economic, social, and environmental analysis of PIPs; (iii) adopted and operationalized a climate framework as part of the PIP selection process; (iv) established a Commission under the Cabinet of Ministers for approval of all PIPs; and (v) piloted implementation of the PIP portfolio into the Treasury Single Account (TSA) to improve cash management.[h]	**2.3.** To strengthen the quality, efficiency, and oversight of public investment, the government: (i) approved Main Directions of Public Investment Management (PIM) Reform Roadmap for 2026–2030, informed by the 2026 IMF Public Investment Management Assessment, to strengthen project appraisal, selection, and implementation across the public investment lifecycle;[i] and (ii) issued binding instructions mandating the use of an automated PIP financial reporting system to record externally financed investment transactions, strengthening monitoring, control, and consolidation within the TSA framework.	The MOF, with support from ADB TA and development partners, including the IMF and the World Bank, will sustain public investment management reforms by operationalizing a unified PIM framework, strengthening national project pipeline and portfolio oversight, and institutionalizing climate-informed project appraisal and decision-making.	(b) 100% of new project investment allocations approved by the Council of Ministers are in line with public investment management (PIM) regulations for strategic economic, social, and environmental and climate analysis of PIPs. (Baseline: 2021, 0%) (Source: MOF report)
1.4. To strengthen compliance and implementation of the Public Procurement Law, the government: (i) established detailed procurement procedures including for sustainable procurement and product lifecycle criteria through approval of the	**2.4.** To modernize the public procurement system and strengthen efficiency, sustainability, digitalization, and transparency, the government: (i) approved a Concept for the Development of the Public Procurement System for 2026–2028, establishing a medium-term framework to align procurement legislation with international	The Ministry of Finance, with ADB TA and development partner support, will deepen implementation of procurement reforms by	(c) At least 50% of the total amount of goods and services procured have been subjected to the sustainable procurement

Subprogram 1 Prior Actions Completed (January 2022–June 2024)	**Subprogram 2 Prior Actions Completed (July 2024–June 2026)**	**Post-Program Partnership Framework (July 2026–June 2027)**	**Outcome Indicators[b]**
corresponding regulations; and (ii) enhanced the e-government procurement system including connection to the Centralized Accounting system and Treasury Single Account to strengthen budget planning and cash flow management.	standards and integrate planning, digitalization, and transparency; (ii) adopted binding secondary regulations mainstreaming the application of life cycle costing and merit point criteria (MPC) based bid evaluation to operationalize sustainable public procurement;[j] (iii) adopted a Cabinet of Ministers decision formalizing cooperation with the Republic of Korea to modernize the e-government public procurement system; and (iv) adopted binding transparency and oversight requirements mandating standardized, time-bound procurement disclosure and quarterly consolidated reporting.[k]	institutionalizing sustainable procurement, strengthening e-government procurement systems, and enforcing transparency and performance reporting.	procedures and regulations. (Baseline: 2021, 0%) (Source: MOF report)
	2.5. To strengthen public debt management and transparency, the government: (i) approved a Debt Management Strategy for 2025–2027, setting clear objectives for public borrowing, risk management, and debt sustainability; (ii) implemented the Debt Management and Financial Analysis System (DMFAS) to support comprehensive recording, management, and reporting of public debt; and (iii) approved amendments to the Budget Code and implementing regulations that vest the authority to issue state guarantees in the Cabinet of Ministers, prescribe uniform procedures for issuing and registering state guarantees, and require their recording as contingent liabilities with inclusion in public debt upon the occurrence of a guarantee event.	The MOF, with ADB and development partner support, will deepen debt sustainability management through regular updates of the medium-term debt strategy and borrowing plans, IMF-consistent stress testing of debt and state guarantees (including contingent liabilities), and expanded analytical coverage and use of DMFAS-based reporting.	(d) Aggregate public debt maintained below 43% of gross domestic product (GDP). (Baseline: 2021, 56.2%) (Source: MOF budget report)
Reform Area 2: Governance of State-Owned Enterprise (SOE) Strengthened			
1.5. To ensure effective and efficient management of SOEs: (i) the government issued orders to comply with the Corporate Governance Code for majority state-owned join-stock companies;[l] (ii) the government established the State Agency for Public Property Management (SAPPM) under the	**2.6.** To strengthen SOE governance and mainstream ESG, the government: (i) approved the Main Direction of SOE Policy 2026–2029, setting out the government's strategic direction and commitment to strengthen state ownership, including binding ownership rationales, portfolio classification by ownership intent, separation of ownership and regulatory functions, minimum	The MOF, with ADB and development partner support, will strengthen SOE fiscal risk management by operationalizing the state ownership policy through	By June 2027 (e) Net profit of joint stock companies with majority government shareholding increased to Som17.8 billion. (Baseline:

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Cabinet of Ministers responsible as the coordinating agency for all SOEs; (iii) the government mandated diversity in majority state owned joint-stock companies board practices by introducing at least 30% female board representation commencing 2025; and (iv) state-owned Aiyl Bank approved organizational environmental, social, and governance (ESG) strategy and implementation road map.	governance and disclosure standards, strengthened fiscal risk oversight, and principles to guide future restructuring and exit decisions; (ii) completed OECD-aligned corporate governance assessment of majority state-owned joint-stock companies subject to the Corporate Governance Code; and (iii) embedded internationally accepted ESG standards in Aiyl Bank by approving an ESG policy, institutionalizing ESG governance, adopting an environmental and social risk management policy, and publishing GRI-aligned sustainability reporting.	portfolio classification and rationalization, standardized owner's expectations for priority SOEs, and consolidated monitoring and disclosure of SOE performance, liabilities, and state support.	2022, Som16.2 billion) (Source: MOF Report) (f) At least 30% of the total board seats in majority state-owned joint-stock companies are held by women. (Baseline: NA) (Source: SAPPM report) (g) At least 80% of the total amount of goods and services procured by majority state shareholding SOE have been approved and implemented using risk- and principle-based procurement rules and recorded in the procurement portal for SOEs. (Baseline: NA) (Source: SAPPM report)
1.6. To strengthen SOE procurement, the government: (i) approved and implemented risk and principle-based procurement rules for SOE procurement aligned to the key procurement principles; (ii) designated an authorized government body to oversee and coordinate procurement activities of SOEs; (iii) mandated e-publication for all procurement notices and contract awards;	**2.7.** To improve the efficiency, transparency, and accountability of SOE procurement, the government: (i) published a consolidated SOE procurement monitoring report assessing compliance with procurement rules and competition outcomes, together with a time bound action plan to address identified gaps; (ii) approved regulations mandating annual procurement audits for state and municipal enterprises and entities with a ≥ 50% state share (including subsidiaries), with audit		

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and (iv) launched a procurement portal for SOEs to enhance competition, improve transparency and accountability in the procurement process, and enable monitoring of SOE procurement.	reports submitted by 1 April of the following year to enterprise management, state shareholder(s), and the State Property Management Agency, and requiring audit reports to include a summary of results for inclusion in annual reports.; and (iii) required standardized two tier procedures for procurement related complaints, including second tier review by independent panels or experts to ensure impartial and credible resolution.		
Reform Area 3: Strengthen tax policy and administration			
1.7. The government approved key amendments to the Tax Code to broaden the tax base and improve compliance, as follows: (i) Facilitated the shift of small business entrepreneurs from the patent tax system to the formal tax net by: (a) limiting the scope of the "Patent Tax Regime";[m] and (b) introducing reduced simplified tax rates for small businesses and priority industries;[n] (ii) strengthened value-added tax (VAT) collection from foreign e-commerce entities trading goods and services in the Kyrgyz Republic through an online registration portal;[o] and (iii) improved tax compliance by granting the State Tax Service (STS) the right to obtain account holder information from domestic banks.[p]	**2.8.** To strengthen taxpayer compliance and improve the efficiency, transparency, and digitalization of tax administration, the government: (i) implemented a "Comparative Analysis" module in the automated Inspectors' Cabinet system to support risk-based audit selection and case management; (ii) adopted a digital "Accounting and Control Marks" system to ensure end-to-end traceability of excisable products; (iii) operationalized an integrated property tax system automating assessment, notifications, consolidated billing, and arrears management; and (iv) established electronic data exchange between the State Tax Service (STS) and banks to streamline taxpayer services and strengthen collections and compliance monitoring.		By June 2027 (h) Tax-to-GDP ratio increased by at least 4 percentage points. (Baseline: 2021, 18.9% of GDP) (Source: IMF Article IV Consultation) (i) Rating for PEFA sub-indicator on Revenue Administration improved to B. (Baseline: 2021, C+) (Source: Public Expenditure and Financial Accountability [PEFA] 2021) (j) At least 60% of the total number of registered small business taxpayers are compliant with the simplified tax rates policy. (Baseline: NA) (Source: STS

Subprogram 1 Prior Actions Completed (January 2022–June 2024)	Subprogram 2 Prior Actions Completed (July 2024–June 2026)	Post-Program Partnership Framework (July 2026–June 2027)	Outcome Indicators[b]
			database on tax return filings and audit reports) (k) Tax arrears stock, measured as a share of annual net tax collections, reduced by at least 10% from the 2023 baseline. (Baseline: 2023 19.0%) (Source: ADB/ISORA) (l) Total fiscal deficit contained at under 3% of GDP. (Baseline: 2020, 3.1%) (Source: MOF report)
	2.9. To strengthen gender mainstreaming in tax policy and administration, the government: (i) introduced a legal definition of "women's entrepreneurship" to enable consistent identification of women-led businesses and targeted support; (ii) expanded simplified tax regimes as an entry point to formalization, reducing compliance costs covering women-led microenterprises and self-employed workers while maintaining registration and transition safeguards; (iii) expanded personal income tax deductions for education expenses and simplify documentation requirements, reducing the cost of skills acquisition and continuing education and supporting improved employability and labor-market participation, including for women; (iv) reduced personal income tax and social insurance contributions for the predominantly female workforce in the sewing and textile sectors; and (v) established an inter-agency working group to integrate gender equality objectives into Tax Code amendments.		

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1.8. Under the State Tax Service Development Strategy (2023–2025), government implemented measures to improve tax compliance, including: (i) implemented the risk-based VAT taxpayer compliance management and audit selections through automated data (tax filing gender disaggregated data and transaction data from VAT cash registers) analysis and matching;[q] and (ii) operationalized a digital tax and mobile payment system for taxes in the Taxpayer's Cabinet.[r]	**2.10.** To improve public and taxpayer services through digitization in tax administration, the government: (i) introduced strengthened tax arrears enforcement mechanisms, including legally binding tax payment requests (NTPs), electronic issuance of enforcement notices, and compulsory recovery through banks, cash collection, and enforcement proceedings; (ii) implemented electronic VAT refund applications with refunds financed directly from the republican budget;[s] and (iii) strengthened inter agency data sharing for taxpayer information by enabling access to STS e-services through the Tunduk system, the government's "one stop shop" digital interoperability platform, including formal requests and documentation, to support more targeted public and taxpayer services.	STS will update its cybersecurity and data governance policy to strengthen and formalize secure inter agency data sharing arrangements.	
1.9. To promote international investment, while protecting the domestic tax base, the government implemented: (i) a model tax treaty and tax treaty policy framework; and (ii) a list of recommendations on legal, administrative, and institutional changes necessary in implementing exchange of information (EOI) under the international standard developed by the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum), including beneficial ownership requirement, and minimum standards under the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS Inclusive Framework).	**2.11.** To promote international investment, align with global tax standards, and safeguard the domestic tax base, the government: (i) formally initiated accession to international tax transparency and cooperation frameworks by submitting letters of intent to join the Global Forum on Transparency and Exchange of Information and the OECD/G20 Inclusive Framework on BEPS; and (ii) negotiated and concluded a tax treaty consistent with the Double Taxation Agreement model, incorporating anti-abuse provisions to ensure fair taxation and prevent treaty shopping.	ADB will continue to support the government in strengthening international taxation, including capacity building and technical assistance for tax treaty policy and administration, and will support the negotiation of at least one new tax treaty or the revision of an existing treaty	
Reform Area 4: Transparency and Integrity in Public Administration Improved			
1.10 The government established the strategic foundation for anti-corruption governance and institutional accountability through: (i) approval of the government-wide Anti-Corruption Strategy 2025–2030 and	**2.12.** To strengthen the institutional framework for anti-corruption, the government: (i) assigned the General Prosecutor's Office oversight of the Anti-Corruption Strategy and Action Plan (2025–2030), and disclosure of a detailed report on the main findings on	The authorized bodies under coordination of the GPO, with ADB support, will prepare implementing regulations for	By June 2027 (m) Kyrgyz Republic's Corruption Perceptions Index score improved or increased by at

Subprogram 1 Prior Actions Completed (January 2022–June 2024)	Subprogram 2 Prior Actions Completed (July 2024–June 2026)	Post-Program Partnership Framework (July 2026–June 2027)	Outcome Indicators[b]
Action Plan; and (ii) implemented an online public complaint management system in the General Prosecutors Office.	implementation of the strategy and action plan; (ii) institutionalized anti-corruption oversight by establishing designated anti-corruption commissioner positions across all state bodies and transferring their coordination to the General Prosecutor's Office; (iii) advanced the legal framework by enacting the Law on Combating Corruption and submitting a Law on Conflict of Interest to Parliament; (iv) operationalized Article 107 of the Tax Code by mandating Unified Tax Declarations and tax authority verification through third party information, risk based and full audits, and prosecutorial referral for inaccurate declarations; and (v) enhanced the Accounts Chamber's mandate by amending the Constitutional Law to remove statutory limits that previously restricted audits of state-owned and state-guaranteed entities to performance audits only, thereby enabling financial, compliance, and performance audits.	conflict-of-interest provisions and advance preparatory work for future whistleblower protection legislation, once adopted.	least 10%. (Baseline: 2022, 27 points out of 100) (Source: Transparency International Corruption Perceptions Index Report) (n) Rating for PEFA sub-indicator on Internal Audit Capacity improved to B. (Baseline: 2021, C+) (Source: Public Expenditure and Financial Accountability [PEFA] 2021) (o) NBKR wholly integrates ML/TF National Risk Assessment framework in banking supervision procedures. (Baseline: NA) (Source: NBKR report)
1.11. The State Tax Service reinforced integrity and accountability within tax administration through targeted anti-corruption measures including: (i) approving of the anti-corruption action plans for 2023 and 2024 (action plans) designed specifically for the tax administration; and (ii) implementing the action plans by: (a)	**2.13.** To strengthen integrity and internal controls in tax administration, STS adopted the 2025–2027 Anti-Corruption Action Plan, which: (i) introduced risk-based criteria for monitoring internal investigations and strengthen internal controls; (ii) approved a binding Code of Ethics for tax service officials, establishing standards on conflicts of interest, integrity and anti-corruption conduct, protection of information obtained		

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operationalizing the ethics commission in the STS; (b) establishing a unit for internal investigation directly reporting to the chairman of STS; and (c) mandating personnel rotation of tax officials.	in the course of official duties, and rules governing the acceptance of gifts; (iii) mandated submission of Unified Tax Declarations (UTDs) by all management and technical staff, including disclosures of income, assets, liabilities, and related information for themselves and close relatives; and (iv) established regulations for the processing and analysis of UTDs of state officials to reinforce integrity in public administration.		
1.12. To strengthen the analytical capacity and implementation capability for managing anti-money laundering/combating the financing of terrorism (AML/CFT)-related risks: (i) the new law “On Banks and Banking Activity in the Kyrgyz Republic”, which regulates the procedure for handling information constituting bank secrecy, was approved;[t] and (ii) the National Bank of the Kyrgyz Republic (NBKR) completed the Sectoral ML/TF Risk Assessment for Banks and Payment Service Providers using the new Methodological Guideline for Assessing ML/TF Risks for Banks and Payment Service Providers.	**2.14.** To strengthen the AML/CFT and financial transparency framework, the government adopted measures that: (i) approved and operationalized a National Risk Assessment Methodology to apply risk-based supervision across all sectors; (ii) mandated all Virtual Asset Service Providers (VASPs) to apply mandatory, automated systems for customer identification, transaction monitoring, and virtual-asset wallet screening; and (iii) approved a binding regulation on customer due diligence procedures, requiring financial institutions and designated non-financial entities to apply a risk based approach and strengthened identification and verification of their customers (natural and legal persons) and beneficial owners.	The government will conduct the next Mutual Evaluation Review (MER), and develop the action plan based on recommendations by the MER.	

Budget Support
ADB: $43 million (concessional loan) (subprogram 1)
ADB: $7 million (grant) (subprogram 1)
ADB: $70 million (concessional loan) (subprogram 2)

[a] Government of the Kyrgyz Republic. 2018. *National Development Strategy of the Kyrgyz Republic for 2018–2040*; and Government of the Kyrgyz Republic. 2025. *National Development Program of the Kyrgyz Republic until 2030*.

[b] Selected outcome indicators have been refined under Subprogram 2 to enhance measurement and alignment with reform priorities. This includes (i) strengthening the revenue performance target from a 2 percentage point increase in the tax-to-GDP ratio to at least 4 percentage points; (ii) introduction of a new indicator on reducing tax arrears stock relative to annual net tax collections (baseline: 2023, 19.0%; source: ADB/ISORA); and (iii) calibration of the sustainable procurement target to 50% of total procurement, reflecting the recent introduction of life-cycle costing and MPC-based evaluation and the need for phased implementation to ensure credible adoption and enforceability.

[c] The International Public Sector Accounting Standards Board (IPSASB) International Public Sector Accounting Standards (IPSAS) covering (i) presentation of financial statements; (ii) cash flow statements; (iii) foreign exchange rates; (iv) borrowing costs; (v) inventories; (vi) events after reporting dates; (vii) property, plant, and equipment; and (viii) conceptual framework for general purpose financial reporting.

[d] Gender-Responsive Public Financial Management (PFM) assessment was conducted using the Public Expenditure and Financial Accountability (PEFA) supplementary framework for gender-responsive budgeting. This framework comprises nine indicators that measure the extent to which a country's PFM system integrates gender considerations into budget formulation, execution, and reporting, and establishes a baseline for future assessments. The assessment was supported by the Asian Development Bank.

[e] The Disaster Risk Financing diagnostic was conducted using the joint methodology developed by ADB and the World Bank to evaluate the enabling environment for financial protection against natural hazards. The assessment examined institutional and policy frameworks, market readiness, and mechanisms for risk transfer—including insurance, reinsurance, and capital market instruments—alongside social protection systems and regulatory gaps such as unlicensed competition. The diagnostic aims to identify opportunities to strengthen resilience and fiscal sustainability by enhancing disaster risk financing solutions. For details, see ADB. 2025. *The Enabling Environment for Disaster Risk Financing in the Kyrgyz Republic: Country Diagnostics Assessment*.

[f] The financial statements consolidate information from the following civilian ministries of the Kyrgyz Republic: the Ministry of Education and Science; Ministry of Energy; Ministry of Economy and Commerce; Ministry of Transport and Communications; Ministry of Finance; Ministry of Health; Ministry of Foreign Affairs; Ministry of Natural Resources, Environment and Technical Supervision; Ministry of Justice; Ministry of Labour, Social Security and Migration; Ministry of Digital Development and Innovative Technologies; Ministry of Culture, Information, Sports and Youth Policy; Ministry of Water Resources, Agriculture and Processing Industry; Ministry of Construction, Architecture and Housing and Communal Services; and the Ministry of Emergency Situations. The financial statements exclude the Ministry of Defense, the Ministry of Internal Affairs, and the State Committee for National Security, which are institutionally separate and reported outside the civilian accrual-based reporting perimeter. The exclusion of defense, internal affairs, and security institutions is common and acceptable in IPSAS-aligned segment or partial-perimeter reporting, provided that such exclusions are explicitly disclosed.

[g] Fiscal Risk Statement covers the impact of key macroeconomic risks and vulnerabilities on the budget and public debt; finances of state-owned enterprises; explicit government guarantees and on-lending; and potential shocks from other contingent liabilities, including public–private partnerships. IMF. 2016. *Analyzing and Managing Fiscal Risks—Best Practices*.

[h] The Ministry of Finance's ability to forecast aggregate cash commitments and requirements remains constrained, as noted in the 2021 PEFA assessment. The report highlighted that externally financed Public Investment Program (PIP) transactions are processed through commercial bank accounts rather than the Treasury Single Account (TSA), and that not all government cash balances are consolidated daily, limiting comprehensive cash management.

[i] The IMF's Public Investment Management Assessment (PIMA) and Climate-PIMA provide a robust diagnostic framework for evaluating infrastructure governance across 15 institutional areas, including planning, allocation, and implementation of public investments, with C-PIMA adding climate integration. Building on these assessments, the Government of the Kyrgyz Republic has led the development of a sequenced Public Investment Management (PIM) Roadmap, supported by ADB. This roadmap moves beyond gap identification to prioritize actionable reforms, capacity-building, and clear milestones—ensuring recommendations transition from analysis to execution and are adapted to national context.

[j] Life cycle costing requires procuring entities to assess bids based on total costs over the full life of goods, works, or services—including acquisition, operation, maintenance, and disposal—rather than lowest upfront price. Merit Point Criteria (MPC)–based bid evaluation applies weighted scoring to price and non-price criteria, such as quality, durability, environmental performance, and energy efficiency. Mandating these methods shifts procurement decisions toward long-term value for money, reduced environmental impact, and fiscal sustainability, thereby operationalizing sustainable public procurement in practice. Binding regulations mainstream these approaches, with at least 50% of procurement subject to sustainable procedures (baseline: 2021, 0%), reflecting calibrated, phased implementation following their recent introduction.

[k] The procurement and monitoring reports systematically analyze trends, participation levels, efficiency, economy, and compliance with Public Procurement Law requirements, supporting improvements in procurement policy and practice.

[l] As of end-2023, there were 31 joint-stock companies with majority state ownership. This policy action applies to 28 of these companies, excluding 3 in securities and defense-related sectors.
[m] Patent tax is a simplified tax regime for individual entrepreneurs and micro-enterprises with annual turnover not exceeding Som 8 million. It requires purchasing a “tax patent,” which serves as both tax payment and registration, and aims to reduce compliance burden by eliminating bookkeeping requirements and inspections.
[n] Reduced simplified tax rates apply to: (i) individual entrepreneurs with annual turnover up to Som 8 million who use electronic cash registers; and (ii) priority industries, including trade, agricultural products, manufacturing, tourism, software development, garment production, public catering, and residents of creative industry parks.
[o] The Law of the Kyrgyz Republic *“On Electronic Commerce”* was passed in December 2021 and came into effect in June 2022, enabling the introduction of a regulatory framework for conducting e-commerce in the country. The new Tax Code, approved in January 2022, introduced an e-commerce tax with a profit tax rate of 2% of turnover for domestic e-commerce businesses. In April 2023, an amendment to the Tax Code introduced a value-added tax (VAT) at a rate of 12% for foreign e-commerce platforms (commonly referred to as the “Google Tax”) that perform work or provide services, including electronic services, and carry out electronic trade in goods to buyers, individuals, and residents of the Kyrgyz Republic, where the place of delivery is within the territory of the Kyrgyz Republic.
[p] Law of the Kyrgyz Republic *“On the National Bank of the Kyrgyz Republic”* No. 78 (11 Dec 1996), as amended.
[q] The VAT cashback scheme operated as a temporary compliance incentive, providing partial refunds of VAT paid on transactions recorded through certified fiscal cash registers. This measure accelerated adoption among small businesses, achieving near-universal coverage by end-2025. Continuing the program beyond this point would no longer deliver incremental compliance gains and would impose unnecessary fiscal costs, thereby justifying its phase-out to ensure efficient resource allocation and maintain the integrity of the tax compliance framework.
[r] Taxpayer’s Cabinet is a secure online portal developed by the State Tax Service to provide taxpayers with digital access to core services, including tax registration, electronic filing of returns, payment facilitation, and real-time taxpayer support. The platform is designed to streamline compliance, reduce administrative burden, and enhance transparency in tax administration.
[s] The risk-based VAT refund mechanism is an automated IT solution that applies risk profiling algorithms to VAT refund claims. It categorizes claims based on predefined risk indicators—such as transaction patterns, taxpayer compliance history, and anomaly detection—to prioritize low-risk claims for expedited processing while flagging high-risk claims for additional verification. This approach enhances efficiency in refund administration and mitigates risks of fraudulent or erroneous claims.
[t] Subject to Chapter 7 of this Law, information constituting bank secrecy is to be provided to the National Bank, central banks/supervisory authorities of other states, to the court, financial intelligence units, authorized state tax authorities without a court decision. Banks may exchange information constituting bank secrecy on mutually agreed contractual terms. Information constituting bank secrecy is to be provided to law enforcement agencies pursuant to a court order.
Source: ADB.