



Technical Assistance Subproject Report

PUBLIC

Project Number: 54442-005
Knowledge and Support Technical Assistance (C-KSTA)
July 2022

Kyrgyz Republic: Supporting Debt Management and Transparency Subproject 4: Support to Public Debt Management in Kyrgyz Republic

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 19 July 2022)

Currency unit	–	som (Som)
Som1.00	=	\$0.0124
\$1.00	=	Som80.6856

ABBREVIATIONS

ADB	–	Asian Development Bank
LCBM	–	local currency bond markets
MOF	–	Ministry of Finance
PPP	–	public-private partnership
SDFP	–	Sustainable Development Financing Policy
SOE	–	state-owned enterprise
TA	–	technical assistance

NOTE

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

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KNOWLEDGE AND SUPPORT TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 54442-005	
Project Name	Support to Public Debt Management in Kyrgyz Republic	Department/Division	CWRD/CWPF
Nature of Activity Modality	Capacity Development, Policy Advice Subproject	Executing Agency	Asian Development Bank
Country	Kyrgyz Republic		
2. Sector		ADB Financing (\$ million)	
✓ Public sector management	Economic affairs management		0.175
	Public administration		0.175
	Public expenditure and fiscal management		0.175
		Total	0.525
3. Operational Priorities		Climate Change Information	
✓ OP6: Strengthening governance and institutional capacity		GHG Reductions (tons per annum)	0
		Climate Change impact on the Project	Low
		ADB Financing	
		Adaptation (\$ million)	0.000
		Mitigation (\$ million)	0.000
		Cofinancing	
		Adaptation (\$ million)	0.000
		Mitigation (\$ million)	0.000
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 1.b		Some gender elements (SGE)	✓
SDG 5.5			
SDG 16.6, 16.8		Poverty Targeting	
SDG 17.4		General Intervention on Poverty	✓
4. Risk Categorization	Risk Categorization does not apply		
5. Safeguard Categorization	Safeguard Policy Statement does not apply		
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		0.525	
Knowledge and Support technical assistance: Technical Assistance		0.525	
Special Fund			
Cofinancing		0.000	
None		0.000	
Counterpart		0.000	
None		0.000	
Total		0.525	
Currency of ADB Financing: US Dollar			

I. THE TECHNICAL ASSISTANCE SUBPROJECT

A. Overall Progress of the Technical Assistance Cluster

1. The knowledge and support technical assistance cluster (C-KSTA) on Supporting Debt Management and Transparency, consisting of five subprojects, was approved in November 2021.¹ Subprojects 1, 3 and 4 are expected to be committed within 2022, to support public debt management and transparency in the Kyrgyz Republic, Tajikistan and Pakistan. Subprojects 2 and 5 are expected to be approved by the fourth quarter of 2022.

B. Subproject Outcome

2. The TA subproject will have the following outcome: debt sustainability and transparency in the Kyrgyz Republic improved. The proposed subproject builds on longstanding policy dialogue with the Ministry of Finance (MOF) on public debt and fiscal risk management.

C. Subproject Outputs, Methods, and Activities

3. **Output 1: Fiscal risk management strengthened.** Fiscal risks need to be adequately identified, mitigated, managed and disclosed in a cost-effective manner, as part of a sound macroeconomic and debt management strategy. Public disclosure of information on fiscal risks will help ensure that risks are properly assessed and recognized, in line with international accounting or statistical standards. Fiscal risks incorporated into the budget process and medium-term fiscal analysis need to consider allowances in case some risks materialize. A clear legal and administrative framework will help guide fiscal management and the government's exposure to fiscal risks. The subproject proposes to strengthen fiscal risk management and guide the allocation of roles and responsibilities in risk management, both between the central government and other public sector entities, and between the MOF and line ministries. This will help to take into account possible interactions among different sources of risk. To this end, this output will support: (i) the establishment and operationalization of a dedicated fiscal risk management unit,² (ii) capacity building of fiscal risk management unit staff, (iii) expansion of scope and coverage of annual fiscal risk statement,³ (iv) support on fiscal risk disclosure based on international standards and transparency initiatives that have fostered fiscal risk reporting, and (iv) procurement of hardware and software requirements for rollout of the Debt Management and Financial Analysis System (DMFAS-6).

4. **Output 2: Institutional framework for management of government guarantees developed and strengthened.** This output complements output 1 with specific support to the management of fiscal risks stemming from government guarantees, including those linked to public-private partnership (PPP) projects. The issuance of guarantees, when not managed

¹ ADB. 2021. [Technical Assistance for Supporting Debt Management and Transparency in Central and West Asia](#). Manila.

² More specifically, the responsibilities of the unit would include (i) ensuring that fiscal risks are properly identified, quantified, monitored, mitigated, and disclosed, and collecting all available information and analysis relevant for fiscal risk management; (ii) preparation of an annual fiscal risk statement to be submitted to Parliament alongside budget documents; (iii) providing advice to the Minister of Finance on issues of fiscal risk and recommending actions to mitigate risks; and (iv) coordinating all government entities that are involved in or relevant for fiscal risk management.

³ The scope and coverage of report on fiscal risks can be expanded to cover the following: explicit government guarantees, contingent liabilities from litigation, guarantees to infrastructure operators, the quasi-fiscal deficit of the central bank, natural disasters and the fiscal outlook's sensitivity to macroeconomic shocks, performance of state-owned enterprises and related implicit contingent liabilities, contingent liability estimates of the central government and other parts of the public sector, loan guarantees to public enterprises and lawsuits against the state.

adequately, can significantly increase public exposure to fiscal risks. To manage guarantees effectively, the government needs to have a complete understanding of its portfolio of guarantees and associated risks; develop tools and techniques for evaluating guarantee proposals; consider appropriate risk mitigation measures; adopt suitable budgeting, accounting and disclosure practices. In 2021, the Kyrgyz Republic approved “regulations on the procedure for issuance of state guarantees by the Cabinet of Ministers”. In order to ensure that the issuance of guarantees is carried out within a fiscally responsible framework, this output will support the government in developing a policy framework for the issuance, management and monitoring of state guarantees. This framework must specify the procedures to be followed (e.g., for the granting, valuation, and accounting of guarantees), current requirements and limits, and the responsibilities and attributes of the actors involved. Information on some contingent liabilities-loan guarantees in particular can be disclosed, such as total exposure measured by the guarantees’ face value, complemented by the expected cost of outstanding guarantees, guarantees that are likely to be called, and the flow of new guarantees. This output will specifically support: (i) the development of a government policy on guarantees, specifying when and for what purposes guarantees can be considered; (ii) integration of guarantee decisions with the budget process; (iii) capacity to measure guarantee exposure, including the cost of guarantees and fees to be charged; (iv) adequate budgetary mechanisms for meeting the payment obligations when they arise, including estimation of likely payments and provisions for them in the budget; (v) development of a centralized database of guarantees; (vi) regular disclosure practices on the government’s exposure from guarantees and other contingent liabilities; (vii) analysis of the existing legal framework with respect to debt of state-owned enterprises (SOEs) and providing sovereign guarantees; (viii) analysis of existing financial statements and accounts of SOEs and prepare an inventory of existing contingent and direct liabilities from infrastructure investments; (ix) develop detailed action plan to better manage the debt and sovereign guarantees in SOEs, including audit and publication of financial statements of SOEs to improve accountability and transparency; and (x) training workshops to the MOF staff, relevant government agencies to help implement the proposed reforms.

5. **Output 3: Local currency bond markets deepened.** For a more effective public debt management, developing a government securities market is a key priority in the government’s Medium Term Debt Strategy 2022–2024, which is fundamental to establish a yield curve. Deepening financial markets is particularly relevant in the current macroeconomic context as it would increase the Kyrgyz Republic’s ability to withstand volatile capital flows. Development of LCBMs can provide an additional source of funding for the government and firms, help reduce exposure to currency risk, has a positive impact on development and stability of the local financial market, and ultimately increases the capacity of macroeconomic policies to respond to shocks. However, deepening LCBM remains costly, as the real interest cost of domestic issuance at longer maturities is high compared to foreign borrowing and anchoring inflation expectations is challenging. As a result, LCBM development should be conducted in a sequenced and gradual way and follow the economy’s capacity to absorb the supply of securities. This output will support the government in developing a local currency bond market development plan with appropriate macroeconomic reforms, implementing close coordination with participants in the domestic borrowing market and establishing robust legal, regulatory, and supervisory frameworks that captures all financial intermediaries. This output will also support the government in (i) improving the primary market through transparency (e.g., publishing a quarterly issuance calendar, communicating with market players); (ii) conducting diagnostic analysis for establishing a liquid benchmark government bond yield curve (size and liquidity of benchmark instruments); and (iii) developing a regulatory and legal framework for enforcement of contracts (repos and swaps), reopening or taps of off-the-run bonds, and securities depository and settlement systems.

6. **Output 4: Sustainable Development Financing Policy effectively implemented.** The government and ADB agreed on policy actions to support reforms, which were fully aligned with the World Bank's Debt Sustainability Enhancement Program, which addresses critical drivers of public debt vulnerabilities in the Kyrgyz Republic. The 2022 policy actions include (i) disclosure of detailed information of borrowings by all energy sector enterprises with state-owned shares, (ii) preparation and publication of a fiscal risk assessment, and (iii) publication of annual and quarterly borrowing calendars for domestic debt. The 2023 policy actions will continue to support reforms that will address the critical drivers of Kyrgyz Republic's public debt vulnerabilities by focusing on debt transparency, fiscal sustainability, and debt management. This output will support: (i) identification of policy action for SDFP 2023, (ii) achievement of policy actions under the SDFP 2022 and 2023; and (iii) monitor and report progress toward achieving policy actions under the SDFP 2022 and 2023.

D. Subproject Cost and Financing

7. The TA subproject financing amount is \$525,000, which will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-7). The key expenditure items are listed in Appendix 2.

8. The government will provide counterpart support in the form of counterpart staff, office supplies, secretarial assistance, domestic transportation, and other in-kind contributions.

E. Subproject Implementation Arrangements

9. ADB will administer the TA subproject. The Public Management, Financial Sector, and Trade Division (CWPF) of ADB's Central and West Asia Department (CWRD) will administer and coordinate implementation, monitor measures to assess accomplishment towards TA subproject's objectives, and enhance knowledge capture and dissemination. CWPF will coordinate closely with CWRD's Regional Cooperation and Operations Support (CWRC) Division and Kyrgyz Republic Resident Mission (KYRM), ADB's Strategy, Policy, and Partnerships Department, and Sustainable Development and Climate Change Department in the implementation of the TA subproject. A no-objection letter will be obtained before starting any undertaking in the Kyrgyz Republic. Subproject activities will start only after approval.

10. Implementation arrangements are summarized in the table.

Subproject Implementation Arrangements

Aspects	Arrangements		
Indicative implementation period	August 2022 – December 2024		
Executing agency	ADB		
Implementing agencies	Public Management, Financial Sector, and Trade Division (CWPF) Regional Cooperation Division (CWRC) Kyrgyz Republic Resident Mission Strategy, Policy, and Partnerships Department Sustainable Development and Climate Change Department		
Consultants	To be selected and engaged by ADB		
	Individual: individual selection	International expertise (12 person-months)	\$224,000

Aspects	Arrangements		
	Individual: individual selection	National expertise (7 person-months)	\$48,400
Procurement	To be procured by ADB		
	Shopping	1 contract	\$125,000
Disbursement	Disbursement of TA resources will follow ADB's <i>Technical Assistance Disbursement Handbook</i> (2020, as amended from time to time).		
Asset turnover or disposal arrangement upon TA completion	Any assets or equipment purchased under the TA will be turned over to the government upon completion of the TA.		

ADB = Asian Development Bank, TA = technical assistance.

Source: Asian Development Bank.

11. **Consulting services.** The TA will require three international consultants (12 person-months in total) and one national consultant (7 person-months). ADB will engage the consultants following the ADB Procurement Policy (2017, as amended from time to time) and its associated procurement staff instructions.⁴ In consultation with the MOF and ADB, the consultants will develop appropriate knowledge products such as recommendation reports and deliver a presentation on major findings and recommendations at an agreed event.

12. **ADB's procurement.** The TA will have the option to procure software and hardware requirements for rollout of DMFAS-6. Prior consultation with the ADB's Procurement, Portfolio, and Financial Management Department (PPFD) will be done before proceeding with the appropriate procurement method to ensure compliance with the related staff instruction on the ADB Procurement Policy: Goods, Works, Non-consulting and Consulting Services (2017, as amended from time to time); Procurement Regulations for ADB Borrowers (2017, as amended from time to time); and, in general, the ADB Procurement Policy and its associated project administration instructions and/or staff instructions.

⁴ Terms of Reference for Consultants (accessible from the list of linked documents in Appendix 3).

SUBPROJECT DESIGN AND MONITORING FRAMEWORK

Impact the TA is Aligned with
Governance and institutional capacity strengthened (Strategy 2030)^a

Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
<p>Outcome</p> <p>Debt sustainability and transparency improved.</p>	<p>By December 2024</p> <p>a. External debt as a share of total public debt decreased (2020 baseline: Kyrgyz Republic: 84%) (OP6.1; OP6.1.3)</p> <p>b. Number of low scores (D, D+, or C) in PEFA Pillar 3 indicators for PI-10 and PI-13 falls by at least 50% compared to 2021 baseline (2021 baseline: 6 out of 12 indicators for PI-10 and PI-13 are scored D, D+, or C) (OP6.1; OP6.1.4)</p>	<p>a. Annual World Bank and IMF International Debt Statistics Report</p> <p>b. PEFA reports published upon completion of TA.</p>	<p>R: The key risk stems from a prolonged COVID-19 outbreak.</p> <p>R: Negative external and domestic shocks divert capacity away from proposed reforms.</p>
<p>Outputs</p> <p>1. Fiscal risk management strengthened.</p> <p>2. Institutional framework for management of government guarantees developed and strengthened.</p>	<p>By December 2023</p> <p>1a. Dedicated fiscal risk management unit established and operationalized, with 30% female staff (2022 baseline: no dedicated fiscal risk unit) (OP6.1; OP6.1.1)</p> <p>2a. Action plan to better manage the debt and sovereign guarantees in SOEs approved (2022 baseline: zero) (OP6.1; OP6.1.4)</p> <p>2b. A regular publication on the government's exposure from guarantees and other contingent liabilities; (2022 baseline: no regular update on</p>	<p>1a. MOF report</p> <p>2a. Government approved action plan</p> <p>2b. IMF Article IV report</p>	<p>R: External factors, including geopolitical tensions, may pose challenges to sustainable policy commitment to proposed reforms.</p>

Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
3. Local currency bond markets deepened.	<p>government guarantees) (OP6.1: OP6.1.1)</p> <p>3a. Assessment of conduciveness of enabling conditions for Local Currency Bond Market development. (baseline 2022: no assessment) (OP6.1)</p> <p>3b Roadmap for deepening domestic debt market approved by MOF. (2022 baseline: No roadmap approved)</p>	<p>3a. MOF approved assessment</p> <p>3b. Government approved roadmap included as annex to the MTDS.</p>	
4. SDFP effectively implemented	<p>3a. MOU on SDFP policy actions for 2021-2023 approved with all policy actions met. (2020 baseline: no policy actions identified) (OP6.1; OP6.2)</p> <p>3b. Integrated debt management information systems operational and MOF staff, 30% women, provided with adequate training on selected software. (2020 baseline: integrated debt management information system not fully operational) (OP2.3; OP6.1.1)</p>	<p>3a. ADB annual progress reports on implementation of policy actions under SDFP</p> <p>3b. PEFA report</p>	

Key Activities with Milestones

1. Fiscal risk management strengthened

- 1.1 Assessment of current fiscal risk management practices. (Q4 2022)
- 1.2 Draft roadmap for capacity development, inclusion training activities to strengthen capacity for identification, mitigation, monitoring and reporting of fiscal risks. (Q1 2023)
- 1.3 Draft TORs of integrated fiscal risk management unit. (Q1 2023)
- 1.4 Capacity building of fiscal risk management unit staff. (Q2 2023)
- 1.5 Support expansion of scope and coverage of annual fiscal risk statement. (Q2 2023)
- 1.6 Procurement of hardware and software requirements for rollout of DMFAS-6. (Q3 2023)

2. Institutional framework for management of government guarantees developed and strengthened.

- 2.1 Analyze the existing legal framework with respect to debt of SOEs and providing sovereign guarantees. (Q4 2022)
- 2.2 Analyze existing financial statements and accounts of SOEs and prepare an inventory of existing contingent and direct liabilities from infrastructure investments. (Q1 2023)
- 2.3 Develop detailed action plan to better manage the debt and sovereign guarantees in SOEs, including audit and publication of financial statements of SOEs to improve accountability and transparency. (Q2 2023)
- 2.4 In line with the debt inventory and action plan under 2.1-2.3, prepare medium-term debt management plan that will ensure financial self- sustainability and minimization of government subsidies and direct support to the SOE and infrastructure investment. (Q3 2023)
- 2.5 Conduct training workshops to the MOF staff, relevant government agencies to help implement. (Q4 2023)

3. Local currency bond markets (LCBMs) deepened.

- 3.1 Assess conduciveness of enabling conditions for Local Currency Bond Market Development. (Q4 2022)
- 3.2 Support publication of quarterly issuance calendar. (Q1 2023)
- 3.3 Develop diagnostic analytical report guiding establishment of liquid benchmark bond yield curve. (Q2 2023)
- 3.4 Develop legal framework for enforcement of contracts (repos and swaps). (Q3 2023)

4. SDFP effectively implemented

- 4.1 Prepare debt sustainability and transparency diagnostic report. (Q3 2022)
- 4.2 Support identification of policy action for SDFP 2023, (Q3 2022)
- 4.3 Support achievement of policy actions under the SDFP 2022 and 2023. (Q2 2023)
- 4.4 Monitor and report progress toward achieving policy actions under the SDFP 2022 and 2023. (Q4 2023)

Inputs

ADB: \$525,000 (TASF-7)

ADB = Asian Development Bank, COVID-19 = coronavirus disease, DMFAS-6 = Debt Management and Financial Analysis System, IMF = International Monetary Fund, MOF = Ministry of Finance, MOU = memorandum of understanding, MTDS = medium-term debt strategy, OP = operational priority, PEFA = Public Expenditure and Financial Accountability, Q = quarter, R = risk, SDFP = Sustainable Development Finance Policy, SOE = state-owned enterprise, TA = technical assistance, TASF = technical assistance special fund, TOR = terms of reference.

Contribution to Strategy 2030 Operational Priorities:

The expected values and methodological details for all OP indicators to which this TA will contribute results are detailed in Contribution to Strategy 2030 Operational Priorities (accessible from the list of linked documents in Appendix 3 of the TA report).

Source: Asian Development Bank.

SUBPROJECT COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Amount
A. Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	230.4
ii. National consultants	44.4
b. Out-of-pocket expenditures	
i. International and local travel	28.2
ii. Reports and communications	4.9
c. Resource persons	28.5
2. Training, seminars and conferences ^b	30.0
3. Equipment ^c	125.0
4. Miscellaneous administration cost ^d	7.3
5. Contingencies	26.3
Total	525.0

Note: The TA is estimated to cost \$525,000, of which contributions from the Asian Development Bank are presented in the table. The government will provide counterpart support in the form of counterpart staff, office and housing accommodation, office supplies, secretarial assistance, domestic transportation, logistical assistance, and other in-kind contributions. The value of the government contribution is estimated to account for 10% of the total TA cost.

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-7).

^b Includes the cost of arrangement of venues, equipment, printing, and translation and interpretation for workshop. The training will comprise in-country training, venue rental and related facilities; printing of workshop materials; translation and interpretation expenses; sponsorship to external capacity building events and international study tour, participants' travel expenses and allowances; payment for honorarium, airfare, per diem, and miscellaneous travel expense allowances of facilitators and resource persons, including ADB staff acting as resource persons, and representation.

^c Purchase (or rental, if applicable) of hardware and software requirements for rollout of the Debt Management and Financial Analysis System (DMFAS-6). Procurement of equipment should comply with ADB's Procurement Guidelines. These assets would be turned over to the government upon completion of the TA (in case equipment is purchased). If practicable, the equipment will be procured by the EA, IA or the government entity requesting the equipment, with ADB executing a letter of agreement with the EA/IA/agency to finance the purchase.

^d Includes translation and interpretation costs, O365 licenses.

Source: Asian Development Bank estimates.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=54442-005-TARreport>

1. Terms of Reference for Consultants
2. Contribution to Strategy 2030 Operational Priorities