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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR

A PROPOSED DEVELOPMENT POLICY CREDIT

IN THE AMOUNT OF SDR 8.3 MILLION (US\$12.0 MILLION EQUIVALENT)

AND A PROPOSED DEVELOPMENT POLICY GRANT

IN THE AMOUNT OF SDR 8.3 MILLION (US\$12.0 MILLION EQUIVALENT)

TO

THE KYRGYZ REPUBLIC

FOR THE

ECONOMIC GOVERNANCE DEVELOPMENT POLICY OPERATION (EGDPO)

October 11, 2018

**Macroeconomics Trade and Investment Global Practice
and Governance Global Practice
Central Asia Country Management Unit
Europe and Central Asia Region**

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THE KYRGYZ REPUBLIC

GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of March 31, 2018)

Currency Unit: Kyrgyzstani som (KGS)

US\$1.00 = KGS 68.43

US\$1.00=SDR 0.687

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank	IMF	International Monetary Fund
BEEPS	Business Environment and Enterprise Performance Survey	IPSAS	International Public Sector Accounting Standards
CASA	Central Asia South Asia project	KGS	Kyrgyzstani Som
CoA	Chamber of Accounts	LDP	Letter of Development Policy
CPS	Country Partnership Strategy	MFD	Maximizing Finance for Development
CPF	Country Partnership Framework	MoF	Ministry of Finance
DfID	UK Department for International Development	NBKR	National Bank of the Kyrgyz Republic
DPO	Development Policy Operation	NPL	Nonperforming Loan
DSA	Debt Sustainability Analysis	PEFA	Public Expenditure and Financial
ECA	Europe and Central Asia	PFM	Public Financial Management
ECF	Extended Credit Facility	PIP	Public Investment Program
EEU	Eurasian Economic Union	PPD	Public Procurement Department
EFO	Externally Funded Output	PPL	Public Procurement Law
EU	European Union	SBD	Standard Bidding Document
FBO	Food-Business Operator	SCA	State Communications Agency
FDI	Foreign Direct Investment	SCD	Systematic country diagnostic
GCI	Global Competitiveness Index	SDR	Special Drawing Rights
GHG	Greenhouse Gas	SME	Small and Medium Enterprise
GDP	Gross Domestic Product	SOE	State-Owned Enterprise
GRS	Grievance Redress Service	SPS	State Personnel Service
HACCP	Hazard Analysis Critical Control Point	STS	State Tax Service
ICT	Information and Communication Technologies	TA	Technical Assistance
ICRC	Independent Complaints Review	TI CPI	Transparency International Corruption
IDA	International Development Association	US\$	United States Dollar
IDF	Institutional Development Fund	WBG	World Bank Group
IFC	International Finance Corporation	WGI	World Governance Indicators

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KYRGYZ REPUBLIC

ECONOMIC GOVERNANCE DEVELOPMENT POLICY OPERATION

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SUMMARY OF PROPOSED CREDIT/GRANT AND PROGRAM

KYRGYZ REPUBLIC

ECONOMIC GOVERNANCE DEVELOPMENT POLICY OPERATION

Borrower	The Kyrgyz Republic	
Implementation Agency	Ministry of Finance	
Financing Data	IDA Credit Number 6218-KG Terms: 38-year maturity, including a 6-year grace period Amount: SDR8.3 million (US\$12.0 million equivalent) IDA Grant Number D293-KG Amount: SDR8.3 million (US\$12.0 million equivalent)	
Operation Type	Stand-alone Development Policy Operation	
Pillars of the Operation And Program Development Objective(s)	The Program Development Objective is to support the Government of the Kyrgyz Republic in: I. Strengthening macro-fiscal foundations for growth through reforms aimed at enhancing budget discipline and transparency, and increasing revenue mobilization; II. Enhancing transparency and anti-corruption in the public sector through measures to improve public sector integrity, including in public procurement, and; III. Boosting private sector competitiveness through measures to facilitate trade, improve the business environment, and promote greater digital connectivity.	
Result Indicators	Pillar I: Macro-Fiscal Foundations for Growth	
	Fiscal deficit (as % of GDP, excl. on-lending) for 2018 and 2019	2018: -2.5% 2019: -2.5%
	PEFA indicator PI-2 on “Composition of expenditure outturn compared to original approved budget”	Baseline (2014): D+ Target (2019): B
	Revenues from excises for alcohol and tobacco	Increase in revenues from excises on tobacco and alcohol by at least KGS 1 billion in 2018 and 2019 relative to 2017
	Pillar II: Transparency and Anti-Corruption in the Public Sector	
	Percentage of declarations of personal interests of public officials verified by the Ethics Commissions to identify potential conflicts of interest (average across all entities).	Baseline (2017): There is no system in place for managing and sanctioning conflicts of interest Target (2019): Ethics Commissions in ministries, central government and regulatory agencies have reviewed 15% of all filed declarations
	Competition, value for money, and controls in public procurement PEFA (PI 19) score.	Baseline (2014): B Target (2019): B+
	Pillar III: Private Sector Competitiveness	
	Number of firms implementing HACCP principles.	Baseline (2016): 43 Target (2019): 58
	Number of firms included in the EEU register of FBOs and allowed to export to the EEU.	Baseline (2016): 43 Target (2019): 54
	Share of firms filling reports on social contributions to the State Tax Service.	Baseline (2014): Businesses in 2 pilot tax offices Target (2019): 100% of businesses

		country-wide
	International Telecommunications Union, International internet bandwidth indicator.	Baseline (2016): 5008 Mbps Target (2019): 6500 Mbps
Overall risk rating	High	
Climate and disaster risks	No short- or long-term climate and disaster risks are relevant to the proposed operation.	
Operation ID	P163983	

IDA PROGRAM DOCUMENT FOR A
PROPOSED ECONOMIC GOVERNANCE DEVELOPMENT POLICY OPERATION
TO THE KYRGYZ REPUBLIC

I. INTRODUCTION AND COUNTRY CONTEXT

1. **This Program Document proposes a Development Policy Operation (DPO) in support of the Kyrgyz Government’s reforms to strengthen macro-fiscal foundations for growth, enhance transparency and anti-corruption in the public sector and boost private sector competitiveness.** The operation is in the amount of US\$24 million equivalent, split equally between IDA credit and IDA grant. The DPO program squarely backs the government priorities as expressed in its medium-term plan “Unity, Trust, Creation”, 2018-2022, unveiled in 2018. The proposed program builds on the previous DPO series, which also aimed to enhance public sector governance and improve the business environment, while adding a new focus on fiscal management—particularly in light of growing macroeconomic imbalances, and the manifest need for coherent macroeconomic policy planning to support medium-term objectives. The proposed operation will support the country’s endeavors to reduce its vulnerability to climate change risks and natural disasters through expanded internet connectivity, which is a critical foundation for effective mitigation. Thus, it is fully in line with past and planned Bank-Government strategic objectives in the country, as well as with corporate priorities.¹

2. **Twenty-five years after independence, the Kyrgyz Republic remains one of the poorest countries in the Europe and Central Asia (ECA) region.** The country has gradually built an operational democracy—which, on the flipside, has been linked to high political turnover, making it challenging to design and sustain both sound macroeconomic policy frameworks, as well as focused structural reform. The economy suffers from macroeconomic imbalances and relies excessively on gold production, foreign aid and migrant remittances as its key growth drivers. Moreover, the volatility of economic growth has prevented a significant and sustained improvement in living conditions. GDP per capita stands at US\$1,179 (2016), just slightly above the threshold for Lower Middle-Income Country status. The poverty rate fell sharply from very high levels after the onset of mass migration in the mid-2000s, but in recent years it has found a floor at a still elevated 19.0 percent (see Table 3); moreover, a very large share of the population is clustered just above the poverty line, remaining extremely vulnerable to economic shocks.²

3. **The country lacks a robust private sector that can create good jobs.** The private sector is composed overwhelmingly of micro and small businesses, that are unable to sustain productivity gains and create good jobs. While poor logistics and issues with the business environment constrain firm

¹ The proposed operation is fully aligned with the FY18-22 *Country Partnership Framework* (CPF), which seeks to refocus Bank engagements on private sector-led job creation, including through promoting a rules-based macro-fiscal environment, improvements in governance, and external competitiveness. Finally, it reflects the findings of the *Systematic Country Diagnostic* (SCD), which identifies macroeconomic management and governance as top priorities for reform, under an overarching objective of boosting private sector development.

² The distribution of income has improved since independence, and the bottom 40 percent of population has generally benefited from economic growth relatively more than the population as a whole; however, this was partly an artifact of very slow progress and lack of opportunities for the top 60 percent.

growth, these challenges are compounded by governance gaps, high levels of corruption, and a weak translation of de jure regulation into effective and predictable implementation.

4. **The Kyrgyz authorities recognize these challenges and are committed to addressing structural impediments to more sustainable and inclusive growth.** The new government, ushered-in following the elections of October 2017, has adopted a development roadmap for the medium-term that accords high priority to addressing governance issues in a wide range of areas (from economic management to public services delivery), while also emphasizing the need for coordinated initiatives to leverage growth opportunities in key sectors of the economy, encourage digitalization of the economy, and promote spatially balanced economic development. The plan serves as a vehicle to implement the country's long-term development vision embodied in Vision 2040. In light of heightened fiscal imbalances, including as a result of pre-electoral slippages and adverse exogenous developments, the new government has also committed to strengthening fiscal management, an ambition that this operation supports.

5. **As a signatory of the Paris Agreement, the Kyrgyz Republic demonstrated its commitment to contribute to the global effort toward climate change mitigation.** This is commendable given that national Greenhouse Gas (GHG) emissions represent only 0.023 percent of global emissions. As part of this process - and in line with national circumstances - the Kyrgyz Republic submitted Nationally Determined Contribution to the United Nations Framework Convention on Climate Change, committing to reduce its GHG emissions in the range of 11.49 - 13.75 percent below business-as-usual in 2030, and of 12.67-15.69 percent in 2050. Most of the GHG emissions reductions are expected to come from measures taken in the country's energy sector. At the same time, the Kyrgyz Republic is highly vulnerable to climate change impacts, making adaptation a critical priority for the country. The climate change impacts, such as anticipated temperature increases and changing precipitation patterns, will negatively impact the national economy (mostly its water resources and agriculture), while the anticipated increase in climate-related natural disasters can adversely affect macroeconomic stability, fiscal consolidation and the well-being of the Kyrgyz population. As part of a wider effort to identify appropriate climate change adaptation measures, the Kyrgyz Republic is seeking to improve the country's early warning systems so as to minimize the loss of human life and economic infrastructure that results from natural disasters and climate risks.

6. **Building on the government's reform efforts and strategic priorities, the proposed DPO has three pillars, covering reforms to strengthen macro-fiscal foundations for growth, enhance transparency and anti-corruption in the public sector and boost private sector competitiveness.** Pillar I aims to help the authorities strengthen fiscal discipline, through measures to increase revenues in the short run, but also to anchor fiscal policy more sustainably in the context of a sound fiscal rule. Pillar II seeks to enhance transparency and anti-corruption in the public sector, through reforms to strengthen public sector integrity, and improve the value for money of public procurement. Pillar III aims to boost private sector competitiveness, through measures to facilitate trade, improve the business environment, and promote greater digital connectivity. Stronger fiscal management and governance are essential preconditions for private investment and firm growth, which the recently completed Systematic Country Diagnostic (SCD) identified as the single most important driver of progress on the Twin Goals going forward.

7. **This DPO is part of a broader reform agenda supported by development partners.** It has been prepared in very close coordination and alignment with the International Monetary Fund (IMF), -including through joint missions and Technical Assistance (TA). A specific area of close³ coordination is energy tariff

³ As reflected in the Government's Letter of Development Policy (LDP) in Annex 2.

reform, a critical issue in the Kyrgyz Republic, both for fiscal sustainability and competitiveness. However, this will not be addressed directly in this operation (although indirectly via Prior Action #2) as the next necessary policy steps (e.g. adoption of a new Medium-Term Tariff Policy and its effective implementation) are yet to be agreed upon and implemented. During 2018 and 2019, the Government will focus on reforming the structure of management of the energy sector, strengthening the implementation of anti-corruption measures and improving the performance of energy companies. This notwithstanding, the effective implementation of the new tariff policy, together with coordinated actions to promote greater efficiency and affordability will continue to be central to future Bank-financed DPO engagement. The DPO is also complementary with programs supported by other development partners: the Asian Development Bank (ADB), the United Kingdom's Department for International Development (DfID), and the European Union (EU). The IMF's 2015-2018 Extended Credit Facility (ECF) program lapsed in April 2018 without the completion of the last review (6th). The IMF is currently in discussions with the Government on the proposed outline of a new IMF program following their recent mission to Bishkek.⁴ Other partners are also providing support in the areas of public sector strengthening, anti-corruption and accountability, energy sector reform, and social protection.

II. MACROECONOMIC POLICY FRAMEWORK

A. RECENT ECONOMIC DEVELOPMENTS

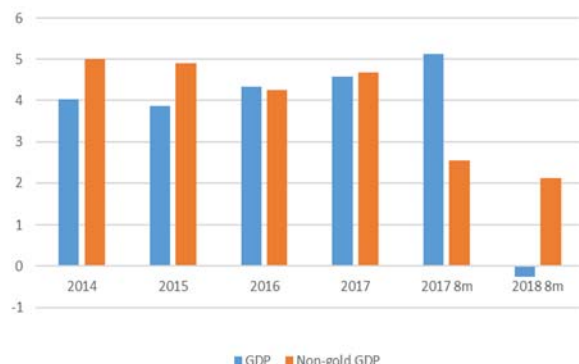
8. **The Kyrgyz economy has recovered from the external shocks of 2014-15, supported by an improved external environment and a robust performance of the gold sector.** Economic growth decelerated over 2014-15, as the oil price shock depressed economic activity in major trading partners and impacted the Kyrgyz economy through both trade and remittance channels. The shock to national income, moreover, was much more severe, as exchange rate movements (a sharp depreciation of the Russian ruble and the som) affected the purchasing power of households by depressing the real value of remittance receipts⁵, and increasing the cost of imports. The nominal depreciation led to a real depreciation of the som, and to a deterioration of net external balances in spite of a significant import contraction, given the country's lack of export diversification. In 2016, conditions improved as remittances recovered and the exchange rate stabilized. Growth was relatively robust, at 4.3 percent in 2016 (see figure 1), and accelerated to 4.6 percent in 2017, driven by private consumption growth and gold sector output. Favorable external environment continued to support growth through the first half of 2018. However real GDP contracted by 0.3 percent (see figure 2) during January-August 2018 (y/y) due to a significant fall in gold production (-20 percent).

9. **Inflation remains low.** Low food and fuel prices kept inflation depressed in 2016, although it normalized in 2017. Headline inflation fell to -0.5 percent (y/y) in 2016, reflecting a combination of drivers including a high pass-through from exchange rate appreciation and strong agricultural output. However, inflation picked-up in 2017, reaching 3.7 percent (y/y), given buoyant domestic demand fueled by remittances, an increase in exports of fruit and vegetables that limited domestic supply, as well as economic recovery more broadly. But a much lower inflation rate was registered at 0.9 percent as of August 2018 mainly reflecting a decline in food prices.

⁴ The IMF mission visited the Kyrgyz Republic, between September 19 and October 2018, at the invitation of the Government with the objective of coming up with a proposed outline of a possible new IMF program.

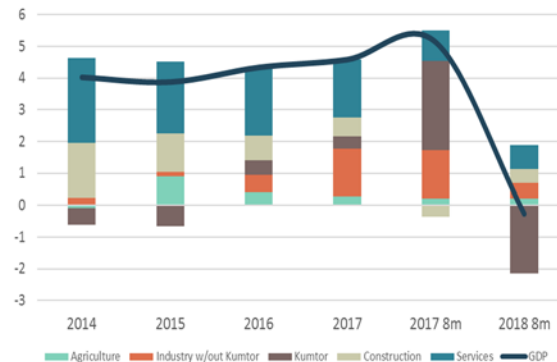
⁵ Overwhelmingly from Russia (over 90%) and denominated in rubbles.

Figure 1: Real GDP Growth (%)



Source: National Statistics Committee.

Figure 2: Contributions to Growth (percentage points)⁶

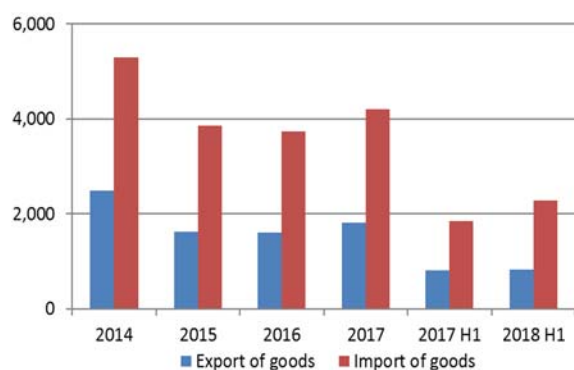


Source: National Statistics Committee.

10. **Following a steep decline in 2014-16, exports performed strongly in 2017.** Exports were depressed in previous years, not only by weak external demand in key regional markets, but also by stricter enforcement of quality standards under the Eurasian Economic Union (EEU)⁷. However, exports rebounded in 2017, increasing by 12.8 percent in US\$ terms, compared to a 35 percent and 0.7 percent decline in 2015 and 2016, respectively. This recovery was mainly driven by gold (contributing to about 60 percent of total export growth) although non-gold export performance also improved, reflecting a pull effect from increased external demand and a push effect, as Kyrgyz producers began to step-up compliance with EEU quality standards. However, due to gold output contraction, export growth decelerated to 2.8 percent in the first half of 2018 (y/y). Meanwhile, total imports are estimated to have risen by 12.1 percent in US\$ terms in 2017 and 23.2 percent in the first half of 2018 (y/y) on the back of continued growth in remittances (see figure 3).

Figure 3: Exports and Imports

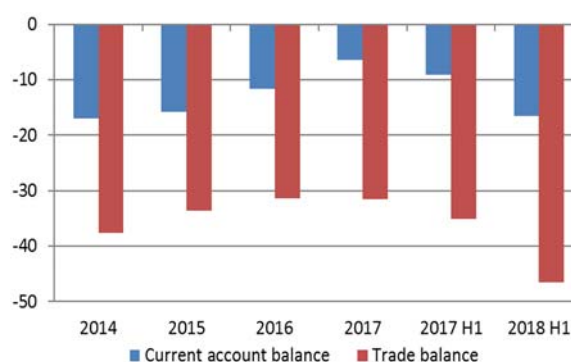
(in millions of US\$)



Source: National Bank.

Figure 4: Trade and Current Account Balances

(in percent of GDP)



Source: National Bank.

11. **External imbalances increased.** The trade deficit increased to 46.6 percent of GDP in the first half of 2018 (y/y), from 31.5 percent in 2017 and 31.4 percent in 2016 (see figure 4). In spite of the continued recovery of remittances (about 13 percent growth in US\$ terms, y/y), the current account deficit increased

⁶ Kumtor is the country's largest mine accounting for the bulk of gold output (40% of exports and 8-10% of GDP)

⁷ While quality standards predate the establishment of the EEU, their enforcement was significantly strengthened as the Union came into force.

to 16.5 percent of GDP in the first half of 2018 from 6.5 percent in 2017 and 11.6 percent in 2016. The current account deficit was financed by capital transfer reflecting a debt write-off by Russia (US\$240 million) and by a reduction in assets abroad.

12. Fiscal position improved as capital outlays shrunk. The Kyrgyz authorities embarked on a massive public investment program (PIP) over 2014-17, which helped mitigate the impact of external headwinds, but also resulted in rising debt vulnerability and depleted fiscal buffers. The general government ran budget deficits of 4.7 percent of GDP and 6.3 percent of GDP in 2017 and 2016, respectively (see table 1). However lower capital outlays as a share of GDP led to a decline in deficit to 1.4 percent of GDP in January-July 2018 from 4 percent a year earlier.

Table 1: General Government Budget, 2014-2018
(in percent of GDP)

	2014	2015	2016	2017	2017 Jan-Jul	2018 Jan-Jul
Total revenues and grants	34.4	34.4	32.0	33.2	37.5	36.8
Total revenues	31.9	32.2	29.9	30.6	35.4	35.7
Current revenues	31.8	32.1	29.8	30.6	35.3	35.7
Tax revenues	25.1	24.2	24.2	24.3	27.4	30.2
Non-tax revenues	6.7	7.9	5.6	6.3	7.9	5.5
Capital revenues	0.1	0.1	0.1	0.1	0.0	0.1
Grants	2.5	2.2	2.1	2.6	2.2	1.1
Program grants	1.9	1.7	1.4	1.5	1.1	0.0
PIP grants	0.6	0.5	0.7	1.1	1.1	1.1
Total expenditure (incl. net lending)	38.5	37.4	38.3	37.9	41.5	38.2
Current expenditure	29.3	30.1	30.2	29.9	34.2	34.5
Wage	7.8	8.1	8.3	7.9	9.4	9.7
Transfer and subsidies	3.4	3.4	3.4	3.3	4.0	6.2
Social Fund expenditures	9.2	9.0	8.6	8.9	10.7	11.1
Interest	0.9	1.0	1.1	1.1	1.3	1.5
Purchase of other goods and services	8.1	8.6	8.8	8.6	8.8	6.0
Capital expenditure	8.4	7.2	8.0	8.3	7.4	3.9
o/w foreign financed	6.1	4.5	5.1	5.3	5.1	2.3
Net lending	0.6	0.1	0.0	-0.2	-0.1	-0.2
Overall balance	-4.1	-3.0	-6.3	-4.7	-4.0	-1.4
Overall balance excluding on-lending	-0.2	-1.0	-4.0	-3.2	-2.5	-0.7
Financing	4.1	3.0	6.3	4.7	4.0	1.4
External	5.5	3.8	4.0	3.4	2.6	-0.3
Domestic	-1.4	-0.8	2.3	1.3	1.4	1.7

Source: Ministry of Finance.

13. The fiscal deficit was mainly financed by domestic borrowing. While the deficit was largely financed by external financing in the previous years, it was solely financed by domestic financing in January-July 2018. As a result, the domestic debt rose to 7.7 percent of GDP, up from 5.9 percent of GDP at end-2017. But total public debt declined to 56.4 percent of GDP from 59.9 percent thanks to the Russian debt write-off.

14. Monetary policy has been accommodative, seeking to mitigate the impact of external shocks. The National Bank gradually reduced its interest rate over 2015-17 (to 5 percent from 11 percent) to support domestic demand. The monetary stance remained relaxed in first half of 2018, as the National Bank (NBKR) continued to reduce further its interest rate to 4.75 percent in May 2018. This, together with regulations limiting foreign currency borrowing for a broad group of consumers, led to a gradual decline of the interest rate in the loan market. As a result, money supply increased by 11.2 percent (y/y) in August 2018. On the demand side, there was a gradual recovery in credit growth to the economy to 15.7 percent in December 2017 and 17.8 percent in August 2018, following a decline early in 2016 suggesting a rise in domestic demand. The figure under-estimates overall credit growth as it does not take into account direct lending by the Russian-Kyrgyz Development Fund.

15. Financial sector health has remained robust in spite of vulnerability. The balance sheet of the banking system deteriorated during 2014-15 due to the depreciation of the som and income losses. Nonetheless core banking sector health indicators have remained positive. Capital adequacy and liquidity ratios have been maintained well above the required levels of 12 percent and 45 percent, respectively (see Table 2). After a sharp decline (falling below zero in early 2016), the returns to assets and equity have been recovering. The non-performing loans (NPLs) ratio has been slowly declining although it remains high (at 7.3 percent) compared to the pre-shock period. That said, the banking system continues to be exposed to high credit risks, which stem in part from high levels of dollarization (around 40% of total credits), requiring continued and strengthened supervision.

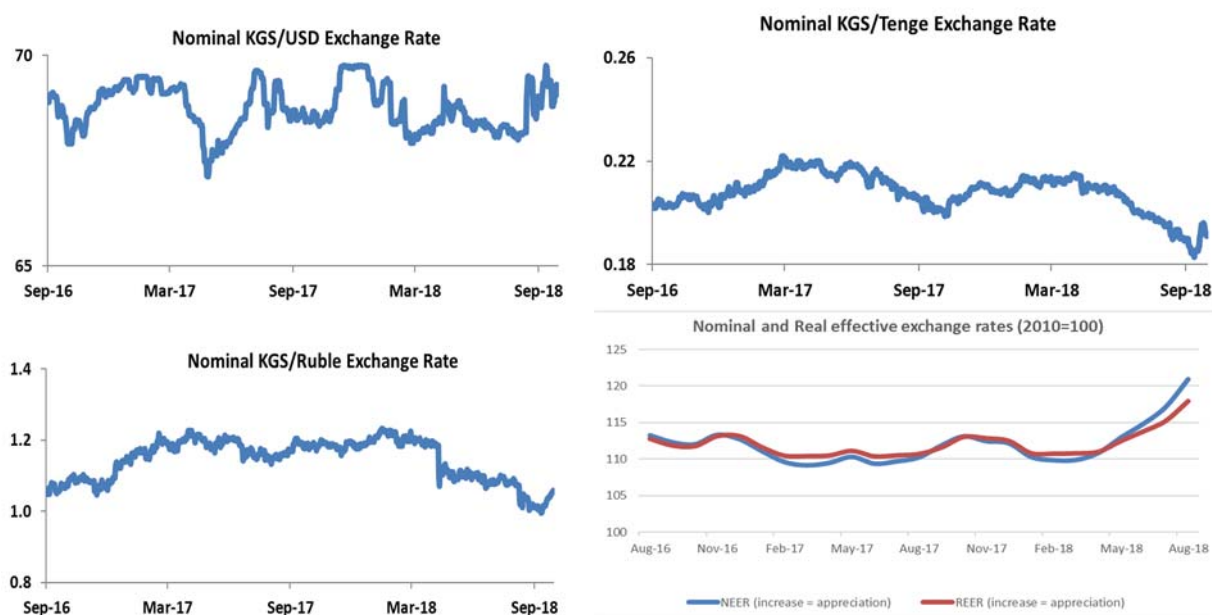
Table 2: Key Banking Sector Indicators, 2013-2018
(in percent of GDP)

	2013	2014	2015	2016	2017	Jul 2018
Capital adequacy	25.0	21.8	22.4	24.8	24.2	23.3
Liquidity	70.0	65.0	77.8	75.5	65.1	64.4
Return to assets	2.8	2.6	1.5	0.5	1.2	1.4
Return to equity	18.0	18.6	10.8	3.3	7.6	8.8
Non-performing loans	5.5	4.5	7.1	8.8	7.6	7.3

Source: National Bank.

16. The NBKR maintained a managed-float as its foreign exchange rate policy. Exchange rate flexibility led to significant movements in the value of the som over 2014-16 but allowed the economy to adjust to external shocks. Over 2014-2015, the som depreciated against the US dollar cumulatively by 54 percent, following similar dynamics to those by the Kazakh tenge and the Russian ruble (figure5). With the stabilization of oil prices, the som appreciated slightly in 2016 and remained broadly stable against the US dollar since then. Interventions in the foreign exchange market by the National Bank were mostly limited to one-off efforts to smooth short-term fluctuations. International reserves grew by almost 10 percent since end-2016, covering more than 4 months of imports of goods and services as of end-July 2018.

Figure 5: Exchange Rate Developments



Source: National Bank.

B. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

17. Growth is projected to gradually return to potential -around 4.5 percent- over 2018-21, thanks to a more benign external environment and improved export prospects. As recovery takes hold in Kazakhstan and Russia, the Kyrgyz economy is expected to benefit via the traditional remittance and trade channels. An additional boost should come from exports, thanks to a number of developments, which include: (i) gradually improved access to the EEU common market, as Kyrgyz firms adapt to EEU standards and regulations; (ii) additional production from new gold mines expected to come on-line; and (iii) improved bilateral relations with neighboring Uzbekistan, which should lead to higher trade turnover between the two countries. These effects should mitigate the anticipated moderation of public expenditure.

18. Inflation is expected to remain in line with the National Bank target of 5-7 percent. The baseline scenario assumes no significant global food price increases, a stabilization of oil prices at their current low levels, and -consequently- relative exchange rate stability. Under these circumstances, inflation is expected to reach 4.1 percent in 2018 and rise to 5 percent by 2021 (see Table 3).

19. Monetary policy is projected to remain unchanged. The Central Bank remains committed to allow the exchange rate to adjust to market conditions, while intervening in the market only to smooth out temporary fluctuations. In turn, interest rate decisions are made with a view of balancing the need to manage inflationary pressures, while ensuring enough liquidity to support growth. With the decline in overall deposit and credit dollarization, it is expected that the currently weak interest rate transmission channel will gradually gain traction.

Table 3: Key Macroeconomic Indicators

	2014	2015	2016	2017	2018	2019	2020	2021
	Projections							
(Percent, unless otherwise indicated)								
National Income and Prices								
Nominal GDP (bln. of soms)	400.7	430.5	476.3	521.0	545.1	578.3	618.4	664.4
Nominal GDP per capita (US\$)	1,279	1,121	1,121	1,220	1,253	1,296	1,345	1,374
Real GDP growth	4.0	3.9	4.3	4.6	3.1	3.4	3.9	4.4
Real non-gold GDP growth	5.0	4.9	4.3	4.7	3.9	3.7	3.8	4.9
Private consumption growth	3.0	-0.9	-0.6	3.4	2.7	3.1	3.4	3.7
Gross investment (percent of GDP)	29.2	29.4	30.1	32.1	32.5	31.5	31.5	30.6
Consumer price inflation, year-end	10.5	3.4	-0.5	3.7	4.1	4.7	5.1	5.0
Consumer price inflation, period average	7.5	6.5	0.4	3.2	3.5	4.1	4.5	4.5
Real effective exchange rate (2010=100)	120.2	109.3	113.1	112.5				
(Current US\$ millions, unless otherwise indicated)								
External Accounts								
Merchandise exports, of which:	2,483	1,619	1,608	1,814	1,944	2,168	2,314	2,412
Gold exports	717	665	702	700	679	713	749	720
Merchandise imports	5,290	3,860	3,744	4,196	4,729	5,204	5,522	5,568
Current-account balance	-1,269	-1,059	-792	-489	-731	-725	-775	-793
as percent of GDP	-17.0	-15.9	-11.6	-6.5	-9.2	-8.8	-9.0	-9.0
Foreign direct investment, net	233	1,009	579	-78	450	681	772	802
Total official international reserves	1,958	1,778	1,969	2,089	2,217	2,383	2,394	2,399
External debt, as percent of GDP	80.5	94.5	90.3	88.5	87.7	85.6	85.4	85.4
(Percent of GDP, unless otherwise indicated)								
Consolidated Fiscal Accounts								
Revenues	34.4	34.4	32.0	33.2	33.0	31.3	29.7	29.9
o/w Taxes	25.1	24.2	24.2	24.3	25.1	25.6	26.4	26.5
Expenditures	38.5	37.4	38.3	37.9	37.0	35.7	32.7	32.9
Overall fiscal balance	-4.1	-3.0	-6.3	-4.7	-4.1	-4.4	-3.0	-3.0
Overall fiscal balance excluding on-lending	-0.2	-1.0	-4.0	-3.2	-2.5	-2.5	-2.3	-2.1
Primary fiscal balance	-3.2	-2.0	-5.2	-3.6	-3.0	-3.2	-1.9	-1.8
Total public debt	53.6	67.2	59.1	59.9	60.0	60.2	59.3	58.5
(Percent, unless otherwise indicated)								
Monetary Accounts								
Base money growth	-11.9	4.0	27.6	11.1	10.3	9.9	8.7	10.1
Real growth of credit to the private sector	43.6	17.2	-0.8	12.7	12.3	13.0	10.2	11.3
Policy rate	10.5	10.0	5.0	5.0	4.75			
Social Indicators								
Population, total (millions)	5.8	6.0	6.1	6.1	6.2	6.3	6.3	6.3
Population growth (percent)	2.0	2.1	2.1	1.1	1.1	1.1	1.1	1.1
Unemployment rate (percent of labor force)	8.0	7.6	7.6	7.6				
Poverty rate (international (percent of population) ⁸	19.7	23.3	19.1	19.3	19.0	18.8	18.7	-

Sources: World Bank staff calculations and estimates based on official data published and provided by the authorities.

⁸ At \$3.2/day 2011 PPP.

20. **Reflecting structural features of the economy and continued high levels of public investment, the current account deficit is expected to remain elevated, though declining over the medium-term.** Proceeds from gold exports are expected to increase modestly,⁹ while continued economic recovery among major trading partners should boost non-gold export growth. Meanwhile, the anticipated high level of public investment over the next two years is expected to keep import growth elevated, given the high import content of large infrastructure projects. Remittance inflows are also projected to grow further in 2018-19 in dollar terms. As a result, the current account deficit is projected to increase to 9.2 percent of GDP in 2018 (see Table 4) and to remain around this level thereafter.

Table 4: External Financing (% of GDP)

	2014	2015	2016	2017e	2018 proj.	2019 proj.	2020 proj.	2021 proj.
Requirements	-14.7	-7.2	1.9	1.9	-0.9	-3.1	-1.0	-0.9
Current account deficit	-17.0	-15.9	-11.6	-6.5	-9.2	-8.8	-9.0	-9.0
Amortization	5.5	9.3	8.8	6.5	8.5	5.4	5.4	6.4
Reserves	-3.2	-0.6	4.7	1.9	-0.2	0.3	2.6	1.7
Sources	-14.7	-7.2	1.9	1.9	-0.9	-3.1	-1.0	-0.9
FDI	3.1	15.1	8.5	-1.0	5.7	8.2	9.0	9.1
Disbursements	14.9	12.8	10.1	8.8	7.8	8.7	8.9	9.2
Capital Inflows	-32.6	-35.1	-16.7	-5.9	-14.3	-20.0	-18.9	-19.1

Source: Kyrgyz authorities and Bank staff estimates.

21. **The principal macroeconomic challenge going forward will be to bring fiscal policy back to a more sustainable path, while continuing to provide adequate support to the economy.** In 2017 the deficit is estimated to have been at 3.2 percent of GDP (see Table 3), overshooting the initial IMF program target (3 percent), but nonetheless remained below the budgeted deficit of 4.7 percent. This reasonably good performance, however was achieved at the cost of significant expenditure restraint in the last quarter of 2017, following slippages in the first three quarters of the year, which were characterized by higher-than-planned recurrent expenditures, including on non-budgeted items and/or over-runs. Moreover, in the run-up to the election in October 2017, the previous government took a number of policy decisions, which are expected to add pressure on spending going forward, including a universal extension of the previously income-targeted *Monthly Benefit for Low Income Families with Children* program, as well as increases in civil service compensation and pensions.

22. **In light of these pressures, the new government has committed to fiscal adjustment going forward.** In 2018 and 2019, the authorities intend to contain the fiscal deficit to 2.5 percent of GDP (see Table 3). The authorities plan to achieve this objective through measures to increase tax revenues and curtail current spending, while capital expenditures would remain high. Over 2018-20, tax revenues should increase as a share of GDP, with measures to: (i) expand the tax base by encouraging businesses to formalize, (ii) improve the administration of taxes, (iii) reduce overall tax exemptions, through canceling existing exemptions and streamlining policies for granting new ones, and (iv) increase some tax rates, such as excise tax rates on alcohol and tobacco products¹⁰. Over the same period, expenses are targeted to decline by over 4 percent of GDP as a result of efforts to (i) streamline non-priority purchases of goods and services, and (ii) reduce the wage bill as a share of GDP, by implementing the recently adopted action plan for the reform of the public sector personnel and remuneration policy and by carrying out functional reviews of the civil service, and finally (iii) strengthen public procurement to ensure value for money in

⁹ With lower Kumtor output counterbalanced by additional production from new mines.

¹⁰ In 2018, the new tax measures are estimated to increase total revenues by 0.9 percent of GDP.

public contracts.

23. The sustainability of these commitments would be buttressed by the adoption of a fiscal rule, as well as broader changes to the legal framework for budgetary operations. Recognizing the need to anchor the medium-term management of fiscal policy into a more robust and constraining legal framework, the authorities have decided (supported by IMF and World Bank TA) to introduce a fiscal rule. To support the effective roll-out of the rule, they have developed a number of initiatives to strengthen policy making and oversight institutional capacity. At the same time, the authorities have also identified shortcomings in the existing legislation, namely loopholes in the provisions of the Budget Code that allow the executive to propose extra-budgeted expenditures during the course of the year, which they intend to close gradually through appropriate amendments to the law.

24. The authorities are taking measures to improve efficiency and the management of the energy sector and may consider adjusting energy tariffs in 2019. Currently, Kyrgyz citizens enjoy some of the lowest energy tariffs in the world because electricity and heating services are delivered at prices well below cost recovery. In turn, this has translated into a steady buildup of debt in the energy sector, requiring yearly cash infusions in the form of on-lending by the government. With strong convergent support by the IMF and the World Bank, the government is developing a plan, in the form of a new Medium-Term Tariff Policy, to bring retail energy prices back in line with cost recovery objectives.

25. According to the latest Debt Sustainability Analysis (DSA) Update¹¹, the Kyrgyz Republic is assessed to be at moderate risk of debt distress. The appreciation and subsequent stabilization of the som over 2016-17 led to a significant decline in the ratio of external public debt-to-GDP, from 63.5 percent in 2015 to 54.4 percent the following year. Moreover, with the write-off of \$240 million debt owed to Russia, external public debt is projected to drop further to 54.5 percent of GDP in 2017 (see figure 6). Going forward, external public and publicly guaranteed debt is expected to level-off at around 56 percent before declining after 2019¹²(see figure 6), converging toward 50 percent of GDP in the medium term. Nonetheless the country remains vulnerable to further exchange rate movements, given the commitment of the government to maintain high levels of public investment. Although PIP borrowing terms are highly concessional, stress tests suggest that the country is vulnerable to exogenous shocks. Fiscal consolidation and prudent use of concessional loans remain crucial for keeping the debt outlook sustainable.¹³

26. Under the DSA's baseline scenario, debt indicators do not exceed their indicative thresholds, although stress-tests suggest vulnerability to shocks. Public and publicly guaranteed external debt, in present value terms, is estimated to remain well under the 36 percent of GDP-plus-remittances threshold and to decline continuously under the baseline scenario over the projection period. Other indicators of debt sustainability also remain below their indicative thresholds and suggest, in particular, a limited presence of liquidity risks. However, stress tests indicate that external public and publicly guaranteed debt remains vulnerable to large external shocks. The ratio of the present value of debt to GDP plus remittances rises above indicative thresholds over the medium term under four of six stress tests namely, a one

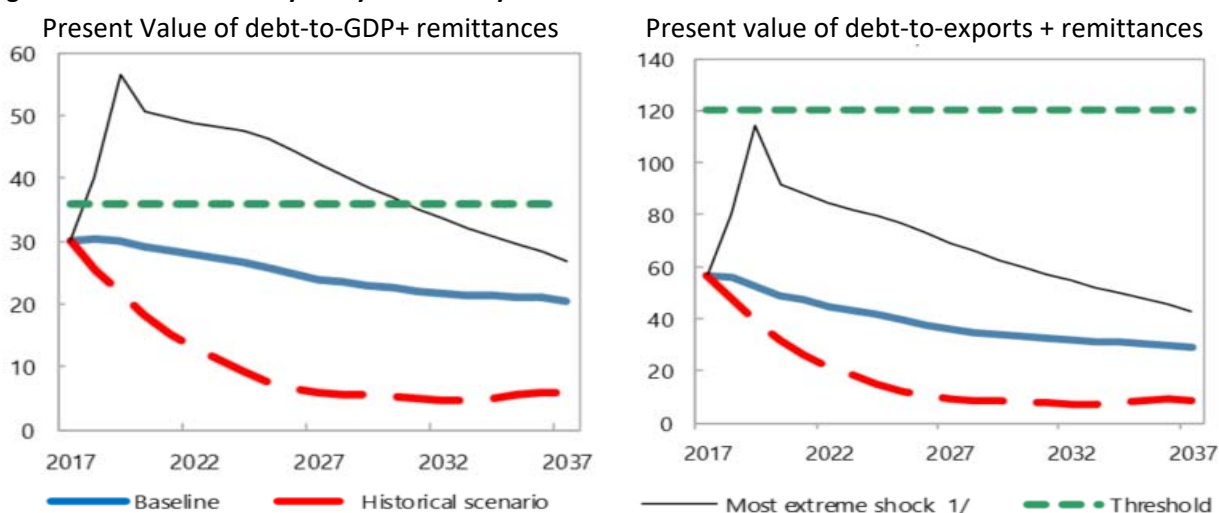
¹¹ Joint World Bank / IMF Debt Sustainability Analysis, December 2017

¹² Debt ratios are expected to increase in 2019, in spite of fiscal consolidation efforts, on account of one-off externally financed on-lending.

¹³ Within the framework of the IMF program, the authorities committed to: (i) fully disclosing public investment plans and commitments; (ii) refraining from non-concessional borrowing; (iii) grounding borrowing decisions in a medium-term debt strategy; and (iii) reviewing the public investment framework to identify gaps and define an action plan. This was done with IMF Technical support in March 2015 and is being supported by on-going WB technical assistance.

standard deviation shock to exports, net debt creating flows, a 30 percent exchange rate shock, and a combined shock. The most extreme scenario (the combined shock) would lead to a significant (averaging 25 percent above the threshold) and protracted (13 years) breach of the indicative threshold over the medium term.

Figure 6: Debt Sustainability Analysis Summary Charts



Source: Joint World Bank – IMF Debt Sustainability Analysis, September 2017.

27. **A relatively strong pipeline of public investments and a well-capitalized banking sector imply opportunities for growth.** Public sector investments in energy and communications are expected to remain strong over the next few years, including the construction of “line D” of the Central Asia–China gas pipeline, as well as heating and power plant rehabilitation, and upgrade of road links with financing secured from China or from multilateral development banks. These projects are important to address the Kyrgyz Republic’s large infrastructure gap. In spite of high levels of dollarization, the Kyrgyz financial sector has remained well capitalized, with a capital-adequacy ratio above 20 percent, and NPLs have remained at modest and manageable levels. Consequently, the banking sector has the potential to support businesses as opportunities emerge. Nonetheless, vigilance from the monetary authorities will continue to be in order. Stress tests carried out by the central bank suggest that banks are vulnerable to risks stemming from exchange-rate dynamics as well as from sectoral concentration in trade and construction, making it important to strengthen the regulatory, supervisory and resolution powers of the monetary authorities – efforts which are underpinned by IMF engagement under the ECF.

28. **Overall, the macroeconomic policy framework is assessed to be adequate for this operation, including in view of the fact that the operation itself is intended to help address emerging risks.** Historically, the Kyrgyz government has maintained significantly positive gross operating balances, implying that the overall fiscal deficit was essentially attributable to needed public investment. That said, the fiscal slippages that occurred in 2017 and a widening of the structural deficit implied by policy decisions made that year now call for corrective action. This operation supports that objective by specifically, (i) strengthening fiscal sustainability through the introduction of a binding fiscal rule, and (ii) enhancing fiscal transparency through improvements to the legal budgetary framework, as well as (iii) revenue measures that complement additional commitments under the Fund program. These actions, together with expenditure compression measures also advocated by the IMF should allow the Kyrgyz Republic to pre-empt large internal or external imbalances of a nature to endanger macroeconomic

stability. Sources of financial sector vulnerability can be credibly addressed through strengthened oversight and supervision. Finally, the debt sustainability outlook does not suggest immediate or high-probability sources of risk. Yet the risks to the proposed operation are substantial, and the World Bank will continue to closely monitor macroeconomic developments and coordinate with the IMF to ensure that the environment remains adequate for the operation.

C. IMF RELATIONS

29. **The most recent Three-Year Arrangement under the Extended Credit Facility (2015-2018) was approved on April 8, 2015.** Key policy areas under the program included macroeconomic stability, fiscal and debt sustainability, financial sector health and structural reforms. The First Review under the Arrangement was approved by the IMF's Board on November 18, 2015, followed by Second and Third reviews on June 17, 2016 and December 14, 2016, respectively. The Fourth Review initially scheduled to take place in June 2017, was eventually combined with the Fifth Review. Both were considered on December 15, 2017 by the IMF Board, which concluded that: "While significant risks remain, debt and financial sector vulnerabilities have subsided. The authorities are committed to prudent macroeconomic policies and implementation of structural reforms and see them as essential to promoting higher and more inclusive growth and to increase economic resiliency." This notwithstanding, the ECF program lapsed in April 2018 without the completion of the sixth review. With the invitation from the Government of the Kyrgyz Republic, the IMF recently undertook a mission to the Republic during the period of September 19-October 3, 2018 with the objective of presenting a proposed outline of the possible new IMF program to the authorities. The proposed outline has been discussed with the Government and is currently being deliberated by the authorities. This notwithstanding, the World Bank team will continue to coordinate very closely with the IMF on the macroeconomic framework, fiscal policy, and a wide range of structural issues.

III. THE GOVERNMENT'S PROGRAM

30. **The new government's priorities and medium-term objectives are described in its "Unity, Trust, Creation.", 2018-2022, which is a strategic document unveiled in 2018.** This plan accords high priority to addressing governance issues in a wide range of areas (from economic management to public services delivery), while also emphasizing the need for coordinated initiatives to leverage growth opportunities in key sectors of the economy, encourage digitalization of the economy, and promote spatially balanced economic development. The plan also serves as a vehicle to implement the country's long-term development vision embodied in Vision 2040.

31. ***The Unity, Trust, Creation program is articulated around four priorities and three cross cutting themes.*** The Plan seeks to significantly boost economic development through simultaneous efforts in four priority areas – namely, (i) closing infrastructure gaps; (ii) creating a more attractive investment environment (including through sound macroeconomic policies, investment promotion initiatives and tax reform); (iii) implementing PPP solutions and improving the management of public assets; and (iv) strengthening and deepening the financial sector. These priorities are to be complemented by efforts to improve human capital, defined as improvements in education and health quality, better social protection and cultural development.

IV. THE PROPOSED OPERATION

A. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

32. **The overarching objective of the proposed DPO is to support the Kyrgyz government in promoting sustained economic growth, through policies to strengthen macro-fiscal foundation for growth, enhance transparency in public sector operations, and boost private sector competitiveness.** The design of the operation reflects the priorities of the authorities, described above, especially with respect to private sector development and public-sector accountability. While strengthened, fiscal management is not a core component of the government's development strategy, it is nonetheless recognized as critical by the authorities in light of growing fiscal pressures, and as a key underpinning for sustainable public action.

33. **The proposed operation has been prepared with a view to deepen reforms in areas supported under previous DPOs, while adjusting to new circumstances.** It extends reforms supported under the previous DPO series (P129597; P148099; P126034) in the areas of public personnel integrity, public procurement management, and business environment improvements. With respect to previous engagements, it adds focus on fiscal management (hitherto covered mostly under the IMF programs) and seeks to support more proactively the government's determined push to foster the development of the digital economy and diversified export-led growth drivers. In addition, a number of existing investment and analytical and advisory activities in the country have informed the design of the operation (see Table 5).

34. **The design of the operation also benefited from lessons-learned from the previous DPO series.** Key lessons include the importance of (i) concentrating on a few policy areas that have the government's full ownership; and (ii) complementing the DPO with other instruments for World Bank support, including investment project financing, technical assistance, and analytical activities. In recognition of the limited government capacity and of the lengthy legal policy processes in the country, it seeks to balance legislative and implementation actions, in a way that focuses and supports the reform momentum over time. The design of the operation – as a stand-alone DPO – constitutes a departure from the previous programmatic approach to policy lending, in the context of DPO series. This is in recognition of the fact that (i) the operation was prepared at a time of transition -in the domestic political landscape and in the Bank's own strategic cycle- such that it was essentially meant to close a chapter, without preempting future engagement; and (ii) rapidly changing circumstances and needs require a nimble approach, and capacity to respond flexibly.

35. **The program is also aligned with the World Bank Group's approach to Maximizing Finance for Development (MFD).** It is MFD-enabling inasmuch as it seeks to (i) restore macroeconomic (and specifically fiscal) discipline, which is currently a key obstacle to large private sector investment, (ii) address core cross-cutting constraints to private investment through both governance interventions (conflict of interest and public procurement) and business climate actions (including in the context of regional integration), and (iii) lay the governance and regulatory foundations for greater private sector involvement in the development of the digital economy. As such it can be expected to stimulate private sector solutions in trade and ICT in support of the Unity, Trust, Creation plan. Private sector solutions in these areas are expected within three to five years of the operation's closing date. Over the longer run, the more stable macroeconomic situation will be critical to attract large long-term investments in hydro-power.

B. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

36. The Development Objective of the Development Policy Operation (DPO) is to support the Government of the Kyrgyz Republic in strengthening macro-fiscal foundations for growth, enhancing transparency and anti-corruption in the public sector, and boosting private sector competitiveness.

37. Enhanced fiscal management is critical to ensuring the sustainability of growth prospects, while providing an effective guide for public action. Given high levels of public debt, prudent fiscal management is a critical ingredient to ensuring macroeconomic stability, which in turn provides for greater medium-term security for investors (who continue to see the Kyrgyz Republic as a high-risk destination). Moreover, a large infrastructure gap, combined with elevated public debt and already high levels of public expenditure as a share of GDP, imply that important spending needs can only be accommodated through maximizing the efficiency of spending, and prioritizing expenditure rigorously on the basis of explicit trade-offs and due consideration to affordability and sustainability constraints. Finally, the country's exposure to external shocks also requires that precautionary principles be applied to the management of public finances, so that fiscal buffers to respond to shocks can be maintained, while preventing the need for painful and counterproductive ad hoc adjustments. Pillar I of the proposed DPO seeks to address these issues, by helping the authorities to tackle both pressing and medium-term consolidation needs, including through providing for greater budget transparency.

38. Improving governance and lowering the level of perceived corruption will alleviate one of the key constraints to unleashing the growth potential of the economy. Both the 2013 *Business Environment and Enterprise Performance Survey* (BEEPS) and the World Economic Forum's 2016–2017 *Global Competitiveness Report* identified corruption as one of the most problematic factors for doing business in the Kyrgyz Republic. The country has recently made modest progress on key governance indicators, such as the World Governance Indicators (WGI) and Transparency International's Corruption Perception Index (TI CPI), albeit from low initial levels.¹⁴ Despite these modest gains, levels of public trust remain low. Negative perceptions of governance persist in the energy and mining sectors, as well as in the area of public financial management, particularly public procurement. Pillar II of the proposed DPO supports the government in tackling some of the key issues related to preventing corruption in the public sector (e.g. the *Law on Conflict of Interest*), and specifically with regards to public procurement (e.g. implementation of the *Public Procurement Law*).

39. Long-term growth and poverty reduction will depend on the Kyrgyz Republic's ability to stimulate private sector investment and development, as well as promote exports to the newly created EEU. Reform efforts in recent years have not yet translated into a business environment conducive for private investment; in fact, some indicators point to a negative trend. Overall, the country ranked 77th out of 189 in the *Doing Business* report in 2018, a deterioration from 2016 and 2017. On the World Economic Forum's Global Competitiveness Index (GCI)—the country's position was 111th out of 140 in 2016–17, which was also a downgrade from previous years. The Kyrgyz Republic's weak performance, in spite of legislative and institutional reforms, reflects their poor implementation, the persistence of a heavy regulatory burden, administrative complexity, and corruption, against the backdrop of a maze of licenses, permits and procedures. Specifically, complex tax administration hampers private sector growth, including among small and medium enterprises (SMEs). Weak ICT infrastructure and internet connectivity

¹⁴ The Kyrgyz Republic's TI CPI ranking in 2015 was 123rd out of 167 countries, compared to 164th out of 183 countries in 2011.

(particularly in rural areas) represent additional constraints¹⁵ on private sector activity, particularly in the services sector, which will be central to diversification efforts and increased value addition. Pillar III of the proposed DPO is addressing the above bottlenecks to foster more vibrant private sector development and unlock export potential.

Pillar I: Macro-fiscal foundations for growth

40. Reforms under the first pillar support two policy objectives: (i) enhancing budget discipline and transparency; and (ii) increasing domestic revenue mobilization. These reforms were selected because they address both short-term imperatives of fiscal consolidation, as well as medium-term needs for more rigorous, strategic and binding fiscal management and oversight.

Objective 1. Enhancing budget discipline and transparency

➤ **Adopting a fiscal rule and strengthening the budgetary legal framework.**

41. Fiscal management has been suboptimal and prone to deviations from its targets, reflecting the country's high exposure to shocks as well as institutional weaknesses. These two sources of vulnerability have been exemplified by the fiscal performance of recent years. The regional headwinds, triggered by the drop-in oil prices, had a direct and significant impact on the fiscal position of the Kyrgyz Republic, via revenue and exchange rate channels. First, the slowdown in external trade depressed revenues from trade taxes, which account for a significant share of total revenues. Second, the depreciation of the domestic currency mechanically translated in a dramatic increase of public debt (which grew by almost 20 percent of GDP during 2014-15), putting the country temporarily at heightened risk of debt distress. Institutional weaknesses have also contributed to suboptimal fiscal outcomes, particularly on the spending side. Relative fiscal discipline has been achieved to some extent at the expense of fiscal predictability, with significant ad hoc adjustments in spending (both on the recurrent and investment sides) and sizeable deviations between planned and actual expenditures.

42. Fiscal discipline has been substantially relaxed in 2016 and 2017. In 2016, the general government budget ran a deficit of 6.3 percent of GDP (overall balance including on-lending), a significant increase from 3.0 percent in 2015. The fiscal deficit was mainly financed through external borrowing amounting to 4.2 percent of GDP net of amortization, resulting in an increase in the stock of debt by 4.3 percent in US dollar terms. While the deficit (overall balance excluding on-lending) target of 4.5 percent under the Fund-supported program was eventually met, the budgetary exercise was characterized by large deviations between planned and actual expenditures: unbudgeted expenditures (exceeding 4 percent of GDP) had to be offset with ad hoc spending cuts in goods and services expenditures and the re-phasing of investment. In 2017, the spending trends continued where a one-off unplanned expenditure estimated resulted in a deficit of 4.7 percent of GDP. Moreover, the authorities took policy decisions, which will add to spending pressures and budget rigidity going forward, including increases in wages and pensions, as well as social entitlements.

¹⁵ According to the GCI, and as measured by the pillar on “Technological Readiness,” the Kyrgyz Republic ranks particularly low, has shown little improvement over time, and is lagging behind many CIS countries. The country ranked 125th out of 144 countries on the “international internet bandwidth, kb/s per user” indicator—one of the country's lowest ranks among all GCI indicators.

43. **The existing legal framework, though strengthened with the introduction of a new Budget Code, still has gaps -as exemplified by the above discussion-, and critically lacks an explicit and predictable anchor to guide fiscal policy.** The new Budget Code, approved in 2016 and implemented in 2017, strengthened the Kyrgyz Republic's fiscal accounts and its budget process. At the same time, the Code still contains provisions that undermine fiscal discipline. Specifically, Article 115 of the Budget Code allows for unspecified urgent spending without prior Parliamentary consent (i.e. with approval of the Budget Committee only). The rules for spending such resources are not specified, nor is the amount capped. Moreover, the Budget code only stipulates that the Budget Law sets debt limits annually, thus lacking a permanent, complementary and comprehensive mechanism to ensure fiscal sustainability.

44. **Thus, the introduction of a new fiscal rule, through amendments to the Budget Code, would further improve the fiscal framework.** The main features of the proposed new fiscal rule include a debt anchor supplemented by an operational deficit target covering the general government, including net investment of the government in state-owned enterprises. It further provides for a notional control account¹⁶ for deviations from the deficit ceiling (to avoid pro-cyclicality), well-specified escape clauses to be triggered under exceptional circumstances, as well as automatic corrective mechanisms and sanctions in case of breaches. The fiscal rule will support fiscal discipline over a cycle, continue to support investments by targeting the operational deficit, and ensure that clear commitment to debt targets will support debt sustainability, so as to not impose an unacceptable burden on future taxpayers.

45. **Additional amendments to the Budget Code would strengthen budgetary integrity during execution.** Indeed, the budgetary process is characterized by large in-year changes in the composition of spending and significant flexibility, provided by a loose legal formulation -specifically to article 115 of the Budget Code-, to revise expenditures during budget execution, outside of the framework of the approved budget, including beyond the approved total expenditure envelope, and prior to budgetary revisions approved by Parliament. To prevent such significant deviations between planned and executed expenses, while ensuring that the government has sufficient flexibility to provide for unplanned urgent expenditures and unforeseen reallocation needs, proposed amendments to the Budget Code would limit the provisions for in-year amendments to the budget without ex ante approval of the Parliament, strictly to deficit-neutral operations, in line with the fiscal rule parameters. These amendments would help ensure that spending unauthorized by Parliament is limited to the minimum required for expediency.

46. **The following prior action is proposed:**

Prior Action #1. The Government of the Kyrgyz Republic approves and submits to its Parliament, amendments to the Budget Code to:

- Introduce a fiscal rule that provides a debt anchor supplemented by an operational deficit target for the purpose of ensuring a sustainable fiscal policy; and
- Revise Article 115 to stipulate that any request to the Budget and Finance Committee of the Parliament to pre-authorize un-budgeted expenditure shall be deficit neutral and compliant with fiscal rule parameters.

¹⁶ The notional control account is essentially a mechanism of book-keeping, whereby positive and negative deviations from the deficit ceiling are recorded to keep track of the outstanding balance of cumulative deviations. Once the cumulative deviations exceed a predefined threshold, additional fiscal adjustment measures are triggered to bring the deficit back in line with the fiscal rule.

47. **Expected Results:** The introduction of a binding fiscal rule and amendments to the Budget Code are expected to lead, over time, to a decline in public debt, reduced differences between budget forecast and outturn, and stricter adherence to fiscal consolidation targets. Specific indicators include:

- Improvements in the PEFA¹⁷ indicator (PI-2) on “Composition of expenditure out-turn compared to original approved budget” (from D+ in 2014 to B by 2019), reflecting improved credibility of the budget, further measured by a decrease in the variance in the functional composition of expenditure out-turn, from 54 percent in 2016 to under 10 percent by 2019;
- A declining deficit (excluding on-lending) path to 2.5 percent of GDP in 2018 and 2019.

➤ **Enhancing budget transparency and oversight.**

48. **The ability of the legislature to exercise full oversight over the budget has been compromised by the relative importance and opacity of State-Owned Enterprise (SOE) operations.** A significant share of loans contracted by the Kyrgyz government from international creditors is directly on-lent to publicly-owned utilities, for the most part in the energy sector. Meanwhile, the energy sector alone has accumulated debt in excess of US\$ 1 billion (or 20 percent of GDP), which it is unable to honor, therefore requiring yearly transfers from the budget, new debt accumulation, and debt restructuring. Although the costs of this mounting debt are borne by taxpayers, these implicit subsidies are not included -other than via provisions for on-lending- into the budget submission, undermining effective public scrutiny, and decreasing incentives to resolutely address the underlying issue of low utility tariffs, that is at the source of the problem, through tariff reform.

49. **To address this issue, it is important to enhance the quality and comprehensiveness of the information provided to the legislature in the process of budget approval.** Specifically, the budget documentation to be submitted to Parliament for approval should contain detailed information on existing liabilities of SOEs, as well as on planned subsidies, loans or debt restructuring, hitherto only implicitly contained in the budget proposal. To that effect, starting in 2018, budget submissions will include¹⁸ detailed information on transfers, refinancing and restructuring of loans to all state-owned enterprises, including in the energy sector.

50. **The following prior action is proposed:**

Prior Action #2. The Government of the Kyrgyz Republic has approved procedures requiring information on transfers, refinancing and restructuring of budget loans for State-Owned Enterprises to be included in the Republican Budget Law, starting from the 2018 budget submission.

51. **Expected Results:** Enhanced scrutiny and oversight by the legislature over the operations of SOEs and their implications for fiscal policy and sustainability. By requiring that an itemized list of planned loans to SOEs and summary of outstanding contingent liabilities are explicitly recorded in the budget submission to Parliament, this action will enhance public scrutiny over this major source of fiscal risk and stimulate public debate over the (in-)adequacy of the business model of SOEs, in particular those operating in the energy sector, as measured by the number of parliamentary hearings on the issue (at least once a year). By promoting public debate and scrutiny of the significant fiscal costs resulting from current energy subsidies, this action represents a critical foundation for the subsequent tariff reform. Moreover, by

¹⁷ A full PEFA update is programmed -with funding identified- for early 2020, covering outcomes in 2019.

¹⁸ in the Explanatory Note to the Budget.

enabling an actual tariff increase - leading to higher energy prices in the future- this action will contribute to a gradual shift of consumer demand and of technology development towards less emissions-intensive sources of energy, thereby contributing to the country's climate change mitigation efforts.

Objective 2. Increasing Revenue Mobilization

52. **Following fiscal slippages in 2017 and policy decisions that will increase structural expenditures, returning to fiscal equilibrium will require countervailing measures, including on the revenue side.** To that end, the proposed DPO supports measures that will raise revenues directly, via increases in excises on alcohol and tobacco.

53. **The measures signal the commitment of the government to broader revenue efforts as evidenced by the increase in basic excise rates on tobacco and alcohol during the 2018 Budget, in line with the commitments made under 2015-2018 ECF program.** Increases in excise rates for alcohol and tobacco, respectively from KGS 60 to KGS 70¹⁹ and KGS1000 to KGS1250²⁰ are expected to generate additional revenues to the tune of KGS 1.1 billion or 0.2 percent of GDP (0.9 percent of tax revenues).²¹ In the context of the on-going policy dialogue with the IMF and the Bank, the authorities have committed to a broad range of permanent fiscal measures – including tax policy measures (mostly cancelation of exemptions) – that are expected to generate additional revenues in 2018, to the tune of 1.2 percent of GDP.

54. **The following prior action is proposed:**

Prior Action #3. The Parliament of the Kyrgyz Republic enacts amendments to the Tax Code increasing basic excise rates on tobacco by 16.7 percent and the Government of the Kyrgyz Republic adopts a Resolution increasing excise rates on alcohol by 25 percent.

55. **Expected Results:** Increased collection on excises from alcohol and tobacco by a cumulative amount in excess of KGS 1 billion in 2018 and 2019, relative to 2017.

Pillar II: Transparency and Anti-Corruption in the Public Sector

56. **Reforms under the second pillar support two policy objectives:** (i) improving the integrity of government decisions; and (ii) enhancing the efficiency and transparency of public sector procurement. These reforms were selected because they address key drivers of poor governance in the Kyrgyz Republic, namely high-level corruption in public procurement and routine decision making, across the public sector, by public officials for their own benefit, or that of family members or associates (conflicts of interest). Taken together, the measures supported by this pillar have the potential to alleviate key constraints to investment (perceived and actual corruption), growth (vested interest in policy decisions), and sound public financial management (efficiency of spending).

¹⁹ Per 1 liter.

²⁰ Per 1000 tipped cigarettes. The excise rate for nonfilter cigarettes, cigars and other tobacco products have also been raised.

²¹ Excise rates are regulated differently according to the Kyrgyz Tax Code (Article 287): the excise rate for tobacco is set by the Tax Code, while excise rates for alcohol are set by the Tax Code as ceilings, and the government has to issue a decree setting rates not higher than the ceilings.

Objective 1. Improving the Integrity of Government Decisions

➤ Regulating Conflicts of Interest

57. **Conflict of interest is an underlying source of corruption among public officials, and policy inefficiency in Kyrgyzstan.** In 2014, the Ministry of Economy (MoE) commissioned a study on the pervasiveness of conflicts of interest in the country, based on focus groups of public officials and business representatives in the cities of Bishkek, Osh and Karakol. According to the results of this study, conflicts of interest in the Kyrgyz Republic occur most often in public procurement, when members of the tender committee have personal interests in the companies that bid on a contract. Other instances of conflicts of interest include public officials making regulatory decisions that affect businesses in which they have a private stake, as well as nepotism in the civil service. However, the Kyrgyz Republic's current primary legislation does not include a provision that prevents or sanctions this behavior, and it does not even define conflicts of interest.

58. **Adopting the new *Law on Conflict of Interest* will increase transparency about the private interests of public officials and establish institutional arrangements to prevent conflicts of interest.** The law will require that public officials submit declarations of personal interests in addition to their asset and income declarations. The law envisages both conflict of interest prevention and handling, and the imposition of sanctions. Commissions on Ethics will be created in various ministries, departments, and agencies. Their mandate will be to review and verify the declarations of personal interest and identify potential and consumed conflicts of interest. In cases when a public official is found to have acted in his/her public capacity for personal gain, the law stipulates appropriate sanctions (including the possibility of cancelling contracts and other decisions/acts concluded by the public official) and the financial liability of the official who received income or benefits as a result of conflicts of interest. The State Service for Combating Economic Crime and the General Prosecutor's Office will be in charge of investigating conflict of interest violations and imposing sanctions under the offense of abuse of office. Besides sanctions, the law also provides for advisory mechanisms to help prevent conflicts of interest from arising in the first place. The law stipulates that the Cabinet of Ministers will designate an authorized body for handling conflict of interest, once the law becomes effective. This body will also provide support to the Commissions on Ethics to ensure a consistent application of provisions on conflict of interest across the public sector.

59. **The following prior action is proposed:**

Prior Action #4. The Parliament of the Kyrgyz Republic enacts the *Law on Conflict of Interest*, to define conflicts of interest and to provide mechanisms for their prevention and sanction.

60. **Expected Results:** Increased transparency regarding the private interests of public officials and robust mechanisms for managing conflicts of interest, as measured by the percentage of declarations of personal interests of public officials reviewed and verified by the Commissions on Ethics to identify potential and consumed conflicts of interest.

Objective 2. Enhancing the efficiency and transparency of Public Procurement

➤ Enhancing Public Procurement Efficiency

61. In 2015, the Kyrgyz Parliament approved a landmark **Public Procurement Law (PPL)** which, together with complementary regulatory acts, significantly improved the legal framework for public procurement. The PPL, developed with the World Bank support, made the following critical improvements to the Kyrgyz Republic's public procurement system: (i) a more transparent procurement process, in which information on every step of the process is made public on the Public Procurement Portal; (ii) improved oversight, through a strengthened role for the Tender Commission, including mandatory review and declaration of no objection to bidding documents; (iii) process streamlining and simplification, via the use of framework agreements and e-reverse auction; (iv) enhanced competition through limits on single-source procurement (and mandatory publication of intention to go with direct contracting), and the mandated development and use of standard bidding documents (SBD); and (v) improved redress mechanisms through the creation of an *Independent Complaint Review Commission* (ICRC) and the introduction of anti-bribery clauses, the violation of which is a criterion for inclusion into the database of unreliable suppliers.

62. This DPO further supports the enhancement of public procurement practices through implementation measures for the law. Specifically, it does so by promoting (i) enhancements to secondary implementing legislation relative to the work of the *Independent Complaint Review Commission* to reflect initial lessons from experience, and (ii) the development and adoption of standard bidding documents in two key public procurement areas.

63. An effective redress mechanism, provided by the Independent Complaint Review Commission, is the most important area for improvement of the Kyrgyz procurement system. According to the 2014 Public Expenditure and Financial Accountability (PEFA) assessment, Kyrgyzstan's composite score on indicator PI-19 ("Competition, value for money, and controls in procurement") was a B, but the country score was D on sub-indicator PI-19iv ("The existence of an independent administrative procurement complaints review system"). A significant step was taken when the ICRC was established in March 2016 for the review of complaints and requests for inclusion into the database of unreliable suppliers. This has contributed to the enforcement of the practical applications of the PPL by ensuring that violations of this legislation and deliberate or unintended faults of procuring authorities can be corrected. According to public procurement reports, there were 403 complaints reviewed by the Public Procurement Department in 2015, and 2035 complaints reviewed by the Independent Commission the following year, indicating a significant improvement in the responsiveness of the system, and in the trust of the business sector in redress mechanisms.

64. Nonetheless, based on the first year of operations of the ICRC, the need for further improvements became apparent. This operation thus promotes changes to the Regulation guiding the work and procedures of the Commission to introduce, inter alia, that: (i) the ICRC is now structurally positioned in the designated regulatory body, (ii) all complaints and objections will be electronically and randomly distributed among the committee members – a measure that will help to minimize personal interactions between the committee members and other participants of the complaint and objection review process, and (iii) parties will be able to participate in proceedings on-line so as to provide better access to participants from remote regions.

65. **The DPO further supports the implementation of the PPL through the development and adoption of standard procedures for the application of the Law, in the form of standard bidding documents for pharmaceuticals and plant and equipment procurement.** While the PPL provides for development and use of standard bidding documents, until now only a set of basic documentation applicable for two stage/one stage/simplified bidding was available for procuring entities. Procuring entities in the health sector used basic bidding documents in the process of pharmaceuticals procurements, which did not provide for required specificity. As for plant and equipment procurement, the respective procuring entities had to conduct three separate biddings (for design, supply of goods and installation works) instead of one, in the cases when a turnkey solution was required. The proposed operation supports the development and adoption of two new comprehensive sets of bidding documents for (i) pharmaceuticals, as well as (ii) design, supply and installation of plant and equipment.

66. **In addition, the World Bank and other development partners will continue to support institutional capacity building.** This assistance will help operationalize the Public Procurement Department (PPD) as an effective regulatory body and build institutional capacity for the Independent Complaint Review Commission. With World Bank support, the PPD and Training Institute in the Ministry of Finance (MoF) will roll out capacity building through online and face-to-face programs involving procuring entities, bidders and all other stakeholders. The program will include e-procurement.

67. **The following prior actions are proposed:**

Prior Action #5. The Government of the Kyrgyz Republic, through the Ministry of Finance, adopts an Order on the “Regulation on the procedure for the work of an Independent Complaints Review Commission” which adopts procedures to strengthen the objectivity and transparency of complaints handling.

Prior Action #6. The Government of the Kyrgyz Republic, through the Ministry of Finance, adopts Standard Bidding Documents for pharmaceuticals and other medical products, as well as for the design, supply and installation of plant and equipment, to streamline procurement, while enhancing value for money.

68. **Expected Results:** A strengthened basis (more transparent and sustainable) for complaints handling in public procurement, as reflected by an increase in the score of dimension (iv) of the PEFA PI-19 indicator based on the 2011 PEFA methodology (from D in 2014 to C in 2019); and over time, a more competitive, efficient and transparent public procurement environment, as reflected in an increase in the overall score on PEFA PI-19 (from B in 2014 to B+ in 2019); and, a reduction in the average processing time for review by the ICRC from 10 days in 2017 to 7 in 2019. Procuring entities in the Health and Energy sectors will obtain better procurement outcomes with due considerations of fit-for-purpose and value for money, through using the new tailored bidding documents. Specific targets include: at least 50 percent of procuring entities using the new SBDs in the health sector, and gradual use of the SBDs for large procurement requiring turnkey solutions (*NB.*: it is not possible to set a specific quantitative indicator, as these SBD are very specific and their usage depends on the investment plans of the companies). Lastly, the SBDs, based on the international best practices, will allow beneficiaries to use additional factors, in addition to price, for bids evaluation: including life cycle costs, energy performance of the equipment and fuel efficiency standards. As such, the action will have positive climate change mitigation impacts, since energy efficiency improvements of the newly installed equipment will result in GHG emissions reductions.

Pillar III: Private Sector Competitiveness

69. **Reforms under the third pillar support three policy objectives:** (i) promoting trade, in the context of the Kyrgyz Republic's recent accession to the EEU; (ii) improving the business environment for firms; and; (iii) supporting the development of the digital economy. Accomplishing these goals will allow Kyrgyz businesses to access the larger markets of EEU member countries, reduce compliance costs, and improve private sector competitiveness more broadly. In addition, expanding the coverage of internet connectivity to rural areas is an important driver of shared prosperity, as well as a basis for more efficient early warning systems.

70. **The reforms supported under this pillar build a foundation for the Kyrgyz Republic to reap the long-term benefits of economic integration.** Joining the EEU's Customs Union gives Kyrgyz producers an opportunity to reach a much larger market, while creating demand to reform the business environment in directions that will be necessary to compete on a regional scale. This will facilitate a long-term transition from a gold- and remittance-dependent economy toward a competitive economy integrated into regional and global trade networks. This transition will take time, and it will require the Kyrgyz Republic to increase the quality of its infrastructure and testing services, as well as the knowledge and capacity of domestic producers. This operation builds on existing strengths, capacities, and ongoing World Bank Group (WBG) support in order to strengthen the foundation for this transition, while using other complementary instruments and partnerships to achieve long-term results. It targets specific binding constraints to the private sector, within a broader policy agenda supported by development partners. It is complementary to the ADB's parallel budget support engagement, which seeks to, inter alia, improve access to finance for the private sector, encourage private sector participation in physical and social infrastructure, and facilitate FDI in the Kyrgyz economy.

Objective 1. Promoting Trade

71. **The establishment of the Eurasian Economic Union, of which the Kyrgyz Republic became a member in 2016, created significant trade opportunities for the country.** The creation of the EEU abolished, in principle, all border controls, and trade taxes across all member countries and a wide market of over 183 million consumers. In turn, this created important opportunities for Kyrgyz producers that have a comparative advantage in food product exports (which amounted to US\$ 186 million in 2016, of which close to 60 percent were sold to EEU member countries, with considerable scope for further growth) among others.

72. **However, to fully avail themselves of these opportunities, Kyrgyz producers need to be able to comply with the EEU's technical regulations and to demonstrate compliance.** The regulations set requirements for food products and related processing, storage, transportation, sale and utilization; demonstrating compliance requires access to testing facilities and adequate documentation. To date this has been a major bottleneck. In fact, the decision taken by the Kazakh authorities in late 2017 to significantly step-up controls at the main border between the two countries was motivated allegedly by the failure of five Kyrgyz milk factories to pass veterinary and phytosanitary quality controls, while other food imports (meat, fish, fruit and vegetables) had apparently not been accompanied with the required documentation. To ensure that Kyrgyz producers can demonstrably comply with EEU food standards (and gain access to EEU markets and beyond), a significant overhaul of the institutional and legal/regulatory framework governing food safety is required.

73. **The DPO thus supports the adoption of a new *Law on Food Safety* to, inter alia, provide a sound legal basis for an integrated system of risk-based food-safety inspections and define clear requirements for Food-Business Operators (FBOs).** These measures constitute critical building blocks to increase export readiness of Kyrgyz food industries. The *Law on Food Safety* introduces more efficient and reliable controls and supervisory systems for food safety, improves coordination among supervisory bodies, and establishes a single state inspection for food safety control and supervision. It complies with the requirements of the EEU for trade in food products and will facilitate export within the framework of Generalized Scheme of Preferences (GSP+) status granted to the Kyrgyz Republic. Its implementation will improve the credibility of Kyrgyz exports to existing markets and open new markets. It also establishes clear requirements for FBOs, including the introduction of Hazard Analysis Critical Control Point (HACCP) certification, traceability, and FBO liability. The *Law on Food Safety* was drafted in consultation with stakeholders under the WBG's Investment Climate TA, and it will ensure more efficient state control of the food industry, which will make Kyrgyz food producers more competitive in international markets.

74. **The following prior action is proposed:**

Prior Action #7. The Government of the Kyrgyz Republic has approved and submitted to its Parliament the draft *Law on Food Safety* to strengthen the technical and institutional framework for quality controls and certification in respect to food safety.

75. **Expected Results:** The reform is expected to open markets for domestic products and promote greater export readiness among Kyrgyz firms, as measured by an increasing number of firms: (i) implementing HACCP principles; and (ii) included in the EEU register of FBOs and allowed to export to the EEU. Specific results indicators / targets include:

- An increase in the number of firms with HACCP principles in place from 43 in 2016 to 58 by 2019
- An increase in the number of firms included in the EEU register of FBOs and allowed to export to the EEU from 43 in 2016 to 54 by 2019.

Objective 2. Improving the Business Environment

76. **The Kyrgyz Republic is considered the least competitive among Central Asian countries in the World Economic Forum's Global Competitiveness Index and ranks 111 among 138 countries.** The report identifies regulatory uncertainty, regulatory implementation gaps, compliance costs for businesses, corruption, inflation, and tax rates as the most problematic factors for doing business in the country. Constraints in implementation capacity within the government, as well as corruption, lead to significant gaps between de jure design of regulations and their de facto implementation, which hampers private sector investments.

77. **Businesses in the Kyrgyz Republic face high administrative costs of paying taxes.** The Kyrgyz Republic is ranked 151 on the *Doing Business* Paying Taxes indicator. On average firms make 51 tax payments per year per, spend 225 hours a year filling, preparing and paying taxes, which amount to 29 percent of profit. This is far above the -already high- regional average of 17.6 payments requiring 221.5 hours. Over 50 percent of businesses identify complicated tax administration as one of the key challenges for business development, according to the 2015 *Doing Business* report. A specific issue concerns social security contributions, fees, and other mandatory charges that must be paid to the Social Fund of the Kyrgyz Republic rather than the State Tax Service (STS). Furthermore, entrepreneurs do not have the

option to pay social contribution and taxes at the same time and have to make payments to specific banks separately for social contributions and other tax payments. As a result, enterprises in the Kyrgyz Republic spend an average of 5.6 days per year making separate payments to the Social Fund. Finally, businesses are inspected by these agencies on an almost identical tax base (personal income of employees). According to the results of a tax compliance cost survey conducted by the International Finance Corporation (IFC) in 2014, transferring the administration of social insurance payments to the STS, would potentially generate USD 1.3 million in compliance savings for businesses.

78. The DPO thus supports a phased transfer of the administration of social insurance payments from the Social Fund to the State Tax Service, to reduce the time required for businesses to administer social insurance contributions. This requires amendments to a package of laws, including to the Tax Code and the legislation governing social insurance payments, as well as significant transfers of information and capacity across the two agencies. While pilots have been completed -with transfer of the administration of social insurance payments for the self-employed and businesses in certain districts, full nation-wide roll-out will take time and determined effort. The WBG provided support to pilots in two local tax offices and is currently providing TA to the MoE and the STS to draft the package of laws, including amendments to the Tax Code and the legislation governing social insurance payments.

79. The following prior action is proposed:

Prior Action #8. The Government of the Kyrgyz Republic adopts a Resolution establishing a deadline for the nation-wide roll out of the transfer of social insurance payments administration from the Social Fund to the State Tax Service in 2019.

80. Expected Results: Lower administrative cost of paying taxes and social contributions as measured by the share of firms filling reports on social contributions with the State Tax Service. Along with amendments to the legislation introducing the same tax administration procedures (reporting, appeals, inspection etc.) for social insurance payments and aligning tax bases for PIT and social insurance payments, this reform will generate significant compliance cost savings for businesses. The government will also improve revenue collection and generate more revenues with less resources. Specific results indicators / targets include:

- 100 percent of firms filing reports on social contributions with the STS by end-December 2019
- A reduction in the tax compliance cost, measured by the Doing Business “Paying Taxes” indicator from 225 hours per year in 2016 to 205 hours per year in 2019.

Objective 3. Supporting the Development of the Digital Economy

81. The proposed DPO program supports the government’s emphasis on expanding internet access across the Kyrgyz Republic and promoting the development of the digital economy.

82. The first priority is to expand wireless network coverage and effectiveness. The ongoing migration from analog to digital television is freeing-up radio spectrum frequencies, which will help telecommunication companies reduce the cost of deploying wireless networks, including for use in rural telecommunications. Meanwhile, the authorities aim to ensure competitiveness of the connectivity market and provide a level playing field for all market players, so as to boost private investment in ICT. The sector’s regulator, the State Communications Agency (SCA), plans to undertake a market analysis of

the wholesale internet connectivity market to ensure that it is competitive, to define specific competition safeguards, such as tariff regulation or open access rules, and to establish a dispute-resolution mechanism based on international good practices at a competent public body. These reforms, supported by the DPO, would also lay the groundwork for implementing the regional Digital Central Asia-South Asia (CASA) Project²², and provide an enabling environment for the deployment of digital technologies to support other government policies and actions, including efforts to address vulnerability to natural disasters and climate risks.

83. The second priority is to promote broad use of digital technology across government and business operations. The adoption of laws on electronic governance, electronic signature, protection of personal information, state and municipal services and on access to information held by state and local bodies of the Kyrgyz Republic, sets a legal basis for implementing the *Taza Koom* project. *Taza Koom* will provide inclusive access to better public and private services and increase the transparency and efficiency of public administration through the automation of streamlined administrative processes. Along with the adoption of the above-mentioned laws, the operation supports further changes to a number of legislative acts to align the provisions of the existing laws with the principles of the new Law on Electronic Governance, laying the foundations for both the information technology industry and electronic government.

84. The following prior actions are proposed:

Prior Action #9. The Government of the Kyrgyz Republic has (a) adopted amendments to the *Law on Electronic and Postal Communications* to promote competition in the issuance of the radio spectrum resource for providing data transmission; and (b) adopted through its State Committee of Information Technologies and Communication a procedure for dispute resolution between electronic communications service providers.

Prior Action #10. The Parliament of the Kyrgyz Republic, adopts laws to lay key governance foundations for the development of the digital economy and e-service delivery.

85. Expected Results: Greater competition in the sector, leading to a measurable increase in international internet bandwidth during the life of the operation, improved access to broadband internet in the country over the long run, and improved competitiveness in the market; and effective grievance redress in the sector. A gradual expansion of government to citizen (G2C) and government to business (G2B) electronic services, resulting in: a) a reduction in contact points for corruption; b) a smaller regulatory implementation gap for the private sector; c) lower regulatory compliance costs for the private sector. Specific results indicators / targets include:

- An increase in the International Telecommunications Union internet bandwidth indicator from 5008 Mbps in 2016 to 6500 Mbps in 2019;
- Operationalization of the dispute resolution mechanism between electronic communications service providers;
- An increase in the Number of visitors to the State Portal for E-Services, from 0 in 2017 to 100,000 or more in 2019.

²² The Digital Central Asia-South Asia Program aims to improve telecommunications and Internet connectivity throughout the region, focusing initially on connecting the relatively underserved markets of Afghanistan, Kyrgyz Republic, and Tajikistan.

86. Lastly, by increasing the internet bandwidth and improving access to broadband internet across the country, including in areas which are most vulnerable to natural disasters and climate change impacts, this action will enable improvements in early warning systems to support better communication between disaster-prone areas and communities and relevant public agencies, better detection and evaluation of the disasters' magnitude, and reductions in post-disaster response and recovery time.

Table 5: DPO Prior Actions, Analytical Underpinnings and Technical Assistance

Prior Actions	Analytical Underpinnings
Operation Pillar I: Macro-Fiscal Foundations for Growth	
<p>Prior Action #1. The Government of the Kyrgyz Republic approves and submits to its Parliament, amendments to the Budget Code to:</p> <ul style="list-style-type: none"> Introduce a fiscal rule that provides a debt anchor supplemented by an operational deficit target for the purpose of ensuring a sustainable fiscal policy; and Revise Article 115 to stipulate that any request to the Budget and Finance Committee of the Parliament to pre-authorize un-budgeted expenditure shall be deficit neutral and compliant with fiscal rule parameters. 	<p>World Bank Public Expenditure Review, 2014; Joint World Bank / IMF-FAD TA; <i>Public Expenditure and Financial Accountability Assessment</i> (2014).</p>
<p>Prior Action #2. The Government of the Kyrgyz Republic has approved procedures requiring information on transfers, refinancing and restructuring of budget loans for State-Owned Enterprises to be included in the Republican Budget Law, starting from the 2018 budget submission.</p>	<p>Joint World Bank / IMF-FAD TA <i>Public Expenditure and Financial Accountability Assessment</i> (2014).</p>
<p>Prior Action #3. The Parliament of the Kyrgyz Republic enacts amendments to the Tax Code increasing basic excise rates on tobacco by 16.7 percent and the government of the Kyrgyz Republic adopts a Resolution increasing excise rates on alcohol by 25 percent.</p>	<p>Joint WB/IMF monitoring</p>
Operation Pillar II: Transparency and Anti-Corruption in the Public Sector	
<p>Prior Action #4. The Parliament of the Kyrgyz Republic enacts the <i>Law on Conflict of Interest</i>, to define conflicts of interest and to provide mechanisms for their prevention and sanction.</p>	<p>TA on conflict of interest under the Capacity Building for Economic Management Project (2014); TA on conflict of interest under the implementation of the PSRR (2013-2016).</p>
<p>Prior Action #5. The Government of the Kyrgyz Republic, through the Ministry of Finance, adopts an Order the "Regulation on the procedure for the work of an Independent Complaints Review Commission" which adopts procedures to strengthen the objectivity and transparency of complaints handling.</p>	<p><i>Country Fiduciary System Review Report</i> (2012); <i>Public Expenditure and Financial Accountability Assessment</i> (2014); World Bank TA engagement.</p>
<p>Prior Action #6. The Government of the Kyrgyz Republic, through the Ministry of Finance, adopts Standard Bidding Documents for pharmaceuticals and other medical products, as well as for the design, supply and installation of plant and equipment, to streamline procurement, while enhancing value for money.</p>	<p><i>Country Fiduciary System Review Report</i> (2012); <i>Public Expenditure and Financial Accountability Assessment</i> (2014); World Bank TA engagement.</p>
Operation Pillar III: Private Sector Competitiveness	
<p>Prior Action #7. The Government of the Kyrgyz Republic has approved and submitted to its Parliament the draft <i>Law on Food</i></p>	<p>IFC Advisory</p>

Prior Actions	Analytical Underpinnings
<i>Safety</i> to strengthen the technical and institutional framework for quality controls and certification in respect to food safety.	World Bank-executed Trade and Competitiveness Advisory Program (2009-17).
Prior Action #8. The Government of the Kyrgyz Republic adopts a Resolution establishing a deadline for the nation-wide roll out of the transfer of social insurance payments administration from the Social Fund to the State Tax Service in 2019.	<i>Business Environment and Enterprise Performance Survey</i> (BEEPS) 2013
Prior Action #9. The Government of the Kyrgyz Republic has (a) adopted amendments to the <i>Law on Electronic and Postal Communications</i> to promote competition in the issuance of the radio spectrum resource for providing data transmission; and (b) adopted through its State Committee of Information Technologies and Communication a procedure for dispute resolution between electronic communications service providers.	Advisory Services and Analytics undertaken in FY13 and FY14 to identify opportunities and challenges in regional and cross-border telecommunications connectivity in Central Asia. Advisory and training in FY16-FY17 including on Dispute Resolution best practices.
Prior Action #10. The Parliament of the Kyrgyz Republic, adopts laws to lay key governance foundations for the development of the digital economy and e-service delivery.	Digital CASA project

C. LINK TO CPF AND OTHER BANK OPERATIONS

87. **The proposed operation is fully aligned with the new World Bank Group Country Partnership Framework for the Kyrgyz Republic for FY19-22.**²³ The CPF seeks to promote diversified, export-oriented, inclusive and sustainable growth while adding greater focus on export and private-sector led growth, as well as macroeconomic management. The CPF reflects selectivity of key binding constraints identified in the Systematic Country Diagnostic. The CPF objectives which are aligned with the three pillars of the proposed stand-alone operation include: enable stable, pro-growth macro management; enhance conditions for private investment and diversification; and promotion of digitization and development of e-economy.

88. **Several World Bank capacity-building operations and analytical and advisory activities have supported the identification and implementation of the supported reform agenda.** These include: TA support for the implementation of the Public Sector Reform Roadmap; public procurement TA using Trust Fund and Institutional Development Fund (IDF) resources; a public financial management (PFM) capacity-building project supported by several development partners; joint donor coordination efforts to support the implementation of the Private Sector Development Program, funded by IDF resources; Investment and Competitiveness TA provided by IFC; and consultation of the World Bank's *Doing Business* team.

89. **In addition, the proposed program also benefited from extremely close coordination between the World Bank and IMF, including through joint missions and TA.** The World Bank and the IMF-FAD jointly carried out a broad review of subsidies, as well as TA on the development of a rules-based fiscal framework.

²³ The Board discussions is scheduled for November 8, 2018.

D. CONSULTATIONS AND COLLABORATION WITH OTHER DEVELOPMENT PARTNERS

89. **The World Bank has collaborated closely with the IMF and other development partners on the proposed operation.** The World Bank team has discussed the macroeconomic framework with the IMF country team extensively. In addition, DfID supported the World Bank's TA activities in public sector governance, including through a recently completed Externally-Funded Output (EFO), which will be followed up by additional TF support. The private sector competitiveness agenda has been strongly supported by IFC advisory services.

90. **The government has held extensive public hearings on a number of prior actions and related reforms, including on conflict of interest, public procurement, and food safety.** Several of these consultations have been supported by the World Bank's ongoing technical assistance projects and involved multiple stakeholders, including all branches of government and civil society.

V. OTHER DESIGN AND APPRAISAL ISSUES

A. POVERTY AND SOCIAL IMPACT

91. **The measures supported under the proposed DPO are expected to have a positive impact on poverty reduction and shared prosperity through:** promoting (i) fiscal sustainability and a stable macroeconomic environment, (ii) strengthening public governance structures (including e-governance at the local level), and (iii) creating stronger foundations for private-sector-led growth and job creation. By supporting stronger macro-fiscal foundations and addressing some of the binding constraints to an improved business climate, the operation is expected to improve prospects for higher and more sustainable growth which, poverty analysis shows, is a key driver of poverty reduction. The proposed operation, is also expected to reduce opportunities for corruption, which significantly affects the poor, and to allow for an extension of ICT-mediated social service delivery at the local level.

92. **The fiscal measures supported under the proposed operation are assessed to be mostly distribution neutral and are unlikely to affect the poorest segments of the population in any significant or detrimental way.** Moreover, efforts to bring public expenditures on a more sustainable footing are consistent with the objectives of ensuring greater focus in public spending on essential public missions, while preventing an excessive accumulation of debt, which would burden future generations.

93. **An exception to the distribution-neutral assessment of the proposed fiscal measures specifically relates to proposed increases in taxes on tobacco and alcohol products.** In the short term, the proposed increase in taxes on alcohol and tobacco is likely to have a negative, albeit relatively small, impact on consumable income for both the poor and the non-poor. This is because the consumption of these goods is relative unresponsive to changes in their price. Moreover, the poor would be proportionally more affected because they tend to spend a relatively larger share of their total expenditure on these items. However, in the medium to long terms, increased prices are expected to lead to lower consumption of tobacco and alcohol, with a more pronounced effect for poor consumers (recent estimations for the Kyrgyz Republic found that a 1 percent increase in the price of tobacco products translates into a 0.54 percent decline in consumption overall and a 0.74 percent decline in the poorest quintile²⁴). This is

²⁴ Postolovska I., Lavado, R., Tarr, G., Verguet, S. 2017. "Estimating the distributional impact of increasing tobacco taxes in Armenia: Results from an extended cost-effectiveness analysis." Washington, DC: The

expected to yield positive outcomes in terms of life expectancy, reduced private and public health expenditures, and higher labor productivity. Findings for the Kyrgyz Republic suggest that higher tobacco taxes would bring large health and financial benefits to Kyrgyz households and be pro-poor. According to an extended cost-effectiveness analysis for a 75 percent tax on tobacco²⁵ assumption, over several years²⁶, 104,000 premature deaths would be averted, along with US\$ 2.4 million in out-of-pocket expenditures and 12,100 new poverty cases.²⁷ Some 50 percent of prevented deaths and 45 percent of out-of-pocket expenditures averted would be concentrated in the bottom two consumption quintiles.

94. Because the proposed new Food Safety Law covers the entire chain of food production and domestic production, there may be adjustment costs for small farmers. Initially poor farmers in remote areas may find it difficult to comply with the new regulations, which will require investments into new production technologies. To some extent, however, this is mitigated by the fact that the poorest farmers produce mostly for self-consumption and/or for commercialization in highly localized and informal market settings, which are likely to remain de facto outside of the ambit of the law. Nonetheless appropriate measures by the authorities will be required to build the capacity of small producers to comply with the legislation. Moreover, there will be medium term benefits for all farmers from improved access to international markets as well as benefits for the population at large of enhanced food safety standards.

B. ENVIRONMENTAL ASPECTS

95. The specific policies supported by the DPO program are not expected to have adverse effects on the environment and natural resources. In fact, policy actions supported by the operation are likely to lead to positive environmental impacts.

96. Policy actions supported under PA#2 could yield positive climate mitigation co-benefit. By promoting increased public scrutiny over the fiscal cost of energy subsidies the policy action is expected to set the stage for tariff reform and promote, over time, greater policy focus on energy efficiency measures and greater incentives for households to reduce consumption (from very high current levels).

97. Improvement in public procurement practices and standards would also bring positive impacts. Prior Action #6 supports the adoption of Standard Bidding Documents for pharmaceuticals, as well as design, supply and installation of plants and equipment. Based on international best practices the SBDs for design, supply and installation of plants and equipment now allows the beneficiaries to use different factors (in addition to price) for bids evaluation, including for instance life cycle cost, energy efficiency of the equipment, fuel efficiency and climate impact.

98. The adoption of EEU technical regulations will also have positive environmental effects. Reforms under the Third Pillar aimed at promoting trade include strengthening the country's compliance with EEU technical regulations and, in particular, the adoption of the Law on Food Safety. Following the EEU Food Safety Guideline adopted by the Decision No. 880 on Dec 9th, 2011, there are specific requirements and measures that should be implemented by food producers. Inter alia they include 1) requirements on sanitary, hygiene and veterinary measures; 2) principles of waste management in food

World Bank., p. 13.

²⁵ WHO-recommended rate increase.

²⁶ The extended cost effectiveness was done for the current male population, so the results are cumulative assuming a life expectancy of 67 years for males.

²⁷ Patricio V. Marquez and Blanca Moreno-Dodson and et. al, Tobacco Tax Reform at the Crossroads of Health and Development, 2017, Washington, DC: The World Bank, 138.

production with an objective of minimizing the adverse environmental impacts 3) requirements for companies and products certification to ensure that they are safe for human health; 4) occupational health and safety requirements for food producers; 5) lists of substances that will not be used in food production. Thus, it is expected that food producers in Kyrgyzstan will adopt the principles of sustainable production and use the technologies that would minimize adverse environmental impacts.

99. **Finally, policy actions to promote the expansion of internet connectivity, as well as government e-services, including in rural and remote areas could have positive climate / disaster risk mitigation co-benefits** by increasing the scope of instruments available for early-warning systems and communication, as well as assistance.

C. PFM, DISBURSEMENT AND AUDITING ASPECTS

100. **The overall foreign exchange and public financial management risks are adequate, overall.** The latest PEFA assessment conducted in 2014 indicates overall improvement since 2009 in the PEFA system performance with 14 (out of total 31) performance indicators (PIs) rated B and above in 2014, as compared to only 6 PIs rated B and above in 2009.

101. **Despite the progress observed since 2009, some of the critical PFM elements remain weak while the government, with the donor support, puts notable efforts to improve its PFM system.** The government adopted the PFM Reforms Strategy for 2016-2025 and related Action Plan for 2016-2019, covering a wide range of measures aimed at strengthening budget preparation and execution, accounting, auditing and fiscal transparency, as well as improving public debt management, revenue administration, intergovernmental fiscal relations and transfers, public procurement procedures and public investment management. The Budget Code has been put in force since January 2017 along with the transition to treasury single account. While the computerisation of treasury functions now enables partial reconciliation of information between regional treasuries, local transit banks, the central treasury and the National Bank, comprehensive automation of accounting, recording, and reporting via implementation of FMIS is yet to be established. With the World Bank support the improvement in accounting/financial reporting system have been made. Simplified national accounting standards in public sector (Kyrgyz Republic Public Sector Accounting Standards - KRPSAS) based on International Public Accounting Standards (IPSAS); its outline and Chart of Accounts were developed. The implementation of KRPSAS is still a challenge and will require the government's substantial resources.

102. **The Chamber of Accounts (CoA - the country's Supreme Audit Institution) is still in the initial phases of its development.** With the World Bank support the areas of the CoA's annual audit planning, compliance and financial audit methodology development, audit workflow automation was introduced as well as legislative changes were drafted. Meanwhile there is still progress needed in the quality of performance and financial audit. No audit opinion is issued on the budget execution reports as a whole or for individual ministries, departments and agencies. In practice, CoA does not consistently follow international auditing standards, despite they have financial and compliance audit methodology developed based on international standards and good practices.

103. **With the Bank support, reforms were also initiated to enhance the public internal audit (IA) function.** In particular, the IA methodology was improved, the quality assurance and improvement program, continuous professional development program, training materials were developed and adopted. Underlying legislation and key regulations are adopted, development of a certification program of internal auditors is expected under the MDTF CB PFM II project. Meanwhile, although there is an

evidence of improvements in coverage and quality of public sector internal audit function, the frequency, quality and distribution of audit reports as well as the extent of management response to internal audit findings still is weak.

104. **Overall, fiduciary risks for the operations are assessed as Substantial.**

105. **Foreign Exchange Control Environment: The NBKR maintains overall adequate operational control over its exchange reserve management.** The NBKR has established safeguards in financial reporting and external and internal audits. Nonetheless, legal amendments are needed to strengthen governance and autonomy at the central bank, and the timely passage of the necessary amendments to the Banking Law would strengthen the independence of the NBKR.

106. **The NBKR has been audited regularly by internationally recognized audit firms.** A 2016 audit of its consolidated financial statements was conducted by the Deloitte & Touche, LLC Kyrgyz Republic, which issued an unmodified opinion on the NBKR's financial statements. Previous audited financial statements have also been unmodified, with no major issues raised in the management letter.

107. **Disbursement and Auditing: Credit and grant proceeds would be made available to the Kyrgyz Republic upon the effectiveness of the Financing Agreement and the submission of withdrawal applications for the credit and grant.** The proceeds of the Credit and Grant will be disbursed into a foreign currency deposit account that forms part of the country's official foreign exchange reserves held by the NBKR. An equivalent amount will be credited to an account of the government to finance budgeted expenditures: the MoF's budget account will be credited with the Kyrgyz Som (KGS) equivalent at the official exchange rate within 30 days of the disbursement. The foreign exchange proceeds of the Credit and Grant will be sold by the NBKR or held in reserves, in accordance with the objectives of monetary policy. The MoF will be responsible for the operation's administration and for preparing the withdrawal applications, maintaining the deposit account at the NBKR, as required. The MoF, with the assistance of the NBKR, will maintain records of all transactions under the DPO in accordance with sound accounting practices. If after depositing funds in this account, the proceeds of the credit and/or grant are used for ineligible purposes as defined in the Financing Agreement, the World Bank will require the authorities to refund the amounts to the World Bank. Amounts refunded to the World Bank in respect of ineligible expenditures will be cancelled from the Credit and Grant.

Considering the World Bank's knowledge of the country's public finance management systems and ongoing improvements to these systems, the overall positive assessment of the NBKR made by the IMF, and previous unmodified audit reports issued by the auditor on the NBKR's recent financial statements, no additional fiduciary arrangements will be required for the deposit account. The MoF will provide to the World Bank confirmation that the amount of the Credit and Grant has been credited to the account that is available to finance the budget expenditures within 30 days from the date of the receipt of the amount (the format of the confirmation letter should be acceptable to the World Bank). In the meantime, taking into account substantial fiduciary risk, the World Bank reserves the right to request an audit of the deposit account. This provision will be reflected in the Financing Agreement.

D. MONITORING, EVALUATION, AND ACCOUNTABILITY

108. **The Ministry of Finance is responsible for overall monitoring and evaluation of the proposed operation and for coordinating actions among other ministries and agencies.** The World Bank has an extensive program in a number of reform areas and monitoring the results of the DPO actions will be undertaken additionally through ongoing World Bank engagement. Similarly, ongoing TA activities related to conflict of interest, public procurement and private sector dialogue will assist the government in tracking progress. Moreover, to the extent possible, data collection in the context of the Household Surveys, as well as TA activities, will provide gender-differentiated findings.

109. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service, please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org

VI. SUMMARY OF RISKS AND MITIGATION

110. **The overall risk for this operation is assessed as high.** The main risks relate to the political and governance environment, followed by implementation and sustainability, stakeholder, macroeconomic, and technical design risks.

- (a) **Political and governance risks (High).** While the political environment has stabilized since 2010 and democratic principles have become firmly established, the vibrancy of the political process also entails challenges to policy continuity. In particular, the short lifespan of governments and frequent cabinet dismissals continue to pose a risk to achieving the program's development outcomes. However, the Kyrgyz authorities have broadly maintained their commitment to key policy initiatives, even if implementation has often been delayed. The proposed DPO mitigates these risks by strengthening the state's ability to fight corruption, improve public services and reduce poverty through inclusive growth, which are prerequisites for greater political stability. The "high" risk rating is aligned with the assessment included in the 2016 Performance and Learning Review of the CPS.
- (b) **Macroeconomic risks (Substantial).** Macroeconomic risks are rated as "substantial", although they are mostly exogenous. They stem largely from adverse regional developments, which put pressure on remittances, exports, exchange rates and prices. Further exchange rate depreciation could result in heightened financial sector vulnerability, while undermining the debt sustainability outlook, which would also deteriorate in the event of substantial additional borrowing. Renewed economic hardship in neighboring countries would affect external balances through decreased exports, and fiscal balances through lower external

tariff revenues. Domestic risk includes absence of progress on growth enhancing structural reforms critical to avoid procyclicality, especially in the energy sector and the much-needed PFM related reforms. However, some of these risks would partially be mitigated through reforms supported by this DPO and the prospects of a new IMF program, currently being deliberated by the authorities. Together, if they both materialize, they will provide a solid anchor for fiscal policy planning and incentives for implementing key reforms in fiscal management, public sector governance and financial sector supervision.

- (c) **Sector strategies and policies risks (Substantial).** Frequent changes in government and key personnel have in the past affected the ownership of sector reform programs and/or resulted in implementation delays. However, all prior actions in this operation have a strong basis in existing sector strategies adopted through official government documents, which mitigates the risk to some extent and justifies a “substantial” risk rating.
- (d) **Technical design risks (Substantial).** This operation supports several legislative actions formulated as “submissions to parliament,” which entail the “substantial” risk of delayed enactment and reform implementation. However, this risk is mitigated through the Bank’s track record of sustained DPO engagement and commitment to extend its support in the future, based on satisfactory adherence to agreed-upon reforms.
- (e) **Implementation and sustainability risks (High).** Given the complexity and political sensitivity of the supported reform agenda, policy reversals are possible. In public procurement, draft amendments to the landmark PPL, which would reverse key gains, have been under consideration. However, sustained DPO-based policy dialogue provides the World Bank with a platform for communicating with the government at the highest levels to safeguard these reforms. This risk is rated “high” in line with the assessment included in the 2016 Performance and Learning Review.
- (f) **Fiduciary risks (Substantial).** Reforms in public financial management require the government’s continued attention to improving the country’s fiduciary environment. The enactment of the Budget Code, supported by the previous DPO series, lays the foundation for a strong public financial management framework. The “substantial” rating of this risk takes into consideration that the implementation of the Budget Code will help mitigate fiduciary risks over time.
- (g) **Stakeholders risks (High).** There are numerous stakeholders within the government involved in the design and implementation of policies under this operation. Thus, this risk is rated as “high” given that policy coordination and interagency cooperation remain weak. There are often multiple actors involved, without a clear delineation of responsibilities and accountabilities. With respect to external stakeholders, the government can be commended for increasing its use of consultative processes in developing strategy documents and draft legislation. However, fostering broad-based support for specific reform efforts remains a key challenge, in part reflecting the vibrancy and openness of the political process.

Table 6: Systematic Operations Risk Rating (SORT)

Category	Risk	Rating (High, Substantial, Moderate, Low)
1	Political and governance risk	High
2	Macroeconomic risk	Substantial
3	Sector strategies and policies	Substantial
4	Technical design of project or program	Substantial
5	Institutional capacity for implementation and sustainability	High
6	Fiduciary risk	Substantial
7	Environment and social risk	Moderate
8	Stakeholders	High
9	Others:	
	Overall	High

Source: World Bank staff.

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions	Results Indicators (by end 2019)
Pillar I. Macro-Fiscal Foundations for Growth	
<p>Prior Action #1. The Government of the Kyrgyz Republic approves and submits to its Parliament, amendments to the Budget Code to:</p> <ul style="list-style-type: none"> Introduce a fiscal rule that provides a debt anchor supplemented by an operational deficit target for the purpose of ensuring a sustainable fiscal policy; and Revise Article 115 to stipulate that any request to the Budget and Finance Committee of the Parliament to pre-authorize un-budgeted expenditure shall be deficit neutral and compliant with fiscal rule parameters. 	<ul style="list-style-type: none"> Improvements in the PEFA indicator PI-2 on “Composition of expenditure out-turn compared to original approved budget” from D+ in 2014 to B by 2019. Decreased variance in functional composition of expenditure out-turn from 54 percent in 2016 to under 10 percent by 2019; A declining deficit path (excluding on-lending) to 2.5% of GDP in 2018 and 2019.
<p>Prior Action #2. The Government of the Kyrgyz Republic has approved procedures requiring information on transfers, refinancing and restructuring of budget loans for State-Owned Enterprises to be included in the Republican Budget Law, starting from the 2018 budget submission.</p>	<p>Enhanced public scrutiny by the legislature and the public over the operations of SOEs and their fiscal implications and debate over the (in-)adequacy of the business model of SOEs operating in the energy sector, as measured by the number of Parliamentary hearings on the issue (at least once a year).</p>
<p>Prior Action #3. The Parliament of the Kyrgyz Republic enacts amendments to the Tax Code increasing basic excise rates on tobacco by 16.7 percent and the government of the Kyrgyz Republic adopts a Resolution increasing excise rates on alcohol by 25 percent.</p>	<p>Increase in excise rates collected from tobacco and alcohol by at least KGS 1 billion in 2018 and 2019 relative to 2017</p>
Pillar II. Transparency and Anti-Corruption in the Public Sector	
<p>Prior Action #4. The Parliament of the Kyrgyz Republic enacts the <i>Law on Conflict of Interest</i>, to define conflicts of interest and to provide mechanisms for their prevention and sanction.</p>	<p>Increase in the percentage of declarations of personal interests of public officials reviewed and verified by the Commissions on Ethics to identify potential conflicts of interest from 0% in 2017 to 15% of all filed declarations in 2019</p>
<p>Prior Action #5. The Government of the Kyrgyz Republic, through the Ministry of Finance, adopts an Order on the “Regulation on the procedure for the work of an Independent Complaints Review Commission” which adopts procedures to strengthen the objectivity and transparency of complaints handling.</p>	<ul style="list-style-type: none"> Increase in PEFA PI-19 (iv) sub-score based on 2011 PEFA methodology from D in 2014 to C in 2019. Increase in the overall PEFA PI-19 score from B in 2014 to B+ in 2019. Reduction in the average processing time for review of cases by the ICRC reduced from 10 days in 2017 to 7 days in 2019.

Prior Actions	Results Indicators (by end 2019)
Prior Action #6. The Government of the Kyrgyz Republic, through the Ministry of Finance, adopts Standard Bidding Documents for pharmaceuticals and other medical products, as well as for the design, supply and installation of plant and equipment, to streamline procurement, while enhancing value for money.	<ul style="list-style-type: none"> Increased uptake of the new SBD by procuring entities in the Health Sector, from 0% in 2017 to 50% in 2019. Gradual uptake of the new SBD for large procurement requiring turnkey solutions.
Pillar III. Private Sector Competitiveness	
Prior Action #7. The Government of the Kyrgyz Republic has approved and submitted to its Parliament the draft <i>Law on Food Safety</i> to strengthen the technical and institutional framework for quality controls and certification in respect to food safety.	<ul style="list-style-type: none"> Increase in the number of firms implementing HACCP principles from 43 in 2016 to 58 in 2019. Increase in the number of firms included in the EEU register of FBOs and allowed to export to the EEU from 43 in 2016 to 54 in 2019.
Prior Action #8. The Government of the Kyrgyz Republic adopts a Resolution establishing a deadline for the nation-wide roll out of the transfer of social insurance payments administration from the Social Fund to the State Tax Service in 2019.	<ul style="list-style-type: none"> Increase in the share of firms filing reports on social contributions with the STS from to 100% by end-December 2019. Reduction in tax compliance cost measured by Doing Business (DB) "Paying taxes" indicator from 225 hours per year in 2016 (DB 2018 report) to 205 in 2019.
Prior Action #9. The Government of the Kyrgyz Republic has (a) adopted amendments to the <i>Law on Electronic and Postal Communications</i> to promote competition in the issuance of the radio spectrum resource for providing data transmission; and (b) adopted through its State Committee of Information Technologies and Communication a procedure for dispute resolution between electronic communications service providers.	<ul style="list-style-type: none"> Increase in the International Telecommunications Union internet bandwidth indicator from 5008 Mbps in 2016 to 6500 Mbps in 2019. Dispute resolution mechanism between electronic communications service providers is operational.
Prior Action #10. The Parliament of the Kyrgyz Republic, adopts laws to lay key governance foundations for the development of the digital economy and e-service delivery.	Increase in the Number of visitors to the State Portal for E-Services from 0 in 2017 to 100,000 in 2019

ANNEX 2: LETTER OF DEVELOPMENT POLICY

**КЫРГЫЗ
РЕСПУБЛИКАСЫНЫН
ПРЕМЬЕР-МИНИСТРИ**



**ПРЕМЬЕР-МИНИСТР
КЫРГЫЗСКОЙ
РЕСПУБЛИКИ**

720003, Бишкек ш., Абдумомунов көч., 207

2018-ж.г. «15» 08

720003., г. Бишкек, Абдумомунова, 207

№ 17-22235

**Президенту Группы
Всемирного банка
господину Джиму Йонг Киму**

Уважаемый господин Ким,

Правительство Кыргызской Республики свидетельствует свое почтение и высокое уважение Всемирному банку и выражает благодарность за постоянное содействие в социальном и экономическом развитии Кыргызской Республики.

Настоящее письмо описывает программу Правительства Кыргызской Республики, направленную на улучшение управления в государственном секторе и повышение конкурентоспособности частного сектора. Мы обращаемся к Всемирному банку с просьбой оказать помощь в реализации данной программы, используя инструмент бюджетной поддержки «Операция в поддержку политики развития в области государственного управления и конкурентоспособности», в размере 24,0 миллионов долларов США.

Цели и индикаторы развития страны

Текущая экономическая ситуация в Кыргызстане во многом является следствием сложной общественно-политической ситуации в стране в последние 5-10 лет, а также обусловлена внешними факторами и тенденциями регионального и мирового характера. Но, несмотря на все вызовы, а также ограниченные природные ресурсы, в экономике Кыргызстана сохраняется стабильность и отмечается положительная динамика.

В среднесрочном периоде ключевой задачей Правительства является обеспечение динамичного развития экономики и стабильного роста доходов населения, и, как следствие - сокращение уровня бедности.

Программа Правительства Кыргызской Республики «Единство. Доверие. Созидание» на период 2018-2022 годов представляет собой первый

этап реализации Стратегии развития Кыргызской Республики на период до 2040 года, являющиеся ведущим ориентиром, позволяющим выдерживать четкие рамки развития с учетом глобальных вызовов, возможностей и национальных интересов. Программа ориентирована на сохранение преемственности и последовательности по итогам реализации Национальной стратегии устойчивого развития Кыргызской Республики на период 2013-2017 годы. Программа направлена на обеспечение конкретных решений существующих проблем экономики и общества в Кыргызской Республике. Нерешенность этих проблем развития в полной мере указывает на наличие ряда факторов, ограничивающих эффективность деятельности Правительства Кыргызской Республики.

Программа Правительства Кыргызской Республики «Единство. Доверие. Созидание» разработана по пяти приоритетным направлениям: Государственное управление – Правительство на службе народов; Экономическая база благосостояния народа; Человеческое измерение – основа развития; Развитие стратегических отраслей экономики; Национальные программы/проекты развития. Также в Программе как сквозные направления развития предусмотрены вопросы гендера, экологии и технологии, которые являются актуальными.

Такой порядок приоритетов программы обусловлен практической необходимостью решить, прежде всего, вопрос действенного управления развитием (государственное управление), что позволит выработать результативный импульс для экономического роста. Это в свою очередь расширит возможности системы управления и государственного бюджета для решения базовых подробностей кыргызстанцев.

В течение 5 лет будут решаться вопросы, направленные на улучшение качества жизни населения нашей страны:

- развитие регионов и решение социально-экономических проблем на местах;
- снижение уровня безработицы и создание новых рабочих мест;
- обеспечение социальной защищенности и достойного уровня жизни;
- построение современной и доступной инфраструктуры, включая транспортную, социальную, ирригационную и цифровую;
- повышение экспортного потенциала;
- улучшение делового климата и поддержка развития частного сектора;
- улучшение качества государственных услуг и информатизация;
- обеспечение безопасности и комфорта в населенных пунктах.

Последние экономические события

Развитие национальной экономики в 2017 году происходило на фоне продолжения восстановления мирового цикла, начавшегося в середине 2016 года, экономик стран - основных торговых партнеров, усиления

экономической активности, уменьшения геополитических рисков и внутривнутриполитической неопределенности в крупных странах.

По итогам 2017 года объем валового внутреннего продукта (далее - ВВП) сложился в сумме 521 млрд сомов и реальный темп роста составил 104,6 % (в 2016 году реальный составлял 104,3 %). Дефлятор ВВП сложился на уровне 104,6 процента.

Общий бюджетный дефицит в 2017 году составил 3,2 % ВВП, что существенно ниже целевого показателя по программе МВФ (3,5 % ВВП)¹. Доходы были выше, чем ожидалось, благодаря разовым неналоговым поступлениям от продажи лицензии по разработке золотого рудника Джеруй и части радиочастотного диапазона, а также за счет большей, чем ожидалось, прибыли Национального банка Кыргызской Республики (далее - НБКР). С другой стороны, налоговые доходы оказались ниже прогноза вследствие более слабой экономической конъюнктуры, особенно в секторах, которые обеспечивают наибольшие налоговые поступления (торговля и строительство). Некоторые неприоритетные расходы — в основном на товары и услуги и капитальные расходы из внутренних источников — были отложены до 2018 года ввиду задержек в предоставлении средств на поддержку бюджета.

Государственный внешний долг Кыргызской Республики с учетом списания Российской Федерацией в сумме 240 млн долларов США сократился и составил 53,9 % к ВВП.

Настоящее письмо о политике развития представляет ключевые меры, которые предпринимаются Правительством Кыргызской Республики для поддержания макроэкономической и фискальной стабильности и укрепления управления государственным сектором, а также среды для развития частного сектора. Эти реформы интегрированы в новую Программу Правительства Кыргызской Республики на пятилетний период и является продолжением программы, которая была поддержана в рамках предыдущих программ ОППР в 2016 году.

Макроэкономическая политика на 2018-2020 годы

Важнейшими предпосылками успешной реализации макроэкономической политики станут: скоординированная денежно-кредитная, налогово-бюджетная и инвестиционная политика, направленная на развитие реального сектора и обеспечение социальных обязательств; умеренный рост внутренних потребительских цен; повышение привлекательности бизнес-среды и рост деловой активности хозяйствующих субъектов на фоне улучшения инвестиционного климата; реализация крупных инвестиционных проектов; повышение конкурентоспособности отечественных предприятий на рынках стран-участников ЕАЭС; ежегодное предоставление льготных кредитов

¹ За исключением ре-кредитования.

сельскохозяйственным товаропроизводителям, что приведет к развитию аграрного сектора и перерабатывающей промышленности; активное использование членства Кыргызской Республики в ВТО и углубление сотрудничества с международными экономическими и финансовыми организациями.

В среднесрочном периоде на 2018-2020 годы одной из главных целей экономической политики будет обеспечение макроэкономической стабильности и устойчивого экономического роста.

Реальные темпы роста ВВП на уровне 2,8 % в 2018 году, 4,0 % - в 2019 году и 4,4 % - в 2020 году будут достигнуты за счет роста отраслей экономики: сферы услуг, строительства и сельского хозяйства.

Денежно-кредитная политика

Основной целью денежно-кредитной политики в среднесрочном периоде будет сохранение умеренных темпов инфляции как одного из основных условий устойчивого экономического роста в среднесрочной перспективе. В среднесрочном периоде ожидается удержание темпов годовой инфляции на уровне 5–7 %. Однако существуют определенные инфляционные риски, связанные с членством Кыргызской Республики и новыми условиями ЕАЭС, которые могут оказать повышающее давление на динамику потребительских цен; также ожидается сохранение инфляционного давления со стороны обменного курса сома.

Бюджетно-налоговая политика

Целью среднесрочной бюджетно-налоговой политики являются обеспечение стабильного экономического роста и сохранение устойчивости государственного бюджета.

Достижение этой цели потребует дальнейшей бюджетно-налоговой консолидации посредством дополнительных мер в отношении доходной части и сдерживания расходов.

Концептуальные основы налоговой политики Кыргызской Республики будут формироваться и проводиться в рамках Концепции фискальной политики в Кыргызской Республике на 2015-2020 годы (постановление Правительства Кыргызской Республики от 7 июля 2015 года № 455).

Сохранится стимулирующая роль фискальной политики, направленная на диверсификацию, технологическое обновление и модернизацию производства, а также повышение конкурентоспособности экономики. Продолжение реализации мер Концепции фискальной политики будет способствовать легализации экономики, ограничению уклонения от налогов, более равномерному распределению налогового бремени и упрощению налоговой системы, а также более активному использованию потенциальных возможностей по неналоговым платежам.

Для достижения поставленной цели основными задачами фискальной

политики будут:

- повышение качества государственного управления и принятие решений в области фискальной политики;
- максимально возможное выравнивание налоговой нагрузки субъектов разных секторов и отраслей экономики и субъектов, применяющих разные режимы налогообложения;
- развитие существующих и освоение новых инструментов администрирования, обеспечивающих повышение эффективности и успешную интеграцию с государствами-членами Евразийского экономического союза;
- постоянное обогащение практики взимания обязательных платежей новыми механизмами администрирования, внедряемыми по результатам изучения лучших мировых практик, с учетом особенностей и потребностей страны.

Бюджетно-налоговая консолидация будет также опираться на комплексную реформу государственной службы, которая должна сдерживать рост фонда оплаты труда и повышать эффективность государственной службы. Реформы управления государственными финансами способствуют повышению эффективности государственных расходов, укреплению структуры и исполнения бюджета, а также обеспечат в перспективе повышение транспарентного процесса бюджета. С этой целью необходимо незамедлительно активизировать реформы в области здравоохранения, образования и пенсионной системе, то есть в тех секторах, на которые направляются порядка пятидесяти процентов общего объема расходов государственного бюджета.

Будет продолжена работа по внедрению программного бюджета в учреждениях, финансируемых из республиканского бюджета. С этой целью будут продолжены мероприятия по повышению потенциала министерств и административных ведомств путем проведения консультаций, тренингов и семинаров по программному бюджетированию.

Значительные новые механизмы в системе казначейства введены после принятия Бюджетного кодекса Кыргызской Республики, который вступил в силу с 1 января 2017 года. Также внедрены механизм кассового планирования и Единый казначейский счет. Наряду с этим утвержден Единый план счетов для бухгалтерского учета операций по исполнению бюджета бюджетных учреждений.

С 2018 года начат новый этап мероприятий по внедрению исполнения республиканского бюджета в программном формате в автоматизированной системе казначейства.

Социальная политика

В области социальной политики основными задачами на 2018-2020 годы остаются обеспечение гарантий государства в области социальной защиты для наиболее уязвимых категорий граждан, улучшение качества

жизни населения и снижение масштабов бедности с учетом современных требований и возможностей государства. Основные приоритетные направления деятельности определены в Программе содействия занятости населения и регулирования внутренней и внешней трудовой миграции до 2020 года.

В условиях ограниченности государственного финансирования сфер образования и здравоохранения будут продолжены мероприятия по разделению сфер ответственности государства, частного сектора и получателей услуг.

Энергетический сектор

Согласно экономическому обзору Всемирного банка, подготовленному в 2017 году, энергетические компании находятся в сложном финансовом положении.

В связи со сложившейся ситуацией в энергетическом секторе Правительством Кыргызской Республики поставлена задача по реформированию в течение 2018 года структуры управления энергетической отраслью, усилению работы по реализации антикоррупционных мероприятий и улучшению показателей энергетических компаний.

В рамках программы ОППР в 2015 и 2016 годах Правительством Кыргызской Республики успешно реализовывались мероприятия в сфере энергетики (триггеры для ОППР).

Будут продолжены реформы с целью обеспечения исполнения кредитных обязательств и дальнейшего улучшения финансового состояния энергетических компаний путем повышения эффективности деятельности энергокомпаний, оптимизации организации управления энергетической отраслью и модернизации энергооборудования предприятий топливно-энергетического комплекса.

При этом, в целях снижения дефицита денежных средств, оздоровления финансово-экономического положения при условии выполнения всех необходимых мер по подготовке и прохождению осенне-зимнего периода, Правительством Кыргызской Республики приняты следующие меры:

- принято решение о реструктуризации задолженности по государственным заемным средствам генерирующей и передающей энергокомпаний, подлежащей погашению в 2017-2018 годах;

- осуществлен экспорт электроэнергии в Республику Узбекистан в объеме 1141 млн кВтч электроэнергии на сумму 22, 824 млн долл. США.

С третьей декады декабря 2017 года по март 2018 года была осуществлена поставка электрической энергии в Республику Узбекистан в объеме 361 млн кВтч;

- в целях сокращения потерь принимаются меры по установке приборов учета АСКУЭ. Общее количество установленных приборов учета

АСКУЭ составляет порядка 205 тыс. единиц.

Обязательства по адаптации к изменениям климата

Наша страна проявляет достаточную политическую волю и предпринимает системные действия на национальном и секторальном уровнях, чтобы свести к минимуму потенциальные угрозы от изменения климата, а также выполнить обязательства, взятые перед мировым сообществом в рамках Рамочной конвенции ООН об изменении климата.

Для осуществления межсекторальной и межведомственной координации деятельности государственных органов исполнительной власти по выполнению обязательств Кыргызской Республики по РКНКООН постановлением Правительства Кыргызской Республики от 21 ноября 2012 года № 783 образована Координационная комиссия по проблемам изменения климата.

Правительством Кыргызской Республики проводится активная работа по совершенствованию законодательства и интегрированию климатических вопросов в стратегические документы развития страны.

Вопросы изменения климата, низкоуглеродного и «зеленого» развития интегрированы в документы развития страны.

В реализацию выполнения обязательств по отчетности перед Конвенцией Правительством Кыргызской Республики подготовлены и представлены в Секретариат Конвенции три национальных сообщения об изменении климата.

В предполагаемом национально определяемом вкладе Кыргызской Республики, подготовленном в 2015 году, определена траектория долгосрочного видения национальных мер по предотвращению изменений климата и усилению климатической устойчивости.

Остальные разделы настоящего письма устанавливают конкретные программы и реформы в ряде областей, в том числе те, которые осуществляются при поддержке новой программы ОППР.

Макроэкономические и фискальные основы для инклюзивного роста

Повышение бюджетной дисциплины и прозрачности

Несмотря на улучшение бюджетного процесса, сохраняются институциональные недостатки, в результате чего исполнение бюджета не соответствует строгим принципам финансовой дисциплины. Исполнение бюджета происходит с внесением корректировок в расходы, как текущих, так и инвестиционных, которые значительно расходятся от запланированных.

В этой связи, в целях обеспечения устойчивости и эффективности бюджетной системы в настоящее время Правительство Кыргызской Республики при содействии Международного валютного фонда и

Всемирного банка инициировало и приняло механизм внедрения фискальных правил, предусматривающих количественные целевые показатели по размеру дефицита бюджета и уровню государственного долга путем включения в Бюджетный кодекс Кыргызской Республики. Предлагаемые изменения приведут к улучшению предсказуемости бюджета, что будет способствовать дальнейшему совершенствованию бюджетного процесса.

Между тем, для повышения прозрачности в бюджетной сфере принято постановление Правительства Кыргызской Республики от 1 ноября 2017 года № 723 «О порядке формирования проекта республиканского бюджета и внесения изменений в республиканский бюджет», согласно которому пояснительная записка к годовому бюджету будет включать информацию о задолженности государственных предприятий бюджету, включая акционерные компании энергетического сектора; планируемые бюджетные кредиты и субсидии; списание и реструктуризации бюджетных кредитов, а также погашение обязательств по бюджетным кредитам.

Данный Порядок разработан в целях регламентации бюджетного планирования и формирования проекта закона Кыргызской Республики о республиканском бюджете Кыргызской Республики на очередной бюджетный год и прогнозируемый период. Кроме того, Порядок определяет единые правила и процесс формирования и внесения изменений в республиканский бюджет.

Согласно данному Порядку в дальнейшем будет предоставляться развернутая информация об обязательствах бюджета для принятия сбалансированных решений.

Увеличение мобилизации внутренних доходов

Правительство Кыргызской Республики продолжает разрабатывать меры по увеличению доходной части бюджета. В этом направлении Правительство Кыргызской Республики тесно сотрудничает с Международным валютным фондом и Всемирным банком в рамках совместных финансово-экономических программ.

Закон Кыргызской Республики «О внесении дополнений и изменений в Налоговый кодекс Кыргызской Республики» от 28 апреля 2017 года № 65 устанавливает увеличение ставок акцизного налога на табачные изделия, включая сигареты с фильтром и без фильтра, сигариллы и сигары, а также прочие изделия из табака, на пять лет (с 2018 по 2022 год) с учетом проекта Соглашения о принципах ведения налоговой политики в области акцизов на табачную продукцию государств-членов Евразийского экономического союза.

По предварительным расчетам, увеличение ставок акцизного налога позволит увеличить доходы государственного бюджета на 938 млн сомов в 2018 году и на 947,2 млн сомов ежегодно до 2022 года. Следует отметить, что уровень повышения ставок акциза приближен к тенденциям роста.

установленного в государствах-членах ЕАЭС, что позволяет использовать возможность по повышению доходной части бюджета без риска увеличения контрабандной продукции, а также окажет положительное влияние на создание единого интеграционного экономического пространства с участием Кыргызской Республики.

Кроме того, решением Правительства Кыргызской Республики ставки акцизного налога на водку, ликероводочные изделия и крепкие напитки увеличены с 60 сом/литр до 70 сом/литр. Ожидаемое расчетное дополнительное поступление от повышения ставок акцизного налога на алкогольную продукцию, исчисленное исходя из объемов производства и импорта алкогольной продукции 2016 года, составит порядка 200 млн сомов.

Повышение прозрачности и борьба с коррупцией в государственном секторе

Усиление подотчетности в государственном секторе

Повышение прозрачности и борьба с коррупцией остаются основными приоритетными сферами деятельности Правительства Кыргызской Республики. В этом направлении 15 декабря 2017 года принят Закон Кыргызской Республики «О конфликте интересов», который направлен на: (а) унификацию и совершенствование законодательства о конфликте интересов; (б) внедрение механизмов своевременного выявления, предотвращения и урегулирования конфликта интересов; (в) оказание практической помощи государственным органам и их служащим в поддержании добропорядочности официальных политических и административных решений в системе государственного управления в целом.

Документом утверждены организационные и правовые нормы регулирования конфликта интересов у госслужащих, а также руководителей учреждений (организаций, предприятий), финансируемых из государственного или местного бюджета, или при наличии государственной доли в их уставном капитале.

Принятый Закон будет способствовать совершенствованию института урегулирования конфликта интересов, а также уменьшению количества случаев, при которых должностные лица оказываются в ситуациях, приводящих к коррупции в системе государственного управления страны.

Повышение эффективности и прозрачности государственных закупок

Правительство Кыргызской Республики будет придерживаться принципов лучшей международной практики в сфере государственных закупок. В настоящее время совершенствование системы государственных закупок является одним из самых приоритетных мероприятий

Правительства Кыргызской Республики в рамках реализации программы цифровой трансформации «Таза коом». В связи с этим устанавливаются новые подходы к развитию и совершенствованию системы государственных закупок, такие, как улучшение институциональной базы, создание электронной площадки рассмотрения жалоб и писем, эффективное осуществление и контроль государственных закупок.

В связи с этим решением Министерства финансов Кыргызской Республики от 1 февраля 2018 года № 15-П утверждена Программа по усовершенствованию и повышению эффективности государственных закупок Кыргызской Республики на 2018-2022 годы, в целях определения и реализации перспективных направлений дальнейшего развития системы государственных закупок. Основными задачами Программы являются совершенствование и улучшение законодательной базы в сфере государственных закупок, укрепление институциональной основы и кадрового потенциала Департамента государственных закупок, повышение квалификации сотрудников закупающей организации и проверяющих органов, а также повышение доверия к системе государственных закупок и содействие эффективному, прозрачному, справедливому и конкурентному процессу закупок.

Для решения вышеперечисленных задач Министерство финансов Кыргызской Республики усовершенствовало Положение о порядке работы межведомственной комиссии по рассмотрению жалоб (приказ Министерства финансов Кыргызской Республики № 140-П от 11 октября 2017 года).

В Положении предусмотрены следующие ключевые изменения:

- конкретный порядок и критерии отбора, а также обучение в целях привлечения квалифицированных специалистов и усиления потенциала членов Комиссии;
- внедрены новые (оперативные) способы рассмотрения жалоб, протестов и обращений посредством веб-портала;
- порядок рассмотрения и принятия решения по группам;
- регламентирован порядок исполнения решения Комиссии;
- нормы данного проекта Положения содействуют повышению качества принимаемых решений путем привлечения специалистов в области права.

Также Положение предусматривает уменьшение нагрузки на членов Комиссии за счет увеличения их общего числа и специфики рассмотрения, а также способствуют повышению устойчивости решения Комиссии посредством регламентированного порядка отслеживания решений, принятых Комиссией.

Для эффективности и прозрачности государственных закупок разработаны стандартные конкурсные документы (СКД) на закупку проектирования, поставку и установку оборудования и (СКД) на закупку лекарственных средств и медицинских изделий. СКД на закупку

проектирования, поставку и установку оборудования двухэтапным методом предназначены для договоров на закупку крупных и сложных объектов «под ключ», включающие в себя проектирование, поставку и установку оборудования одноэтапным методом на государственные средства, и на средства, предоставляемые международными донорами. Также СКД предназначены для ввода в эксплуатацию специально сконструированных установок и оборудования, таких, как турбины, генераторы, паровые котлы, трансформаторные подстанции, насосные станции, системы телесвязи, технологические установки, очистные сооружения для реализации проектов в области энергетики, водного хозяйства, канализации и телесвязи.

СКД на закупку лекарственных и медицинских изделий применимы для закупок методом одноэтапного конкурса согласно Закону Кыргызской Республики «О государственных закупках». Для системы здравоохранения данные СКД разработаны с учетом Гармонизированного руководства по закупкам, регламентирующего закупки в секторе здравоохранения.

Также разработано Руководство по отбору консультационных услуг (далее – проект Руководство) в соответствии с главой 3 Закона Кыргызской Республики «О государственных закупках». Основной целью данного проекта Руководства является предоставление разъяснения по каждому методу закупок при закупке консультационных услуг для участников процедур закупок.

Повышение конкурентоспособности

Улучшить доступ производителей к рынкам ЕАЭС

Вступление Кыргызской Республики в ЕАЭС открыло возможности для увеличения экспорта продуктов питания для кыргызских производителей. Реализация этой возможности требует от кыргызских производителей необходимости соответствия техническим и качественным стандартам в соответствии с требованиями ЕАЭС. Для создания законодательной основы по обеспечению системы контроля за качеством продуктов питания Правительством Кыргызской Республики разработан законопроект «О безопасности пищевой продукции Кыргызской Республики».

Данный законопроект призван восполнить пробел, существующий в настоящее время в законодательстве республики, - отсутствие единого закона, устанавливающего правовую основу для создания в республике единой системы обеспечения безопасности всей пищевой продукции, производимой и обращающейся на рынке республики.

Также законопроект устанавливает особенности проведения государственного контроля (надзора) за безопасностью пищевой продукции, существенно расширяются его цели, государство получает больше инструментов для непрерывного отслеживания информации, быстрого принятия необходимых решений. Одновременно снижается

карательная направленность надзора, устанавливаются новые формы надзора, такие, как мониторинг, аудит, и базируются на нормативной базе Евразийского экономического союза, но при этом не дублирует требования технических регламентов.

Снижение затрат на соблюдение нормативных требований для фирм

Правительством Кыргызской Республики осуществляются определенные меры по улучшению инвестиционного климата, поддержка частного бизнеса, улучшение собираемости налогов. Так, в целях институциональной поддержки МСП предусмотрено создание не прямой системы поддержки через эффективную фискальную политику и администрирование, вследствие чего запланирована задача по созданию «налогового рая» по принципу «1 предприниматель – 1 учет, 1 налог, 1 бюджет, 1 фискальный орган и 1 проверка». В рамках реализации данной задачи предусмотрены следующие меры: разработка системы «Электронный патент»; разработка системы «Виртуальный склад»; разработка НПА, обеспечивающего перевод налоговых проверок на аутсорсинг аудиторским компаниям; разработка единого стандарта отчетности субъектов МСБ для всех органов; разработка и внесение поправки в Налоговый кодекс Кыргызской Республики по единому налогу для предприятий, которые впервые регистрируются как плательщики НДС.

В течение 2017 года принимались определенные меры для реализации задач по внедрению электронного патента; электронной системы фискализации процедур учета торговых операций; электронной системы администрирования налогов; по созданию единой нормативной правовой базы для внедрения электронной системы администрирования налогов и методов дистанционного администрирования налогов; созданию нормативно-правовой базы для передачи функций по администрированию социальных отчислений от Социального фонда Кыргызской Республики Государственной налоговой службе при Правительстве Кыргызской Республики; по передаче на аутсорсинг профессиональным сообществам части функций органов налоговой службы и др.

Поддержка развития цифровой экономики

Правительство Кыргызской Республики стремится к улучшению цифровой экономики страны, в частности были приняты решения законодательного характера, которые напрямую будут влиять на эффективное управление переходом к цифровой экономике.

Более того, 12 июля 2017 года решением Высшего экономического совета для определения среднесрочных целей, принципов, задач, направлений и механизмов сотрудничества между государствами – членами по вопросам реализации цифровой повестки Союза до 2025 года были утверждены Основные направления реализации цифровой повестки Евразийского экономического союза до 2025 года. По мере реализации

цифровой повестки и прорывных проектов экономический эффект может значительно возрасти. Возникнут новые синергетические эффекты, связанные с увеличением производительности труда, повышением инвестиционной привлекательности, получением отдачи от внедрения инновации, активизацией сотрудничества в несырьевых высокотехнологических сферах, развитием международной цифровой кооперации, что приведет к формированию на цифровом пространстве Союза конкурентоспособного на мировом рынке регионального объединения.

Государственный комитет информационных технологий и связи Кыргызской Республики своим решением устанавливает порядок урегулирования, третейского рассмотрения и разрешения конфликтов, возникающих между операторами, службами электросвязи, предприятиями почтовой связи и пользователями услуг связи, а Государственное агентство связи при Государственном комитете информационных технологий и связи Кыргызской Республики рассматривает вопросы, связанные с урегулированием, третейским рассмотрением и разрешением конфликтов, возникающих между операторами, поставщиками услуг электросвязи, операторами, предприятиями почтовой связи и пользователями услуг связи.

Данный Порядок разработан с целью сокращения сроков разрешения спора между сторонами и реализации статьи 62 Закона Кыргызской Республики «Об основах административной деятельности и административных процедурах», которой предусматривается досудебное рассмотрение споров.

Прежде всего, будет определен круг органов, администрирующих переход к электронному управлению, их полномочия, порядок принятия решений в сфере электронного управления. Все это создаст условия для внедрения электронного управления в государственных органах. Кроме того, закрепленные законопроектом механизмы электронного управления позволят ускорить развитие Кыргызстана как современного, технологичного государства, снизить коррупционные риски, повысить эффективность и инвестиционную привлекательность национальной экономики, сократить расходы государственного бюджета или сделать их более эффективными.

Задачей нового Закона Кыргызской Республики «Об электронной подписи» является урегулирование следующих видов отношений в области использования электронных подписей: (а) использование различных видов электронных подписей; (б) выдача и использование сертификатов ключа подписи, проверка электронных подписей; (в) оказание услуг удостоверяющих центров, а также аккредитация удостоверяющих центров.

Без надлежащей защиты персональных данных граждан, обрабатываемых в информационных системах при оказании государственных/муниципальных услуг, невозможно внедрение электронных сервисов. Закон Кыргызской Республики «Об информации персонального характера» играет важную роль при реализации

государственных функций, требующих персонификации/аутентификации субъектов персональных данных, в том числе при организации избирательного процесса с использованием новых информационных технологий, при обработке персональных данных при предоставлении электронных услуг.

Закон разработан в целях более эффективной защиты прав субъектов персональных данных, в том числе при их обработке различными держателями в информационных системах персональных данных.

Эти изменения важны с точки зрения предстоящего в рамках ЕАЭС электронного взаимодействия, как государственных органов, так и юридических и физических лиц, обмена персональными данными субъектов, включая вопросы трансграничной передачи персональных данных.

Обеспечение эффективности и непротиворечивости нормативной правовой базы Кыргызской Республики в сфере электронного управления являются задачами, решение которых возможно только при условии синхронизации положений действующих законов Кыргызской Республики с принципами нового базового законопроекта, закладывающего основы, как для отрасли информационных технологий, так и электронного управления, и тем самым, координирующего положения иных нормативных правовых актов Кыргызской Республики в данной сфере.

Кроме того, благодаря реформам в рамках программы ОППР, Правительство Кыргызской Республики продолжит внедрение и развитие цифровой экономики и расширение геоинформационных систем, что позволит улучшить качество предоставляемых государственных услуг и обеспечить развитие частного сектора.

Правительство Кыргызской Республики выражает уверенность в том, что реализация приоритетов новой Программы Правительства Кыргызской Республики «Единство. Доверие. Созидание» на период 2018-2022 годов, обеспечит устойчивое и успешное будущее нашей страны. Реформы, обозначенные в Программе, предусматривают устойчивый экономический рост и снижение уровня бедности в среднесрочной перспективе.

Правительство Кыргызской Республики рассчитывает, что вопрос о поддержке программы реформ в размере 24,0 миллионов долларов США будет решен положительно.

С уважением,

Премьер-министр



М.Д.Абылгазиев

Letterhead of the

Prime Minister of the Kyrgyz Republic

207 Abdumomunov St. Bishkek, Kyrgyz Republic, 720003

15 August 2018

Ref. No 17 - 22235

**To: Mr. Jim Yong Kim
The President of the
World Bank Group**

Dear Mr. Kim,

The Government of the Kyrgyz Republic presents its compliments and high respect to the World Bank and expresses its gratitude for the continued assistance in the social and economic development of the Kyrgyz Republic.

This letter describes the program of the Government of the Kyrgyz Republic, aiming at improving governance in the public sector and enhancing the competitiveness of the private sector. We ask the World Bank for assistance in implementing this program, using the budget support instrument "Development Policy Operation in the Field of Public Administration and Competitiveness", in the amount of USD 24.0 million.

Country Development Goals and Indicators

Current economic situation in Kyrgyzstan is largely a consequence of the complex social and political situation in the country in the last 5 - 10 years, and it is also conditioned by external factors and trends of a regional and global nature. But, despite all the challenges, as well as limited natural resources, the economy of Kyrgyzstan remains stable and positive dynamics is noted.

In the medium term, the Government's key task is to ensure the dynamic development of the economy and stable growth of the population's incomes, and, as a consequence, to reduce poverty.

Program of the Government of the Kyrgyz Republic "Unity. Confidence. Creation." for the period of 2018 - 2022 represents the first stage in the implementation of the Development Strategy of the Kyrgyz Republic for the period until 2040, being the leading benchmark allowing to maintain clear development framework in the light of global challenges, opportunities and national interests. The program is aimed at maintaining continuity and consistency in the pace of implementation of the National sustainable development strategy of the Kyrgyz Republic in the period of 2013 - 2017. The program is aimed at providing concrete solutions to the problems in economy and society in the Kyrgyz Republic. The unresolved nature of these development problems fully indicates the presence of a number of factors that limit the effectiveness of the efforts of the Government of the Kyrgyz Republic.

Program of the Government of the Kyrgyz Republic "Unity. Confidence. Creation." is constructed on five pillars: the State Governance - The Government is at the service of the people; The Economic basis of the well-being of the people; The human dimension is the basis of development; Development of strategic sectors of the economy; National development programs / projects. There are also cross-cutting development issues included into the Program, which are gender, environment and technology, being topical.

Such order of priorities of the Program is stipulated by practical necessity to solve first of all the issue of effective development management (public governance), which will allow developing an effective

impulse for economic growth. This, in turn, will expand the capacity of the governance system and of the state budget in addressing the basic needs of Kyrgyz citizens.

Within 5 years, the program will address issues aimed at improving the quality of living of the population of our country:

- development of regions and addressing social and economic problems at local level;
- reducing unemployment and creating new jobs;
- provision of social security and a decent standard of living.
- building modern and accessible infrastructure, including transport, social, irrigation and digital;
- increase of export potential;
- improving business climate and supporting the development of the private sector;
- improving the quality of public services and informatization;
- providing security and comfort in settlements;

Recent Economic Developments

Development of the national economy in 2017 took place against the backdrop of the continued recovery of the world cycle that began in mid - 2016, of economies of the major trading partners, the strengthening of economic activity, the reduction of geopolitical risks and internal political uncertainty in the large countries of the region.

As a result of 2017, the gross domestic product (hereinafter - GDP) amounted to 521 billion Soms and the real growth rate amounted to 104.6 % (in 2016, the real growth rate was 104.3 %). The GDP deflator formed at the level of 104.6 per cent.

The overall budget deficit in 2017 amounted to 3.2 % of the GDP, which is well below the IMF program target (3.5 % of GDP)²⁸. Revenues were higher than expected, due to non - recurring non - tax revenues from the sale of the Jeruy gold mine and part of the radio frequency range, as well as due to higher than expected revenue of the National Bank of the Kyrgyz Republic (hereinafter - NBKR). On the other hand, tax revenues turned out to be lower than the forecast due to the weaker economic conditions, especially in the sectors that provide the largest tax revenue (trade and construction). Some of the non - priority expenditures - mainly goods and services and capital expenditures from internal sources - were postponed until 2018 due to delays in provision of the budget support funds.

The state foreign debt of the Kyrgyz Republic, taking into account the write-off by the Russian Federation of the sum of 240 million US dollars, decreased and amounted to 53.9% of GDP.

This Policy Development Letter sets out the key measures that the Government of the Kyrgyz Republic is taking to maintain macro - fiscal stability, to strengthen public sector governance and the environment for private sector development. These reforms are integrated into the new Program of the Government of the Kyrgyz Republic for a five-year period and are the continuation of the program, which was supported by previous DPO programs in 2016.

²⁸ With the exception of on-lending

Macroeconomic policy for 2018 – 2020

The most important prerequisites for the successful implementation of macroeconomic policy will be: coordinated monetary, fiscal and investment policies aimed at developing the real sector and ensuring social commitments; moderate growth of domestic consumer prices: increasing the attractiveness of the business environment and increasing business activity of economic entities against the background of improving the investment climate; implementation of large investment projects; increase of competitiveness of domestic enterprises in the markets of the countries - participants of the EAEU; annual granting of soft loans to agricultural producers, which will lead to the development of the agricultural sector and the processing industry; active use of the membership of the Kyrgyz Republic in the WTO and deepening of cooperation with international economic and financial organizations.

In the mid - term period of 2018 - 2020, one of the main goals of economic policy will be macroeconomic stability and sustainable economic growth.

Real GDP growth rates of 2.8% in 2018, 4.0% in 2019 and 4.4% in 2020 will be achieved through the growth of economic sectors: services, construction and agriculture.

Monetary policy

The main objective of monetary policy in the medium-term period will be to maintain moderate inflation rates as one of the main conditions for sustainable economic growth. In the medium term, it is expected that inflation will be kept at the level of 5 - 7 percent. At the same time, there are certain inflation risks related to the membership of the Kyrgyz Republic and the new conditions of the EAEU, which can exert increasing pressure on the dynamics of consumer prices; inflationary pressure from the Som exchange rate is also expected to persist.

Fiscal policy

The goal of the medium - term fiscal policy is to ensure stable economic growth and maintain the stability of the state budget.

Achieving this goal will require further fiscal consolidation through additional measures in terms of revenues and cost containment.

The conceptual bases of the tax policy of the Kyrgyz Republic will be formed and carried out within the framework of the Concept of Fiscal Policy in the Kyrgyz Republic for 2015 - 2020 (Resolution of the Government of the Kyrgyz Republic No. 455 of July 7, 2015).

The stimulating role of fiscal policy aimed at diversification, technological renewal and modernization of production, as well as increasing the competitiveness of the economy will remain. Continuation of implementation of the fiscal policy measures will contribute to the legalization of the economy, to limiting of tax evasion, to a more even distribution of the tax burden and simplification the tax system, as well as to a more active use of potential opportunities for non - tax payments.

To achieve this goal, the main objectives of fiscal policy will be:

- improving the quality of public governance and decision - making in the field of fiscal policy;
- the maximum possible equalization of the tax burden of subjects of different sectors of the economy and of subjects applying different taxation regimes;

- development of existing and mastering of new administrative tools ensuring efficiency increase and successful integration with the member states of the Eurasian Economic Union;
- constant enrichment of the practice of charging mandatory payments with new administrative mechanisms, introduced by the results of studying the best world practices, taking into account the peculiarities and needs of the country.

The fiscal consolidation will also be based on the comprehensive civil service reform, which should restrain the growth of the payroll and enhance the effectiveness of public service. Reforms in public finance governance contribute to improvement of the efficiency of public spending, strengthening the structure and execution of the budget, and will contribute to increase of the transparency of the budget process. To this end, it is necessary to urgently intensify reforms in the area of health care, education and in the pension system, that is, in sectors for which about fifty percent of the total state budget expenditures are channeled.

Work on the implementation of the program budget in institutions funded from the republican budget will continue. To this end, measures to increase the capacity of ministries and administrative agencies will continue through consultations, trainings and seminars on program budgeting.

Significant new mechanisms in the treasury system were introduced after the adoption of the Budget Code of the Kyrgyz Republic, which entered into force on January 1, 2017. Also, the mechanism of cash planning and the Unified Treasury Account were introduced. Along with this, the Single Chart of Accounts was approved for the bookkeeping of budget execution operations.

Since 2018, a new phase of measures to introduce the execution of the republican budget in a program format in the automated system of the treasury has been launched.

Social policy

In the field of social policy, the main objectives for 2018 - 2020 remain ensuring state guarantees in the field of social protection for the most vulnerable categories of citizens, improving the quality of life of the population and reducing poverty, taking into account modern requirements and the state's capabilities. The main priority areas of activity are defined in the Program for Promoting Population Employment and Regulation of Internal and External Labor Migration until 2020.

In the condition of limited public funding for education and health, activities will continue to separate the areas of responsibility of the state, the private sector and the recipients of services.

Energy Sector

According to the Economic Survey of the World Bank, prepared in 2017, the energy companies are in a difficult financial situation.

In connection with the current situation in the energy sector, the Government of the Kyrgyz Republic has set the task of reforming the structure of management of the energy sector in 2018, strengthening the implementation of anti-corruption measures and improving the performance of energy companies.

Within the framework of the DPO 2015 and 2016, the Government of the Kyrgyz Republic successfully implemented activities in the energy sector (DPO triggers).

The reforms will continue to ensure the fulfillment of credit obligations and further improvement of the financial status of energy companies by improving the efficiency of energy companies, optimizing the management of the energy sector and upgrading the energy equipment of enterprises of the fuel and energy complex.

At the same time, in order to reduce the cash deficit, improve the financial and economic situation, provided that all the necessary measures are taken to prepare and pass the autumn-winter period, the Government of the Kyrgyz Republic took the following measures:

- a decision was taken to restructure the debt on state borrowed funds of the generating and transferring energy company to be repaid in 2017 - 2018.
- electric power was exported to the Republic of Uzbekistan in the amount of 1,141 million kWh of electric power for the amount of USD 22.824 million.

From the third decade of December 2017 to March 2018, electric power was supplied to the Republic of Uzbekistan in the amount of 361 million kWh.

- in order to reduce losses, measures are taken to install AMR metering devices: in recent years, AMR meters have been installed throughout the country in the amount of 205 thousand units.

Commitments to adapt to climate change

Our country demonstrates sufficient political will and undertakes systemic actions at the national and sectoral levels to minimize potential threats from climate change, as well as to fulfill the commitments made to the world community under the United Nations Framework Convention on Climate Change.

To implement the intersectoral and interdepartmental coordination of state executive bodies for the implementation of the obligations of the Kyrgyz Republic under the UNFCCC, Resolution of the Government of the Kyrgyz Republic No. 783 of November 21, 2012, the Coordinating Commission on Climate Change was established.

The Government of the Kyrgyz Republic is actively working to improve legislation and integrate climate issues into the country's strategic development documents.

The issues of climate change, low - carbon and “green” development are integrated into the country's development documents.

As to the implementation and reporting obligations to the Convention, the Government of the Kyrgyz Republic has prepared and submitted to the Convention Secretariat, three National Climate Change Communications.

In the proposed Nationally Determined Contribution of the Kyrgyz Republic, prepared in 2015, the long-term vision of national measures to prevent climate change and enhance climate resilience has been defined.

The remaining sections of this letter establish specific programs and reforms in a number of areas, including those implemented with the support of the new DPO program.

Macro - Fiscal Framework for Inclusive Growth

Increasing budget discipline and transparency

Despite the improvement of the budget process, institutional weaknesses persist, where the execution of the budget does not comply with strict principles of financial discipline. Execution of the budget occurs with the introduction of adjustments to the costs, both current and investment, which significantly deviate from the planned expenditures.

In this regard, in order to ensure the sustainability and effectiveness of the budgetary system, the Government of the Kyrgyz Republic, with the assistance of the International Monetary Fund and the World Bank, has initiated and adopted a mechanism of introduction of fiscal rules that provide quantitative targets for the size of the budget deficit and the level of public debt by inclusion in the Budget Code Of the Kyrgyz Republic. The proposed changes will lead to better predictability of the budget which will further improve the budget process.

Meanwhile, to increase transparency in the budgetary sphere, a Resolution of the Government of the Kyrgyz Republic was adopted 1st November 2017 No. 723 “On the Order of drafting the republican budget and introducing changes to the republican budget”, according to which an explanatory note to the annual budget will include information on the debt of state enterprises to the budget, including joint stock companies of the energy sector; planned budgetary credits and subsidies; write - off and restructuring of budgetary credits and repayment of obligations under budgetary credits.

The Procedure was developed to regulate budget planning and formulate the draft law of the Kyrgyz Republic on the republican budget of the Kyrgyz Republic for the next budget year and for the forecast period. In addition, the Procedure determines uniform rules and the process of forming and introducing changes to the republican budget.

According to this Procedure, in the future, detailed information will be provided on the budget obligations for making balanced decisions.

Increasing mobilization of domestic revenues

The Government of the Kyrgyz Republic continues to develop measures to increase the revenue side of the budget. In this direction, the Government of the Kyrgyz Republic closely cooperates with the International Monetary Fund and the World Bank in the framework of joint financial and economic programs.

The Law of the Kyrgyz Republic “On Introduction of Amendments and Additions to the Tax Code of the Kyrgyz Republic” of 28 April 2017 No. 65 establishes an increase in excise tax rates for tobacco products, including filtered and non - filtered cigarettes, cigarillos and cigars, as well as other tobacco products for five years (from 2018 to 2022), taking into account the draft Agreement on the principles of tax policy in the field of excise taxes on tobacco products of the member states of the Eurasian Economic Union.

According to preliminary calculations, the increase in excise tax rates will allow to increase the state budget revenues by 938 million Soms in 2018, and by 947.2 million Soms annually until 2022. It should be noted that the level of increase in excise rates is close to the growth trends established in the EAEU member states, which makes possible to use the capacity to increase the revenue side of the budget

without the risk of increasing contraband products, and will also have a positive impact on the creation of a single integration economic space with the participation of the Kyrgyz Republic.

In addition, by the Resolution of the Government of the Kyrgyz Republic, excise tax rates for vodka, alcoholic beverages and strong drinks have been increased from 60 som / liter up to 70 som / liter, which will result in additional expected estimated income from the increase in excise tax on alcohol products, calculated based on the volume of production and import of alcohol products in 2016, and will amount to about 200 million Soms.

Increasing Transparency and Combating Corruption in the Public Sector

Strengthening accountability in the public sector

Increasing transparency and combating corruption remain the main priority areas of the Government of the Kyrgyz Republic. In this regard, the Law of the Kyrgyz Republic was adopted December 15, 2017 “On Conflicts of Interest”, which aims to: (a) unify and improve legislation on conflict of interest; (b) introduce mechanisms for the timely detection, prevention and settlement of conflicts of interest; (c) render practical assistance to state bodies and their employees in maintaining the integrity of official political and administrative decisions in the system of public administration as a whole.

The document approved the organizational and legal norms governing the settlement of conflict of interest of civil servants, as well as heads of institutions (organizations, enterprises) funded from the state or local budget or with a state share in their authorized capital.

The adopted Law will contribute to the improvement of the institution of settlement of conflict of interest, as well as to reduction of the number of cases in which officials turn out to be in situations that lead to corruption in the country's public administration system.

Increasing the efficiency and transparency of public procurement

The Government of the Kyrgyz Republic will adhere to the principles of the best international practices in public procurement. At present, improvement of the public procurement system is one of the highest - priority activities of the Government of the Kyrgyz Republic in the framework of the “Taza Koom” digital transformation program. In this regard, new approaches to the development and improvement of the public procurement system are being established, such as the improvement of the institutional base, the creation of an electronic platform for handling complaints and letters, and the effective implementation and monitoring of public procurement.

In this connection, by its resolution of February 1, 2018 No. 15 - P the Ministry of Finance of the Kyrgyz Republic approved the Program for improving and increasing the efficiency of public procurement of the Kyrgyz Republic for 2018 - 2022, with a view to identify and implement promising directions for the further development of the public procurement system. The main objectives of the program are the improvement and refinement of the legislative framework in the field of public procurement, strengthening the institutional framework and human resources of the Department of Public Procurement, upgrade of the skills of employees of the procuring entity and inspection bodies, and the increase of confidence in the public procurement system as well as promotion of efficient, transparent, fair and competitive procurement process.

To address the above tasks, the Ministry of Finance of the Kyrgyz Republic has improved the Regulations on the procedure for the work of the interagency commission for handling complaints (the Order No. 140 - P of the Ministry of Finance of the Kyrgyz Republic of October 11, 2017).

The Regulations provides for the following key changes:

- specific procedure and selection criteria, as well as training, to attract qualified specialists and strengthen the capacity of the members of the Commission;
- new (operative / quick) ways of handling complaints, protests and appeals through a web portal have been introduced;
- the order of consideration and decision - making by groups;
- the procedure for the implementation of the Commission's decision is regulated;
- the norms of this draft Regulation contribute to improve the quality of taken decisions, by attracting specialists in the field of law.

The Regulation also provides for reducing the burden on members of the Commission by increasing their total number and specificity of the review, and contributing to the sustainability of the Commission's decision through a regulated order of tracking of decisions made by the Commission.

For efficiency and transparency of public procurement Standard bidding documents (SBDs) were developed for the procurement of design, supply and installation of equipment and for the procurement of pharmaceuticals and healthcare products. SBDs for the procurement of design, supply and installation of equipment in a two - stage method are intended for contracts for the purchase of large and complex “turnkey” projects, including design, supply and installation of equipment in a one - stage method for public funds, and funds provided by international donors. The SBDs are also designed to put into operation specially designed units and equipment such as turbines, generators, steam boilers, transformer substations, pumping stations, telecommunication systems, processing units, treatment facilities for energy, water, sewerage and telecommunication projects.

SBDs for the procurement of pharmaceuticals and healthcare products can be used for procurement by the one - stage tender procedure in accordance with the Law of the Kyrgyz Republic “On Public Procurement”. For health system, the SBDs have been developed taking into account the Harmonized Procurement Guidelines, which regulates procurement in health sector.

Also, the Guidelines for the selection of consulting services (hereinafter - the Guide) have been developed in accordance with Chapter 3 of the Law of the Kyrgyz Republic “On Public Procurement”. The main objective of this draft Guide is to provide clarification on each procurement method when consultancy services are procured for participants of the procurement procedures.

Enhancing competitiveness

Improve access of producers to the EAEU markets

Accession of the Kyrgyz Republic to the EAEU opened up opportunities for increasing the export of food products for Kyrgyz producers. Realization of this opportunity requires Kyrgyz producers to comply with technical and quality standards in accordance with the requirements of the EAEU. In order to create a legislative framework for a system of monitoring quality of food, the Government of the Kyrgyz Republic developed a draft law “On safety of food products of the Kyrgyz Republic”.

This draft law is designed to cover the gap currently existing in the legislation of the republic, i. e.:
- the absence of a single law establishing the legal framework for the creation in the republic of a unified system for ensuring the security of all food products, produced and circulating at the republic's market.

Also, the draft law establishes the specifics of state control (supervision) over the safety of food products, its objectives are significantly expanded, the state receives more tools for continuous monitoring of information, rapid adoption of necessary decisions. At the same time, the punitive thrust of supervision is being reduced, new forms of supervision are being established, such as monitoring and auditing, and are based on the regulatory framework of the Eurasian Economic Union, but do not duplicate the requirements of technical regulations.

Reducing costs of compliance with regulatory requirements for firms

The Government of the Kyrgyz Republic is implementing certain measures to improve the investment climate, support private business and improve tax collection. Thus, for the purposes of institutional support for SMEs, it is envisaged to create an indirect support system through effective fiscal policy and administration, as a result of which a task is planned to create a “tax haven” (“tax paradise”), based on the principle “1 entrepreneur - 1 accounting, 1 tax, 1 budget, 1 fiscal body and 1 audit (check)”. The following measures are envisaged within the framework of this task: development of the “Electronic patent” system; development of the “Virtual warehouse” system; development of a law / regulation that will provide for the transfer of tax audits for outsourcing to auditing companies; development of a single standard for SMEs reporting for all bodies; development and amendment of the Tax Code for a single tax for businesses that are registered for the first time as VAT payers.

During 2017, certain measures were undertaken to implement the tasks on introduction of an electronic patent; electronic system of fiscalization of accounting procedures for trading operations; electronic tax administration system; creation of a single regulatory legal framework for the introduction of an electronic tax administration system and methods for remote administration of taxes; the creation of a regulatory legal framework for the transfer of functions of administration of social deductions from the Social Fund of the Kyrgyz Republic to the State Tax Service under the Government of the Kyrgyz Republic, and of part of the functions of the tax authorities for outsourcing to professional communities, etc.

Support for the development of the digital economy

The Government of the Kyrgyz Republic strives to improve the country's digital economy; in particular, legislative decisions have been made that will directly affect the effective management of the digitalization of the economy.

Moreover, on July 12, 2017, by the decision of the Supreme Economic Council to determine the medium - term goals, principles, objectives, directions and mechanisms of cooperation between the member states on the implementation of the digital agenda of the Union until 2025, The main directions for the implementation of the digital agenda of the Eurasian Economic Union until 2025 were approved. As the digital agenda and breakthrough projects are implemented, the economic effect can significantly increase. There will be new synergetic effects associated with increasing labor productivity, increasing investment attractiveness, gaining the benefits of innovation, intensifying cooperation in non - resource -based high - tech spheres, and developing international digital cooperation, which will lead to the formation of a regional union competitive on the global digital market.

The State Committee for Information Technologies and Communications of the Kyrgyz Republic by its decision establishes the procedure for settling, arbitrating and resolving conflicts arising between operators, telecommunication services, postal services and communication services users, and the State Communications Agency under the State Committee of Information Technologies and Communications of the Kyrgyz Republic considers issues of settlement, arbitration and conflict resolution arising between operators, telecommunication service providers, operators, postal operators and users of communication services.

This Procedure is designed to reduce the time for resolution of disputes between the parties and the implementation of Article 62 of the Law of the Kyrgyz Republic “On the Basics of Administrative Activity and Administrative Procedures”, which provides for pre - trial consideration of disputes.

First of all, the circle of bodies that administer the transition to e-government, their powers, the procedure for taking decisions in the field of electronic government will be determined. All this will create conditions for the introduction of e-government in state bodies. Besides, the e-government mechanisms stipulated by the draft Law will allow to accelerate the development of Kyrgyzstan as a modern, technologically advanced state, reduce corruption risks, increase the efficiency and investment attractiveness of the national economy, cut state budget expenditures or make them more efficient.

The objective of the new law of the Kyrgyz Republic “On electronic signature” is the settlement of the following types of relations in the field of the use of electronic signatures: (a) use of various types of electronic signatures; (b) issuance and use of signature key certificates, verification of electronic signatures; (c) provision of services of certification centers, as well as the accreditation of certification centers.

Without proper protection of the personal data of citizens processed in information systems when providing state / municipal services, the introduction of electronic services is impossible. The law of the Kyrgyz Republic “On Personal Information” plays an important role in the implementation of public functions that require the personification / authentication of personal data subjects, including when organizing the electoral process using new information technologies, while processing personal data when providing electronic services.

The Law is designed to better protect the rights of subjects of personal data, including when processing them by various holders in personal data information systems.

These changes are important from the point of view of the forthcoming electronic interaction within the framework of the EAEU, of both public authorities and legal entities and individuals, the exchange of personal data of subjects, including cross - border transfer of personal data.

Ensuring the effectiveness and consistency of the regulatory framework of the Kyrgyz Republic in the field of e-government are the tasks that can be solved only if the provisions of the current laws of the Kyrgyz Republic are synchronized with the principles of a new basic draft Law laying the foundations for both the information technology industry and electronic governance and, therefore, coordinating the status of other normative legal acts of the Kyrgyz Republic in this sphere.

Besides, due to reforms under the DPO program, the Government of the Kyrgyz Republic will continue to implement and develop the digital economy and expand geo-information systems to improve the quality of public service provision and to ensure the private sector development.

The Government of the Kyrgyz Republic expresses its confidence that the implementation of the priorities of the new Program of the Government of the Kyrgyz Republic “Unity. Confidence. Creation” for the period 2018 - 2022, will ensure a sustainable and successful future for our country. The reforms identified in the Program provide for sustainable economic growth and poverty reduction in the medium term.

The Government of the Kyrgyz Republic expects that the request for the support of the reform program in the amount of 24.0 million US dollars will be resolved positively.

Sincerely,

The Prime Minister

M. D. Abylgaziev

ANNEX 3: ASSESSMENT LETTER (TO BE PROVIDED BY THE IMF FOLLOWING THEIR MISSION TO THE KYRGYZ REPUBLIC DURING SEPTEMBER 19-OCTOBER 3, 2018)

ANNEX 4: ENVIRONMENT AND POVERTY / SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects (yes/no/to be determined)	Significant poverty, social or distributional effects positive or negative (yes/no/to be determined)
Operation Pillar I: Macro-Fiscal Foundations for Growth		
		Overall a stable macroeconomic environment is key for future poverty reduction and shared prosperity
<p>Prior Action #1. The Government of the Kyrgyz Republic approves and submits to its Parliament, amendments to the Budget Code to:</p> <ul style="list-style-type: none"> - Introduce a fiscal rule that provides a debt anchor supplemented by an operational deficit target for the purpose of ensuring a sustainable fiscal policy; and - Revise Article 115 to stipulate that any request to the Budget and Finance Committee of the Parliament to pre-authorize un-budgeted expenditure shall be deficit neutral and compliant with fiscal rule parameters. 	Neutral	<p>Neutral, as the fiscal rule builds in flexibility to respond counter-cyclically to shocks.</p> <p>Moreover, efforts to bring public expenditures on a more sustainable footing are consistent with the objective of ensuring greater focus in public spending on essential public missions while preventing an excessive accumulation of debt that would burden future generations</p>
<p>Prior Action #2. The Government of the Kyrgyz Republic has approved procedures requiring information on transfers, refinancing and restructuring of budget loans for State-Owned Enterprises to be included in the Republican Budget Law, starting from the 2018 budget submission.</p>	<p>Positive climate mitigation co-benefit. By promoting increased public scrutiny over the fiscal cost of energy subsidies (and setting the stage for tariff reform) the policy action is expected to promote greater policy focus on energy efficiency measures and greater incentives for households to reduce consumption (from very high current levels)</p>	Neutral.

Prior Actions	Significant positive or negative environment effects (yes/no/to be determined)	Significant poverty, social or distributional effects positive or negative (yes/no/to be determined)
Prior Action #3. The Parliament of the Kyrgyz Republic enacts amendments to the Tax Code increasing basic excise rates on tobacco by 16.7 percent and the government of the Kyrgyz Republic adopts a Resolution increasing excise rates on alcohol by 25 percent.	Neutral	Short term negative impact on low-income consumers of alcohol and tobacco (albeit modest), but medium term positive impact.
Operation Pillar II: Transparency and Anti-Corruption in the Public Sector		
		Overall positive impact, as poor governance is detrimental to growth and private sector investment
Prior Action #4. The Parliament of the Kyrgyz Republic enacts the <i>Law on Conflict of Interest</i> , to define conflicts of interest and to provide mechanisms for their prevention and sanction.	Neutral	Neutral
Prior Action #5. The Government of the Kyrgyz Republic, through the Ministry of Finance, adopts an Order the “Regulation on the procedure for the work of an Independent Complaints Review Commission” which adopts procedures to strengthen the objectivity and transparency of complaints handling.	Neutral	Neutral

Prior Actions	Significant positive or negative environment effects (yes/no/to be determined)	Significant poverty, social or distributional effects positive or negative (yes/no/to be determined)
<p>Prior Action #6. The Government of the Kyrgyz Republic, through the Ministry of Finance, adopts Standard Bidding Documents for pharmaceuticals and other medical products, as well as for the design, supply and installation of plant and equipment, to streamline procurement, while enhancing value for money.</p>	<p>Positive Impact. The Standard Bidding Documents are expected to facilitate the adoption of principles of sustainable production and the use of technologies that minimize adverse environmental impacts.</p> <p>Based on international best practice the SBDs for design, supply and installation of plants and equipment now allow the beneficiaries to use different factors (in addition to price) for evaluating bids, including for instance life cycle cost, energy efficiency of the equipment, fuel efficiency and climate impact.</p>	<p>Neutral</p>
<p>Operation Pillar III: Private Sector Competitiveness</p>		
		<p>Overall positive impact as private-sector led growth will benefit poverty reduction and boost shared prosperity via job creation.</p>
<p>Prior Action #7. The Government of the Kyrgyz Republic has approved and submitted to its Parliament the draft <i>Law on Food Safety</i> to strengthen the technical and institutional framework for quality controls and certification in respect to food safety.</p>	<p>Positive impact. The adoption of EEU Food Safety Guideline is expected to facilitate the roll-out of sustainable production principles and uptake of technologies with minimal adverse environmental impacts by food producers.</p>	<p>Possibly detrimental short-term impact as poor farmers may face difficulty in meeting new compliance requirements. However, medium-term positive impact, as the policy would open up export opportunities for agricultural producers and increase productivity and wages.</p>

Prior Actions	Significant positive or negative environment effects (yes/no/to be determined)	Significant poverty, social or distributional effects positive or negative (yes/no/to be determined)
Prior Action #8. The Government of the Kyrgyz Republic adopts a Resolution establishing a deadline for the nation-wide roll out of the transfer of social insurance payments administration from the Social Fund to the State Tax Service in 2019.	Neutral	Neutral
Prior Action #9. The Government of the Kyrgyz Republic has (a) adopted amendments to the <i>Law on Electronic and Postal Communications</i> to promote competition in the issuance of the radio spectrum resource for providing data transmission; and (b) adopted through its State Committee of Information Technologies and Communication a procedure for dispute resolution between electronic communications service providers.	Positive climate/disaster risk mitigation co-benefits. By promoting the expansion of internet connectivity, as well as government e-services, including in rural and remote areas the policy actions will increase the scope of instruments available for early-warning systems and communication as well as assistance.	Neutral
Prior Action #10. The Parliament of the Kyrgyz Republic, adopts laws to lay key governance foundations for the development of the digital economy and e-service delivery.		Positive as improved e-services would extend access to service delivery for relatively remote households, as well as reduce the scope for corruption in the delivery of public services, which disproportionately affects the poor.