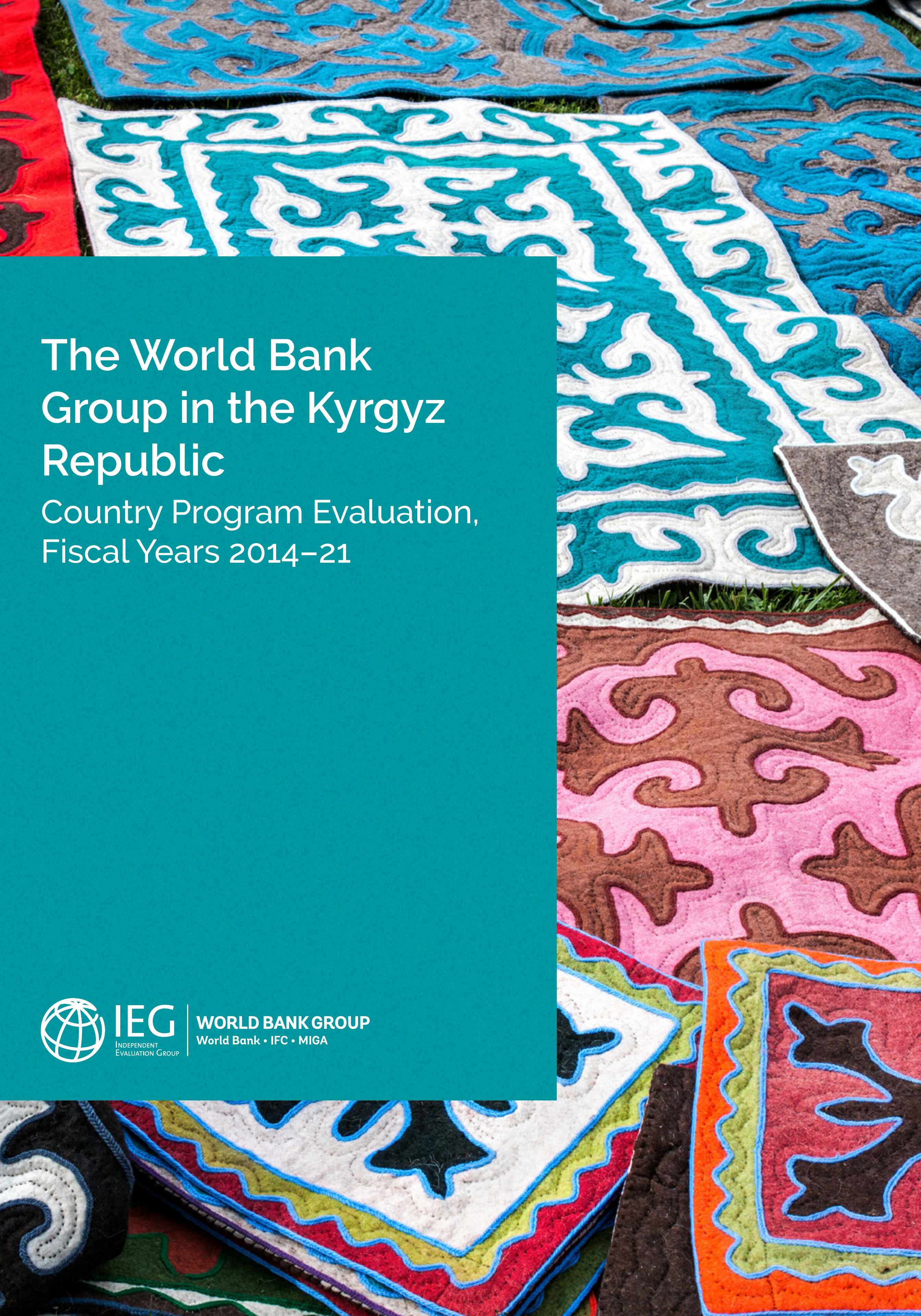

The World Bank Group in the Kyrgyz Republic

Country Program Evaluation, Fiscal Years 2014–21

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Abbreviations

ARIS	Community Development and Investment Agency
ASA	advisory services and analytics
CDD	community-driven development
CDWUU	Community Drinking Water Users Union
CLR	Completion and Learning Review
CPF	Country Partnership Framework
CPS	Country Partnership Strategy
DDWSWD	Department of Drinking Water Supply and Wastewater Disposal
DPO	development policy operation
EAEU	Eurasian Economic Union
EBRD	European Bank for Reconstruction and Development
FSTF	financial sector trust fund
FY	fiscal year
GDP	gross domestic product
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IFMIS	integrated financial management information system
KPO	Kyrgyz Post Office
MIGA	Multilateral Investment Guarantee Agency
NBKR	National Bank of the Kyrgyz Republic
PEFA	Public Expenditure and Financial Accountability
PFM	public financial management
PLR	Performance and Learning Review
RWSSP	Rural Water Supply and Sanitation Project
SCD	Systematic Country Diagnostic
SECO	State Secretariat for Economic Affairs
SMEs	small and medium enterprises
STS	State Tax Service
VAT	value-added tax
VIP	Village Investment Project

All dollar amounts are US dollars unless otherwise indicated.

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Overview

Country Context

The Kyrgyz Republic is a landlocked, lower-middle-income country that is highly dependent on remittances and natural resources. Although overall levels of poverty have been reduced—from 37.0 percent of the population in 2013 to 20.1 percent in 2019—the population remains vulnerable.

Despite the Kyrgyz Republic being an early leader among Central Asian countries in economic liberalization, broad-based economic growth remained elusive throughout the evaluation period. Major challenges included the following:

» Weak governance—particularly low capacity for economic management and effective service delivery across the public sector, weak management and control of public finance, persistent corruption, uneven enforcement of the rule of law, and lack of transparency and accountability at the sectoral level, especially in energy and mining, which had significant economywide implications. The country's substantial political instability was driven by competition among patronage networks (Radnitz 2012).

» Challenges to private sector development—particularly unpredictability in the business environment; firms' difficulty accessing finance; vulnerabilities related to financial stability; and limited capabilities within firms for financial management, innovation, and product quality.

» The low quality of essential local public services—particularly water supply, sanitation, and solid waste collection—driven by inadequate resources, unclear delineation of responsibilities among tiers of government, and weak human resource capacity.

Design and Implementation of World Bank Group–Supported Strategies

The fiscal years (FY)14–17 Country Partnership Strategy aimed primarily at improving governance and focused on public administration, public service delivery, and the business environment. It was well aligned with the country's development challenges. However, its scope and objectives were overly ambitious given the country's political and governance context.

A shift in attention to private sector–led growth, and away from governance, began at the Country Partnership Strategy review stage in FY16. The subsequent FY19–22 Country Partnership Framework (CPF) increased its focus on private sector–led growth, further reducing its direct support for governance reform. While the focus on private sector–led growth was relevant to the country context, the pivot away from governance undermined the effectiveness of the strategy given that governance challenges were a major deterrent to private sector activity, as discussed in chapters 4, 5, and 7.

The Country Partnership Strategy and CPF programs were implemented largely as planned, although support deviated from plans to support the COVID-19 pandemic response. Development policy financing was paused after FY17, with the exception of FY19, as a result of backtracking on priority reforms. Dropping the planned judicial sector reform project reduced the effectiveness of the World Bank's work. The approach to improving predictability in the business environment was focused on technical approaches rather than addressing higher-level constraints. The approach to essential local public services in most sectors was weighted toward infrastructure while neglecting to address binding constraints in service delivery.

World Bank Group Support to Improve Governance

Over the evaluation period, the World Bank Group program made several tangible contributions to enhancing governance, particularly with respect to budget transparency, public procurement, and tax administration. However, overall progress was below expectations, and most targets (including in civil service, anticorruption, and access to justice) were not met. While the focus on governance and anticorruption was appropriate, the program relied too much on development policy financing to advance reforms that were institutionally demanding and required complementary support over an extended period of time to generate results.

The governance program under the FY19–22 CPF narrowed its focus to public financial management, stepping back from support to control corruption and strengthen the rule of law—both major constraints to progress in other areas of the program.

Bank Group support for public procurement and tax administration was more effective; however, not all procurement reform achievements were sustained.

World Bank Group Support to Private Sector Development

Bank Group support helped make some headway in addressing major constraints to private sector development, including with respect to access to finance, agricultural productivity, and financial stability; however, overall outcomes were modest.

Bank Group support to improve the business environment relied on technical solutions to reduce discretion but did not address the main drivers of unpredictability—weak rule of law and abuse by government officials of regulatory processes to pressure businesses. The International Finance Corporation made some important contributions to helping microfinance institutions transform into commercial banks and providing longer-term finance to financial institutions.

Only in the dairy sector did the Bank Group effectively address the capabilities of firms to grow, although the 2018 Systematic Country Diagnostic had identified lack of growth in small firms as an issue.

World Bank Group Support to Essential Local Public Services

There was limited support to understand and address the factors constraining local government capacity to deliver local services. Inadequately addressed challenges included a lack of clarity on the division of responsibilities among levels of government, sustainable access to fiscal resources, and capacity at both the local and central government levels.

Bank Group–supported projects approached the water supply sector in a holistic way, supporting institutional reform of the sector at the local and national levels and increased access to and quality of water supply. While there are issues with the capacity and mandate of the national-level agency and financial sustainability of rural water user unions, long-term efforts are progressing in the right direction and have enabled other development partners to increase their activities.

In contrast, other local public infrastructure was supported through community-driven development modalities that, while they provided inputs valued by the communities, did not aim to improve quality of service. In fact, access to and quality of services were not monitored by the World Bank.

Main Findings and Lessons

The main findings from this evaluation are as follows:

- Governance weaknesses remain a major impediment to fostering private sector development to drive economic growth and achieve development results.
- The World Bank learned from experience when it paused development policy lending, but, other than in the water sector, it did not adequately adapt its approach to local public services despite weak performance.
- Before the pause in budget support, development policy operation prior actions were spread thin across multiple reform areas, some of which were not strategic or did not receive complementary implementation support, and were not effective.
- The design of World Bank and International Finance Corporation interventions on private sector development did not target growth-oriented firms or address weak firm capabilities that were needed to improve productivity and spur growth.
- World Bank projects addressed only a limited dimension of the constraints to improving essential local public services. In contrast, the World Bank–supported projects in education and health were able to improve outcomes.
- The implementation of the World Bank–supported projects through quasi-public implementing agencies, such as the Community Development and Investment Agency and the Agribusiness Competitiveness Center, has

contributed to sustainability concerns because of a lack of progress in developing local capacity for project implementation.

The Independent Evaluation Group draws the following lessons from this evaluation, which may be of relevance to the next CPF and of interest to countries facing similar challenges.

1. Promoting diversified, export-oriented, inclusive, and sustainable growth—the main objective of the FY19–22 CPF—requires more attention to governance weaknesses and constraints on firm-level growth. Preconditions for economic growth include the interrelated objectives of reducing corruption, increasing predictability of the business environment, and reforming the judiciary. This can also reduce incentives for informality. Firm capabilities and quality also need to be improved. The World Bank may wish to engage with stakeholders to identify opportunities for providing greater regulatory stability and fostering growth.

2. In areas that are preconditions for the achievement of broader and higher-level development objectives (for example, increasing the predictability of the business environment as a precondition for private investment and thus economic growth), even when the government does not have the appetite to reform, the Bank Group should remain engaged, including by remaining current on issues through analytical work. The Bank Group can deepen its understanding of constraints and priorities so that it is prepared to act quickly when a window of opportunity opens. It should also engage with civil society to inform debate about the costs of inaction and strengthen demand for reforms.

3. The use of development policy operations should continue to be contingent on the government's appetite for reform; if and when development policy financing lending resumes in the Kyrgyz Republic, it should be used more selectively and strategically. Before the pause in development policy financing, reforms supported by development policy operations either lacked ownership and complementary implementation support or did not address major constraints.

4. Achievement of development objectives related to essential local public services requires strengthening the institutional and financial capacity of

local governments. Binding constraints to local service delivery include clarity in the respective responsibilities of different levels of government, access to adequate resources, and sufficient technical capacity.

5. In the context of the Kyrgyz Republic, investment projects should be used to build institutional capacity within all levels of government. This includes central and local governments and institutions that deliver agriculture services in rural areas.

Обзор

Страновой контекст

Кыргызская Республика — государство, не имеющее выхода к морю, с низкими или средним уровнем доходов, сильно зависящее от поступлений денежных переводов и от природных ресурсов. Хотя общий уровень бедности снизился (в 2013 году за чертой бедности находилось 37,0 процентов населения, в 2019 году — 20,1 процента), население все еще остается уязвимым.

Несмотря на то, что изначально Кыргызская Республика опережала страны Центральной Азии в области либерализации экономики, на протяжении отчетного периода всеобъемлющий экономический рост так и не был достигнут. Следует отметить следующие основные вызовы:

» Слабое управление, в частности низкая способность к управлению экономикой и эффективному предоставлению услуг во всем государственном секторе, слабое управление государственными финансами и слабый контроль за ними, неослабевающая коррупция, неравномерное применение принципа верховенства закона и отсутствие прозрачности и подотчетности на отраслевом уровне, в особенности в энергетике и горнодобывающем секторе, что имело значительные последствия для всей экономики. Значительная политическая нестабильность страны, которая была обусловлена конкуренцией среди патронажных сетей (Radnitz 2012).

» Вызовы, препятствующие развитию частного сектора: следует особенно отметить непредсказуемость деловой среды; затрудненный доступ компаний к финансированию; уязвимости, связанные с финансовой нестабильностью; ограниченные способности компаний к управлению финансами, инновациями и обеспечению качества продукции.

» Низкое качество основных местных коммунальных услуг, в частности водоснабжения, санитарии и сбора твердых отходов, обусловленное недостаточными ресурсами, нечетким разграничением обязанностей государственных органов на различных уровнях, а также слабым потенциалом человеческих ресурсов.

Разработка и внедрение Стратегий, поддерживаемых Группой Всемирного банка

Стратегия партнерства со страной на период 2014–17 финансовых годов была главным образом нацелена на совершенствование управления и фокусировалась на государственном управлении, предоставлении услуг государственным сектором и улучшением деловой среды. Она была хорошо согласована с вызовами, сдерживающими экономический рост страны. Однако ее цели и задачи были слишком амбициозными, учитывая политический и управленческий контекст страны.

Переключение внимания с управления на рост, движимый частным сектором, началось в 2016 финансовом году на стадии обзора Стратегии партнерства со страной. Последующая Рамочная стратегия партнерства со страной (РСПС) на период 2019–22 финансовых годов сосредоточила фокус на росте, движимым частным сектором, еще более снизив объем непосредственной поддержки реформы управления. Хотя фокус на росте, движимым частным сектором, был обоснованным, с учетом странового контекста, переключение фокуса с управления подорвало эффективность стратегии, так как проблемы управления были основным фактором, сдерживающим деятельность частного сектора.

Стратегия партнерства со страной и программы РСПС реализовывались в основном так, как это было запланировано, хотя имели место отклонения от планов, в связи с принятием мер реагирования на пандемию COVID-19. Финансирование в поддержку политики в области развития было приостановлено после 2017 финансового года (за исключением 2019 финансового года) в результате свертывания приоритетных реформ. Отказ от запланированной реформы судебной системы снизил значимость и эффективность работы Всемирного банка. Подход к улучшению предсказуемости деловой среды фокусировался на технических подходах, а не на решении проблемы ограничителей более высокого уровня. Подход к основным местным коммунальным услугам в большинстве секторов в значительной степени ориентировался на инфраструктуру, игнорируя при этом решение проблемы связывающих ограничителей, препятствующих надлежащему предоставлению услуг.

Поддержка, оказываемая Группой Всемирного банка, с целью совершенствования управления

За период оценки программа Группы Всемирного банка внесла ощутимый вклад в совершенствование управления, особенно в сфере прозрачности бюджета, государственных закупок и налогового администрирования. Однако общий прогресс не оправдал ожиданий, а большинство целей не было достигнуто (в том числе в области государственной службы, противодействия коррупции и доступности правосудия). Хотя фокус на управлении и противодействии коррупции был обоснованным, программа чрезмерно полагалась на финансирование в поддержку политики в области развития для продвижения реформ, требующих значительных институциональных ресурсов и дополнительной поддержки на протяжении длительного периода времени, чтобы генерировать результаты.

Программа управления, разработанная в развитие РСПС на период 2019–22 финансовых годов, сузила фокус до управления государственными финансами, свернув меры, содействующие противодействию коррупции и усилению верховенства закона — это два основные ограничителя, сдерживающие прогресс по другим направлениям программы.

Поддержка, оказываемая Группой Банка в области государственных закупок и налогового администрирования, была более эффективной, однако не все достижения реформы системы закупок оказались устойчивыми.

Поддержка, оказываемая Группой Всемирного банка развитию частного сектора

Поддержка, оказываемая Группой Банка, помогла достичь определенного прогресса в устранении основных ограничителей, сдерживающих развитие частного сектора, включая ограничители в отношении доступа к финансированию, производительности труда в сельском хозяйстве и в финансовой стабильности; однако в целом результаты оказались ограниченными.

Поддержка, оказываемая Группой Банка в области совершенствования деловой среды, полагалась на технические решения, направленные на сужение свободы принятия решений, но не решала проблему основных движителей непредсказуемости: недостаточного соблюдения принципа верховенства закона и злоупотреблений, допускаемых государственными чиновниками в деятельности по регулированию процессов с целью оказания давления на бизнес. Международная финансовая корпорация внесла определенный значительный вклад в содействие преобразованию микрофинансовых организаций в коммерческие банки и в предоставление долгосрочного финансирования финансовым институтам.

Группе Банка удалось эффективно обеспечить компаниям возможности роста только в молочной отрасли, хотя Систематические страновые диагностические исследования 2018 года идентифицировали в качестве проблемы отсутствие роста в малых компаниях.

Поддержка, оказываемая Группой Всемирного банка Основным местным коммунальным услугам

Поддержка для понимания и устранения факторов, ограничивающих потенциал местных органов власти по предоставлению услуг на местах, оказывалась в недостаточном объеме. Такие проблемы, как отсутствие ясности в вопросе разделения обязанностей между государственными органами власти на различных уровнях, устойчивый доступ к фискальным ресурсам и потенциал на уровне местных и центральных органов власти, не были решены в достаточной мере.

Проекты, поддерживаемые Группой Банка, имели комплексный подход к сектору водоснабжения, содействуя институциональному реформированию сектора на местном и национальном уровнях и повышая доступность и качество водоснабжения. Хотя существуют определенные проблемы с потенциалом и мандатом республиканского ведомства и финансовой стабильностью ассоциаций водопользователей в сельских районах, долгосрочные усилия продвигаются в правильном направлении, что позволило другим партнерам по развитию активизировать свою деятельность.

Для сравнения, прочая местная коммунальная инфраструктура поддерживалась посредством программ развития, осуществляемых по инициативе местных общин. Эти программы вносили вклад, ценимый местными общинами, но не преследовали цель повысить качество услуг; более того, доступ к данным услугам и их качество Всемирным банком не отслеживались.

Основные выводы и уроки

По итогам настоящей оценки были сделаны следующие выводы:

- Слабое управление остается основным препятствием на пути к стимулированию развития частного сектора в качестве движущей силы экономического роста и для достижения результатов в области развития.
- Группа Банка извлекла уроки из своего опыта приостановления кредитования в поддержку политики в области развития. Однако Группа Банка не адаптировала в достаточной мере свой подход к местным коммунальным услугам, несмотря на слабые результаты (исключением является водный сектор).
- До приостановки бюджетной поддержки предшествующие действия в рамках операций в поддержку политики в области развития были слишком широко распределены по многим областям реформ. При этом некоторые из них не носили стратегического характера или не получали дополнительной поддержки для их реализации и не были эффективны.
- Меры содействия Группы Банка по развитию частного сектора не были нацелены на компании, ориентированные на рост, и не решали проблему слабых возможностей компаний, которые нуждались в повышении производительности и стимулировании роста.

- Проекты Всемирного банка были нацелены только на ограниченное количество факторов, сдерживающих улучшение основных местных коммунальных услуг. В то же время поддерживаемые Всемирным банком проекты в области образование и здравоохранения смогли улучшить результаты.

- Реализация поддерживаемых Всемирным банком проектов через такие квазигосударственные реализующие ведомства, как Агентство развития и инвестирования сообществ и Центр конкурентоспособности агробизнеса, стала одной из причин возникновения опасений об устойчивости из-за отсутствия прогресса в развитии местного потенциала для реализации проектов.

Независимая группа оценки извлекла следующие уроки из настоящей оценки, которые могут оказаться полезными для следующей РСПС и представлять интерес для стран, сталкивающихся со схожими вызовами:

1. Для содействия диверсифицированному, ориентированному на экспорт, всеохватывающему и устойчивому росту (основной цели РСПС на период 2019–22 финансовых годов) требуется уделить более пристальное внимание недостаткам управления и ограничителям роста на уровне компаний. Предварительными условиями экономического роста являются взаимосвязанные задачи снижения коррупции, повышения предсказуемости деловой среды и реформирования судебной системы. Это может также ослабить стимулы для развития неформального сектора. Также необходимо расширить возможности компаний и повысить качество их продукции и услуг. Всемирный банк, возможно, пожелает взаимодействовать с заинтересованными сторонами для выявления возможностей обеспечения большей регуляторной стабильности и содействия росту.

2. В областях, которые являются предварительными условиями экономического роста (см. выше), Группа Банка должна продолжить взаимодействие (даже если у правительства отсутствует аппетит к реформам) и оставаться в курсе проблематики страны, выполняя аналитическую работу. Группа Банка может улучшить понимание ею

ограничителей и приоритетов с тем, чтобы быть готовой к быстрым действиям когда откроется окно возможностей. Группа Банка также должна взаимодействовать с гражданским обществом для информирования дискуссий о цене бездействия и стимулирования спроса на реформы.

3. Использование операций в поддержку политики в области развития следует продолжить, исходя при этом из аппетита правительства к реформам; если и когда в Кыргызской Республике возобновится кредитование финансирования в поддержку политики в области развития, его следует использовать более избирательно и стратегически. До приостановления финансирования политики в области развития, реформы, опирающиеся на операции в поддержку политики в области развития, либо не имели ответственных за них кураторов и дополнительной поддержки для их реализации, либо не имели целью устранение основных ограничителей.

4. Для достижения задач развития, связанных с основными местными коммунальными услугами, необходимо усиление институционального и финансового потенциала местных правительств. Факторами-ограничителями для предоставления услуг на местах являются четкость в разграничении обязанностей государственных органов власти различных уровней, доступ к необходимым ресурсам и достаточный технический потенциал.

5. В контексте Кыргызской Республики инвестиционные проекты следует использовать для наращивания институционального потенциала государственных органов власти всех уровней. Это включает центральные и местные органы власти и институты, предоставляющие сельскохозяйственные услуги в сельской местности.

1 | Background and Country Context

This Country Program Evaluation assesses the relevance and development effectiveness of the World Bank Group's engagement in the Kyrgyz Republic. The report covers the period of the Bank Group's fiscal years (FY)14–17 Country Partnership Strategy (CPS) and its FY16 Performance and Learning Review (PLR), and the FY19–22 Country Partnership Framework (CPF). The evaluation distills lessons from Bank Group experience to inform future Bank Group engagement in the Kyrgyz Republic.

The evaluation drills down on three themes of particular relevance to the Kyrgyz Republic's development: governance, private sector development, and provision of essential local public services. The Country Program Evaluation responds to the following evaluation questions:

- How relevant to the development needs of the Kyrgyz Republic was the Bank Group–supported strategy, and did it evolve appropriately over time, given changes in the country context and lessons from experience? (See chapters 2 and 3.)
- To what extent did Bank Group assistance help improve governance and the institutional capacity of the central government? (See chapter 4.)
- To what extent did Bank Group assistance help the Kyrgyz Republic increase private sector–led growth to reduce the country's economic vulnerability? (See chapter 5.)
- To what extent did Bank Group assistance enhance the provision of basic local public services? (See chapter 6.)

To conclude and inform the preparation of the next CPF, chapter 7 presents main findings and lessons.

Country Context

The Kyrgyz Republic is highly dependent on remittances and natural resources, is landlocked, and is one of the poorest countries in the Europe and Central Asia Region. In 2013, its gross domestic product (GDP) per capita was $1,282 (in current dollars), and over the following six years, it grew slowly. Remittances represented approximately 30 percent of GDP during 2013–20, making the Kyrgyz Republic one of the world's most remittance-dependent economies. The economy is heavily dependent on gold mining, with gold representing approximately 40 percent of exports and 10 percent of GDP in 2013–19 (World Bank 2018a). The Kumtor mine (nationalized in 2021) is scheduled to close in 2031. One of the world's highest mountain ranges separates the northern and southern regions of the country, and just under two-thirds of the population lives in rural areas. The country needs to find additional sources of private sector–led economic growth (Izvorski et al. 2020; World Bank 2018c).

Despite reductions in poverty between 2013 and 2019, the population remains vulnerable (table 1.1). Approximately 65 percent of the population lives just above the poverty line, making them vulnerable to falling into poverty if they experience a shock, and poverty remains high in areas outside of Bishkek (World Bank 2018c).[1] Since independence, the country has seen a pattern of severe shocks, including natural disasters, volatile global and regional food prices, economic crises, government instability, ethnic conflict (USAID 2015), and the COVID-19 pandemic.

Consistency in economic policy and follow-through on reform have been major challenges because of persistent political instability. Figure 1.1 presents a brief timeline of major political and economic events. Since independence, the country has experienced three major ("revolutionary") upheavals—in 2005, 2010, and 2020—that led to changes in leadership and were accompanied by violence and looting. The 2010 regime change was driven by perceptions of corruption and misgovernance. From 2011 through 2021, there were 10 changes of government; the average tenure of the cabinet of ministers was less than one year. Political instability was driven by competition among patronage networks for control of resources (Radnitz 2012). In 2013, 38.4 percent of firms ranked political instability as the top constraint to doing business.[2] In 2019, 39.2 percent of firms ranked political instability and corruption as the top constraints to doing business, almost twice the average in the Europe and Central Asia Region and in lower-middle-income countries (Izvorski et al. 2020). As with the 2010 revolution (World Bank 2018c), the 2020 rioting and government overthrow were also driven by public dissatisfaction with the ability of the government and the legislature to create a stable political environment. The country stopped being a parliamentary republic in April 2021, when the new constitution (approved via referendum) abolished the post of prime minister and concentrated power in the presidency.

Table 1.1. Select Economic and Social Indicators

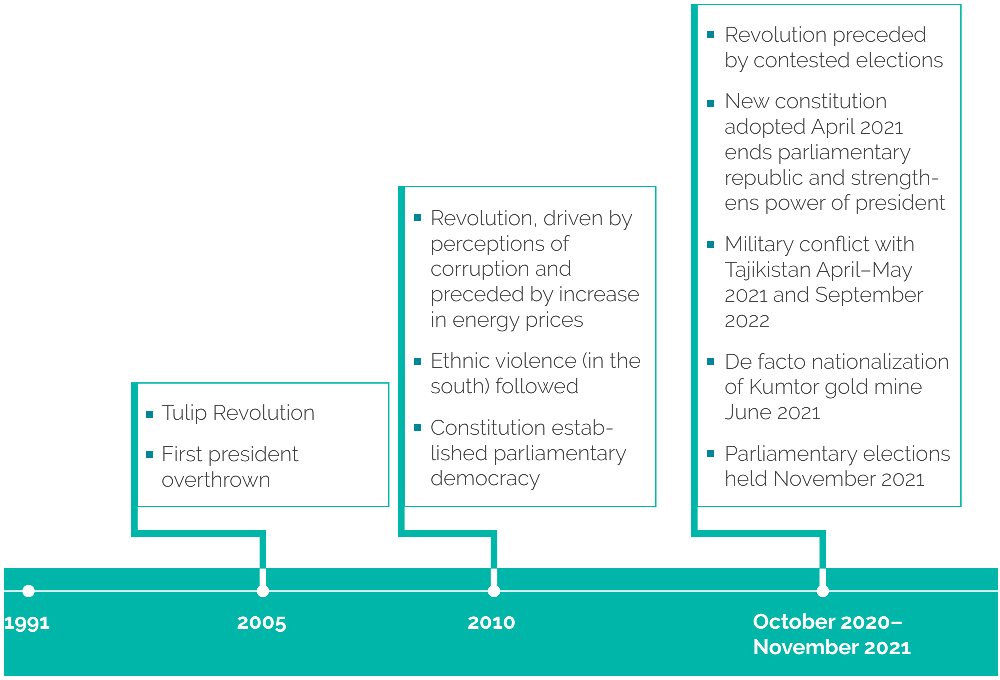
Indicator	2013	2014	2015	2016	2017	2018	2019	2020
GDP growth (annual %)	10.9	4.0	3.9	4.3	4.7	3.8	4.6	(8.5)
GDP per capita growth (annual %)	8.7	2.0	1.8	2.2	2.7	1.7	2.4	(10.1)
GDP per capita (current US$)	1,282	1,280	1,121	1,121	1,243	1,308	1,374	1,183
Current account balance (% of GDP)	(13.8)	(17.4)	(15.8)	(11.6)	(7.0)	(11.6)	(12.0)	4.8
General government gross debt (% of GDP)	47.1	53.6	67.1	59.1	58.8	54.8	54.1	67.5
Overall fiscal balance (net lending or borrowing; % of GDP)	(3.7)	(3.1)	(2.5)	(5.8)	(3.7)	(0.6)	(0.1)	(3.3)
Remittances (% of GDP)	31.1	30.0	25.3	29.3	32.3	32.5	27.2	31.1
Poverty head count ratio at national poverty lines (% of population)	37.0	30.6	32.1	25.4	25.6	22.4	20.1	25.3
Gini Index (World Bank estimate)	28.8	26.8	29.0	26.8	27.3	27.7	29.7	29.0

Sources: World Development Indicators database (World Bank) and World Economic Outlook database (International Monetary Fund).

Note: GDP = gross domestic product.

Despite the Kyrgyz Republic being an early leader among Central Asian countries in economic liberalization, broad-based economic growth remains elusive. Although the Kyrgyz Republic undertook economic liberalization soon after its independence in 1991, momentum slowed over the past two decades. Productivity has grown by only 0.5 percent per year on average since 2000, low by international standards (World Bank 2018c). The country has a large informal sector estimated at over 30 percent of GDP in 2015 (Izvorski et al. 2020). The financial sector is underdeveloped; the ratio of domestic private credit to GDP was 16 percent in 2013, having increased to 28 percent by 2020 (compared with 43 percent on average in lower-middle-income countries).

Figure 1.1. Kyrgyz Republic Economic and Political Timeline

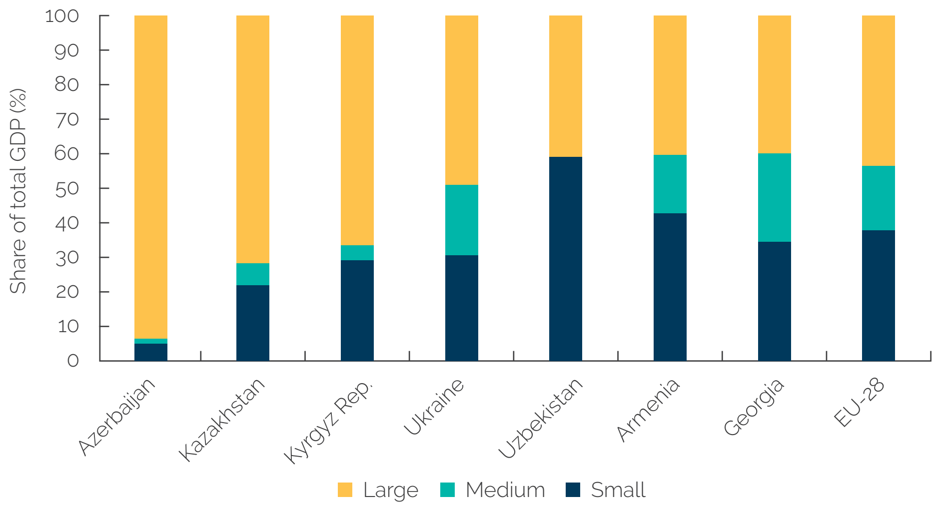


Source: Independent Evaluation Group.

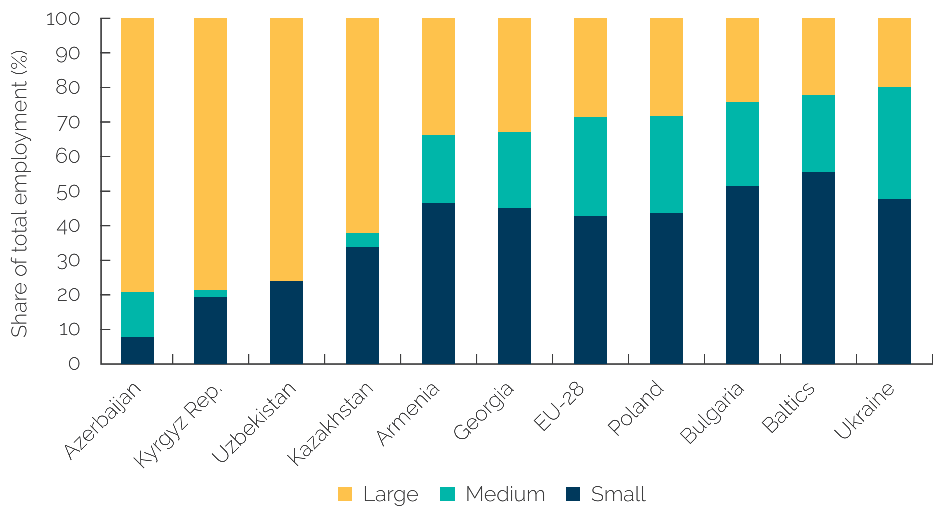
Foreign direct investment and small and medium enterprises (SMEs) play undersized roles in the economy. The Kyrgyz Republic has struggled to attract and retain foreign direct investment beyond the extractives sector, and there is little evidence of knowledge and technology spillover or backward links to the economy (IFC 2021). There is also a "missing middle" in the domestic economy; formal sector SMEs, which can be important sources of innovation and job creation, play a more limited role than in comparator countries. From 2013 through 2021, there were fewer than 800 medium-size enterprises in the country, representing only 0.1 percent of the total number of enterprises.[3] Large enterprises (10 percent of which are state owned) are concentrated in mining, energy, banking, and communications. Formally registered SMEs accounted for only about 4 percent of employment and 12–13 percent of GDP between 2013 and 2021, and individual entrepreneurs accounted for 15–17 percent of employment (growing slowly over the time frame) and an average of 22 percent of GDP over the time frame, well below regional comparators with relatively open economies (figure 1.2).[4]

Figure 1.2. Share of GDP and Employment by Firm Size

a. Share of GDP



b. Share of employment



Source: Adapted from Izvorski et al. 2020.

Note: For the Kyrgyz Republic, the "small" category includes small enterprises and individual entrepreneurs (those licensed under the "patent" regime). EU = European Union; GDP = gross domestic product.

The Kyrgyz Republic also has deficiencies in the provision of essential public services at the local level, linked to incomplete decentralization. As a result of withdrawal of state subsidies and lack of proper maintenance after the fall of the Soviet Union, the Kyrgyz Republic experienced a collapse of the collective and state farms that delivered basic services throughout the country. Essential services delivered at the local level, such as drinking water, sanitation, solid waste collection, and maintenance of school and health buildings, became available only intermittently and, in some cases, disappeared altogether. While a series of presidential decrees established a system of local self-government, the legal framework for this system is ambiguous, and no coherent long-term strategy for decentralization has been implemented. New institutions were created; however, their powers were not clearly defined, and the legal distinction between national and local administrations is unclear (Siegel 2022).

Main Development Challenges

Governance and Institutional Weakness

Ineffective governance has been recognized as a primary development challenge for the Kyrgyz Republic throughout the evaluation period (ADB, IMF, and World Bank 2010; World Bank 2018c).[5] Table 1.2 presents the evolution of key indicators over the period.

The Kyrgyz Republic performs well below average for lower-middle-income economies in terms of rule of law, control of corruption, and political instability. While the country has a vibrant civil society and relatively free press, it has continued to suffer from chronic government instability, policy inconsistency and low capacity in policy making and implementation, inability to enforce the rule of law, and inefficient allocation of public resources. The primary drivers of weak governance relate to the strength of patronage networks, fragility of political institutions, and lack of elite consensus regarding development priorities. Governance challenges and Bank Group support to address them are the subject of chapter 4 of this report.

Table 1.2. Governance-Related Indicators for the Kyrgyz Republic, 2013–21

Indicator	2013	2017	2021 (or other as stated)
Rule of Law score, on a scale of 0 (worst) to 100 (best; Worldwide Governance Indicators)	13.15	17.31	14.42
Government Effectiveness score, on a scale of 0 (worst) to 100 (best; Worldwide Governance Indicators)	31.28	24.04	25.96
Control of Corruption score, on a scale of 0 (worst) to 100 (best; Worldwide Governance Indicators)	11.37	13.94	12.98
Firms citing political instability as the top constraint to doing business (%; Enterprise Surveys)	38.4	—	21.7 (2019)
Firms citing corruption as the top constraint to doing business (%; Enterprise Surveys)	11.5	—	17.5 (2019)
Corruption Perceptions Index: value (rank; Transparency International)	24 (150th out of 175)	29 (135th out of 180)	27 (144th out of 180)
Protection of Property Rights score, on a scale of 1 (worst) to 7 (best; rank; Global Competitiveness Index, World Economic Forum)	2.4 (142nd out of 144)	3.5 (120th out of 138)	3.5 (122nd out of 144)

Sources: Worldwide Governance Indicators; Enterprise Surveys; Transparency International; World Economic Forum.

Note: The Worldwide Governance Indicators are a research data set summarizing the views on the quality of governance provided by a large number of enterprises and citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, nongovernmental organizations, international organizations, and private sector firms. The Worldwide Governance Indicators do not reflect the official views of the World Bank, its Board of Executive Directors, or the countries they represent. The Worldwide Governance Indicators are not used by the World Bank Group to allocate resources. — = not available.

Private Sector Development Challenges

Challenges to private sector development hinder the country's ability to develop more diversified sources of growth (table 1.3). At the beginning of the evaluation period, there were three main challenges to private sector development, and these persisted throughout the evaluation period. Table 1.3 presents the evolution of relevant indicators.

- Inconsistent application of laws and regulations. Protection of property rights was low relative to comparators. Regulatory enforcement changed frequently (limiting firms' ability to adapt, increasing the cost of doing business, and pushing many firms into the informal sector) and acted as a disincentive to foreign direct investment.
- Firms' difficulty accessing finance. In 2013, the Kyrgyz Republic performed substantially worse than regional and lower-middle-income country averages on domestic credit to the private sector as a percentage of GDP and percentage of firms with a bank loan or line of credit. Commercial banks concentrated mostly on short-term lending; interest rates were among the highest in Europe and Central Asia. Commercial banks justified high collateral requirements on the grounds that information on SMEs' creditworthiness was not easily available or sufficiently transparent (IMF 2020).
- Limited capabilities within firms to conduct financial management; to develop business plans, adopt technologies, and innovate; and to comply with relevant standards, particularly food safety standards. The Kyrgyz Republic lagged behind comparators on the use of professional management and on capacity for innovation.

Table 1.3. Data on Private Sector Development Constraints for the Kyrgyz Republic and Comparators, 2013–21

Indicator	Kyrgyz Republic, 2013	Europe and Central Asia (Excluding High-Income) Average (or Stated Alternative), 2013	Kyrgyz Republic, Most Recent	Lower-Middle-Income Country Average, Most Recent	Europe and Central Asia (Excluding High-Income) Average (or Stated Alternative), Most Recent
Transparency and predictability in application of laws and regulations					
Protection of Property Rights score (rank; Global Competitiveness Index, World Economic Forum)	136th out of 148	Comparators: Georgia 120th Moldova 131st Tajikistan[a] 87th Kazakhstan 68th	122nd out of 141 (2019)	—	Comparators (2019): Georgia 48th Moldova 108th Tajikistan 57th Kazakhstan 67th
Number of international disputes in which the state is a respondent (UNCTAD Investment Dispute Settlement Navigator)	11 (through 2013)	Fourth-highest in ECA, after Poland with 20, Ukraine with 14, and Kazakhstan with 12	17 (through 2021)	—	Fourth-highest in ECA, after Poland with 36, Ukraine with 30, and Kazakhstan with 17 (2021)
Access to finance					
Domestic credit to the private sector (% of GDP, World Development Indicators)	15.7	51.0	24.6 (2019) 28.3 (2020)	46.8 (2020)	57.4 (2020)
Firms using banks to finance investment (%; Enterprise Surveys)	15.8	25.2	16.7 (2019)	23.5 (2020)	25.3 (2019)
Firm investment financed by banks (%; Enterprise Surveys)	7.5	14.2	7.2 (2019)	—	15.7 (2019)

(continued)

Indicator	Kyrgyz Republic, 2013	Europe and Central Asia (Excluding High-Income) Average (or Stated Alternative), 2013	Kyrgyz Republic, Most Recent	Lower-Middle-Income Country Average, Most Recent	Europe and Central Asia (Excluding High-Income) Average (or Stated Alternative), Most Recent
Firm capabilities					
Degree to which companies rely on professional management (rank; Global Competitiveness Index, World Economic Forum)	133rd out of 148	Comparators: Georgia 82nd Moldova 111th Tajikistan[a] 130th Kazakhstan 70th	128th out of 141 (2019)	—	Comparators (2019): Georgia 80th Moldova 113th Tajikistan 115th Kazakhstan 105th
Capacity for innovation (2013) Growth of innovative companies (2019; rank; Global Competitiveness Index, World Economic Forum)	138th out of 148	Comparators: Georgia 118th Moldova 134th Tajikistan[a] 51st Kazakhstan 74th	132nd out of 148 (2019)	—	Comparators (2019): Georgia 108th Moldova 129th Tajikistan 61st Kazakhstan 107th

Sources: UNCTAD Investment Dispute Settlement Navigator, World Development Indicators, Enterprise Surveys, World Economic Forum.

Note: ECA = Europe and Central Asia; GDP = gross domestic product; UNCTAD = United Nations Conference on Trade and Development; — = not available.
a. Tajikistan was not included in the *Global Competitiveness Report* for 2013–14. The data presented are from the 2012–13 report.

Inadequate Provision of Local Public Services

The quality of essential local public services has deteriorated since independence. In the years leading up to the evaluation period, the pace of construction and restoration of social and municipal infrastructure did not keep up with population growth, distribution, and demographic changes. Where such infrastructure exists, fixed assets are worn out and the parameters of livability, quality, service level, and accessibility vary greatly. Municipalities are faced with increased pressure for the growing demand for services because of increasing urban populations.

Local governments are mandated by law to be key providers of services, but they have severely constrained capacity to sustainably deliver on this mandate. The ability of local governments to provide services was constrained by an incomplete and inadequately implemented decentralization reform, including the following:

- Lack of adequate resources. Local governments (*ayil okmotu*) are hamstrung by budgeting and policy frameworks that disincentivize initiative. The weak tax base of many local governments limits their ability to raise funds.
- Unclear delineation of responsibilities among tiers of government. There is no clear division of responsibilities for public services among various tiers of government.
- Weak human resource capacity. Local officials are inadequately trained, and high turnover of staff makes training an ongoing need. Most local government officials lack the professionalism and experience to govern according to the legislation (Babajanian 2015). Many members of local councils are unaware of their own roles and responsibilities.

Impact of COVID-19

The challenges facing the Kyrgyz Republic have been compounded by the COVID-19 pandemic. Real GDP declined by 8.6 percent in 2020, and 40,000 jobs were lost (World Bank 2021c). The budget deficit increased to 4.2 percent of GDP (from 0.5 percent in 2019). The poverty rate increased to 25.3 percent in 2020 (from 20.1 percent in 2019). In an April 2020 survey of businesses, 80 percent of respondents reported a decrease of more than 75 percent in revenues, and almost half of respondents had put their staff on leave without pay. The COVID-19 crisis also put a strain on health services that were already suffering from substandard conditions, staff shortages, and a weak arsenal of diagnostics (World Bank 2021c).

[1] See also the World Development Indicators (database), https://data.worldbank.org/country/kyrgyz-republic, and the National Statistical Committee of the Kyrgyz Republic (table 5.04.00.25 "Poverty Rate"), http://stat.kg/en/bazy-dannyh.

[2] Data are from the Enterprise Surveys, www.enterprisesurveys.org.

[3] As of 2018, there were 305 large enterprises, 769 medium enterprises, 14,520 small enterprises, and 401,658 individual entrepreneurs. Data on large enterprises are from the International Finance Corporation (2021). Other data are from the National Statistical Committee of the Kyrgyz Republic (table 1.1, "Number of Employees and the Amount of the Gross Added Value of Small and Medium-Sized Enterprises"; accessed June 29, 2021), http://stat.kg/en/statistics/maloe-i-srednee-predprinimatelstvo. The latest data available are from 2018.

[4] See the National Statistical Committee of the Kyrgyz Republic (table 1.1, "Number of Employees and the Amount of the Gross Added Value of Small and Medium-Sized Enterprises"; accessed June 29, 2021, and November 18, 2022), http://stat.kg/en/statistics/maloe-i-srednee-predprinimatelstvo.

[5] Governance refers to institutional structures and processes that are designed to ensure accountability, transparency, responsiveness, rule of law, stability, equity and inclusiveness, empowerment, and broad-based participation.

2 | World Bank Group–Supported Strategies, Fiscal Years 2014–21

Highlights

The Country Partnership Strategy, fiscal years 2014–17, with the overarching theme of improving governance (focusing on public administration, public service delivery, and the business environment), was well aligned with the country's development challenges. However, the objectives were overly ambitious given the country's political and governance context.

A shift in emphasis toward private sector–led growth, and away from governance, began in fiscal year 2016 and continued with the Country Partnership Framework, fiscal years 2019–22.

The focus on private sector–led growth was relevant to the country context, but the pivot away from governance undermined pursuit of this objective given that governance challenges were a major deterrent to private sector activity.

In the wake of the 2010 political crisis, international development partners drafted a joint economic assessment to coordinate assistance. The assessment—led by the World Bank, the Asian Development Bank, and the International Monetary Fund, with the participation of the Eurasian Development Bank, the European Bank for Reconstruction and Development (EBRD), the European Commission, the International Finance Corporation (IFC), and the United Nations—focused on addressing the country's post-conflict needs for budget support, humanitarian aid, and infrastructure repair and rehabilitation (ADB, IMF, and World Bank 2010). Beginning in 2012, the Bank Group work was informed by the FY12–13 Interim Strategy Note (World Bank 2011a), which recognized that corruption, nepotism, and misuse of public assets had been fundamental causes of the 2010 crisis.

The FY14–17 CPS for the Kyrgyz Republic marked the Bank Group's return to a standard partnership framework, with a focus on governance, which was described as the country's "overriding development challenge" (World Bank 2013b, 1). The CPS stated that "the dispersion of responsibility under the 2010 constitution, patronage rivalries, an assertive parliament, significant street protests, and coalition politics circumscribe[d] the government's ability to take difficult but necessary decisions" (World Bank 2013b, 34). The CPS set out to support governance reforms that would reinforce state accountability and legitimacy through the use of a conflict and fragility filter in new and ongoing lending operations. This approach was well aligned with the country's development challenges and the government's strategy. The focus on public administration, public service delivery, and the business environment was appropriate for the context of weak governance and the need to promote private sector–led growth to address the country's economic vulnerabilities. Out of the 43 objectives in the National Sustainable Development Strategy, CPS objectives addressed 26 (60 percent) of them. Figure 2.1 presents the CPS objectives, priorities identified in the Systematic Country Diagnostic (SCD), and FY19–22 CPF objectives.

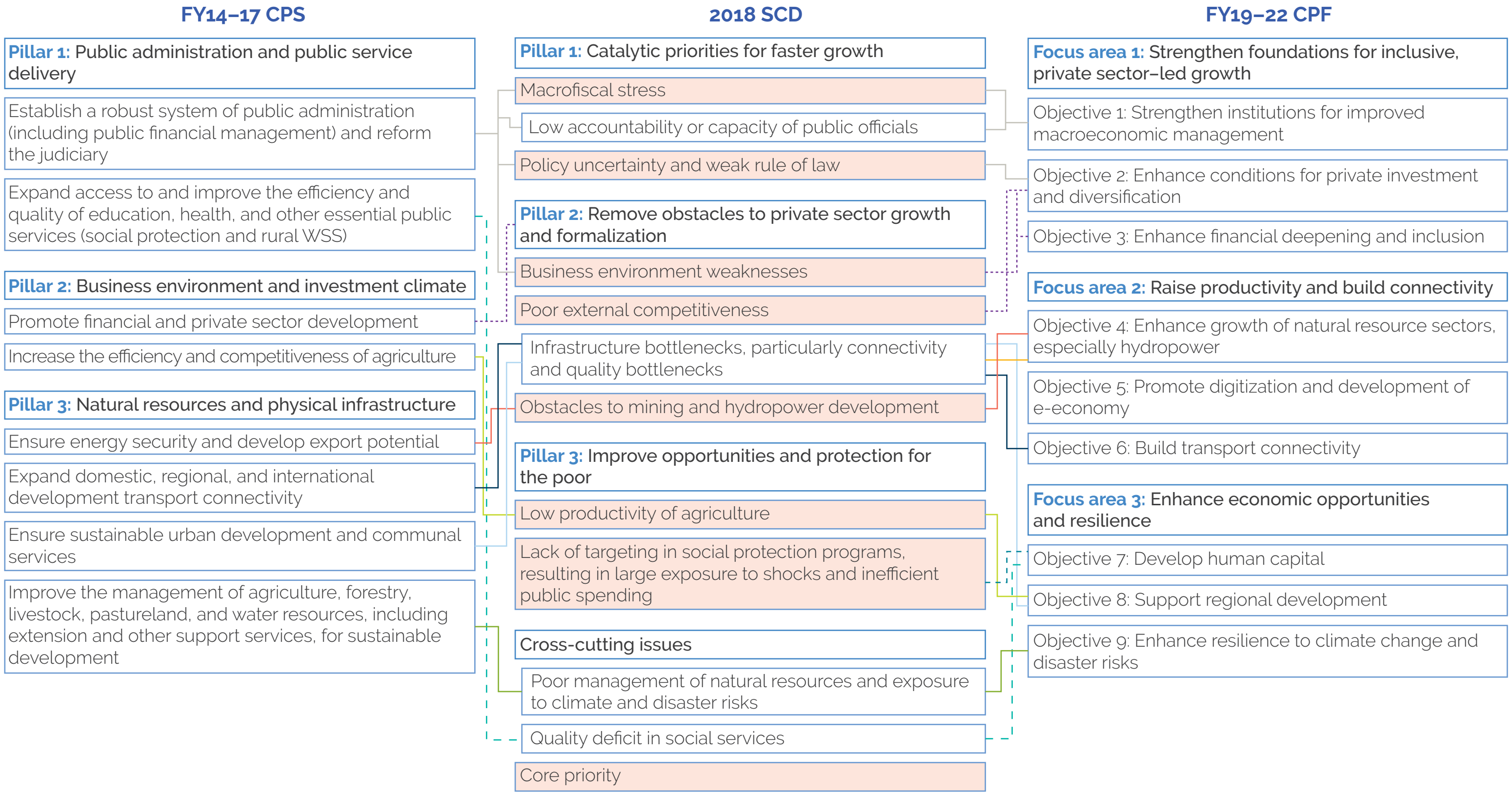
The CPS governance agenda was ambitious. It aimed to build a meritocratic public administration; reduce corruption through the anticorruption action plan and implementation of the Law on Conflict of Interest; improve access to justice; support improvements in public financial management (PFM); and make public procurement more transparent.

With respect to financial and private sector development, the CPS aimed to improve financial sector stability, further the development of credit bureaus and the use of movable assets as collateral, expand financial services through the Kyrgyz Post Office (KPO) and through the transformation of microfinance institutions into banks, improve access to finance in the agriculture sector, and improve the investment climate and the food safety framework. It did not target improvements in firm capabilities despite this being a major development constraint.

Expanding access to and increasing the efficiency and quality of education, health care, and other essential public services were among the CPS objectives. This included education and health services, water supply and sanitation (in rural and urban areas separately), solid waste management in urban areas, and other social infrastructure. The CPS did not directly address the drivers of low-quality essential local public services; however, it did state that it would work in urban areas to strengthen the capacity of local governments in beneficiary communities.

The February 2016 PLR concluded that "the pace of program and project execution has been slower than envisaged largely due to institutional and capacity constraints, which were exacerbated by frequent changes in government," among other factors (World Bank 2016c, 1). In addition, "whilst successive governments expressly endorsed the strategic directions of the CPS, shifts in priorities and in the intensity of commitment to specific reforms resulting from frequent changes of leadership . . . [and other issues] often led to loss of cohesion and momentum in achieving the CPS outcomes. . . . Power dynamics between the executive and legislative branches of government led to inordinate delays in approving major reforms. It also contributed to lengthy procedures for adopting and ratifying international financing agreements, which in turn undermined the timeliness and quality of World Bank portfolio" (World Bank 2016c, 5).[1]

Figure 2.1. Mapping of FY14–17 Country Partnership Strategy, Priorities in the Systematic Country Diagnostic, and FY19–22 Country Partnership Framework



Source: Independent Evaluation Group.

Note: CPF = Country Partnership Framework; CPS = Country Partnership Strategy; FY = fiscal year; SCD = Systematic Country Diagnostic; WSS = water supply and sanitation.

In addition, by the PLR stage, the Kyrgyz Republic was facing a series of economic shocks.[2] In response, the Bank Group decided to shift attention to growth and jobs to help the Kyrgyz Republic take advantage of the opportunities emanating from membership in the Eurasian Economic Union (EAEU) and from improved prospects for broader regional cooperation in Central Asia and to address sources of macroeconomic vulnerability, including in fiscal and financial sector management.

However, the shift envisioned at the 2016 PLR stage to strengthen the focus on private sector–led growth was only partially implemented. The PLR added the Dairy Sector Program to link farmers with markets and strengthen capacity to comply with EAEU standards. This marked a transition from projects focused on productivity in primary agriculture to those that addressed constraints along the value chain. However, plans to create a level playing field for SMEs, implement entrepreneurship programs to help firms export and grow, and support trade facilitation–related investments were not followed up on.

The 2018 SCD focused on the constraints to adjusting the Kyrgyz economic development model to one with more diverse sources of growth driven by the private sector. At the same time, the SCD confirmed the earlier conclusion that long-term stability and growth depend on tackling governance or corruption challenges and that “governance is the main bottleneck for private sector growth” (World Bank 2018c, 18). The SCD also argued that a more predictable investment climate was needed (World Bank 2018c).[3]

To support this new development model, the SCD identified seven core constraints to development and growth that needed to be addressed: macrofiscal stress, business environment weaknesses, weak external competitiveness, obstacles to mining and hydropower development, low agricultural productivity, lack of targeting in social protection programs, and policy uncertainty and weak rule of law.[4]

Informed by the SCD, the FY19–22 CPF focused on the following:

- Strengthening foundations for inclusive, private sector–led growth (focus area 1). This consisted of the following objectives: strengthen institutions for improved macroeconomic management, enhance conditions for private investment and diversification, and enhance financial deepening and inclusion.

- » Raising productivity and building connectivity (focus area 2). This included the following objectives: enhance growth of natural resource sectors, especially hydropower; promote digitization and development of e-economy; and build transport connectivity.
- » Enhancing economic opportunities and resilience (focus area 3). This consisted of the following objectives: develop human capital, support regional development, and enhance resilience to climate change and disaster risks.

The CPF significantly narrowed the scope of Bank Group support for governance reforms. It dropped attention to civil service, judicial, and anticorruption policy reform. Its objective to "strengthen institutions for improved [macroeconomic] management" focused narrowly on fiscal discipline and PFM (World Bank 2018a, 15), and the objective on digitization focused on improvement in tax administration through the e-filing rate of value-added tax (VAT) returns. This was a marked departure from the broad scope and central nature of governance in the CPS. According to interviews with Bank Group staff, this shift was driven largely by the perceived lack of ownership for core governance reforms within the new administration and by the realization by World Bank management that earlier World Bank efforts to advance such reforms without strong government buy-in had had limited traction. According to interviews with World Bank staff, there was also a desire to reduce the share of risky governance projects in the portfolio to accelerate disbursements and raise disbursement ratios.

However, the country was facing the same set of governance challenges as before, with negative implications for economic growth and diversification. The joint economic analysis, Interim Strategy Note, CPS, 2016 PLR, and 2018 SCD all argued that governance was the primary obstacle to achievement of development objectives. Indeed, the CPF recognized a need to "address poor governance and institutional quality[,] especially [macrofiscal] stress, weaknesses in the rule of law, and the limited accountability/capacity of public institutions and officials" (World Bank 2018a, 9), and it indicated that the "thrust on institutions and governance reforms will be maintained in a cross-cutting way" (World Bank 2018a, 15). However, the CPF explicitly excluded justice sector reform from the program, despite its criticality to the effective implementation of governance reform. The shift was reflected in the drastic reduction in the number of governance indicators and targets in the CPF results framework (compared with the CPS results framework).

Continuing the shift that began with the PLR, the FY19–22 CPF narrowed the CPS objectives that did not have an explicit focus on economic growth to link them more closely with this goal. This was done through the following (see figure 2.1):

- Greater attention was given to regional development (objective 8), focused on Issyk-Kul in the north and Osh, Jalal-Abad, and Batken in the south. This objective encompassed agriculture commercialization, rural livelihoods, and local infrastructure to support private investment.
- Promoting the development of e-economy (objective 5) was a new objective.
- Support for transport connectivity included a link with tourism, and attention to air connectivity was added.
- The motivation for improving the management of natural resources narrowed to enhancing resilience to climate change and disaster risks (objective 9).
- The objective of improving access to and improving the efficiency and quality of education, health, and other essential public services in the CPS became more narrowly focused to develop human capital, linked to labor markets (an economic growth issue) and child and maternal health (a core human development issue).

The CPF objective to enhance conditions for private investment and diversification included a broad range of activities. Support for PFM (including improving the transparency of budget processes, public investment management, and procurement) sought to bolster competitiveness, although precisely how this would be achieved was not explained. An IFC advisory on the investment climate included support to improve laws, regulations, and sector-specific enabling regulation. The objective also included strengthening corporate governance and enhancing audit and financial reporting. However, during the internal review process, reviewers pointed out that some CPF results indicators targeted de jure laws and regulations rather than de facto changes and that the level of ambition for this objective appeared to be low overall.

IFC aimed to support all three CPF focus areas to enhance the investment climate, improve corporate governance, potentially support privatization, develop sustainable agribusiness and value chains, deepen and diversify the financial sector, and enable private investments and public-private partnerships. The CPF noted that expansion of IFC's investment program depended greatly on the government's continuation of reforms to improve the business environment, governance, and institutional capacity.

Both the CPS and the CPF envisioned a limited role for the Multilateral Investment Guarantee Agency (MIGA). The CPS mentioned that the proposed Kemin-Almaty transmission line, if funded by private investors, could possibly receive MIGA assistance, but that MIGA would be ready to "deploy its risk insurance products in the Kyrgyz Republic in the promising mining and hydropower sectors, provided improvements in governance and application of investment laws occur" (World Bank 2018a, 31).

Attention to the provision of local public services was less prominent in the FY19–22 CPF. The only local service explicitly referenced in the strategy was rural water supply and sanitation, where it noted that "existing operations in . . . rural water supply and sanitation . . . are already aimed at increasing efficiency, quality, productivity, and resilience and, hence, provide a sound basis to support the CPF objective of diversified, export-oriented, inclusive, and resilient growth" (World Bank 2018a, 15). Urban services were not a significant part of the CPF because they were being supported by the EBRD. No mention was made of the constraints impeding local government's ability to deliver local public services despite the continuation of a large portfolio of interventions designed to improve local public services.[5] The FY19–22 CPF results framework also gave limited attention to essential local public services, with only one indicator for this area—the "number of people provided with water supply services under the Sustainable Rural Water Supply and Sanitation Project" (World Bank 2018a, 46).

[1] It took an average of 13 months after the Board of Executive Directors' approval for World Bank projects to become effective.

[2] Lower gold prices, a regionwide economic slowdown, and currency depreciations that affected the Kyrgyz Republic economy through trade, remittances, and foreign direct investment channels.

[3] This was similar to the assessment in the International Monetary Fund Country Report "Kyrgyz Republic: Poverty Reduction Strategy Paper—Country Development Strategy (2007–2010)" that argued, "Investment climate in [the Kyrgyz Republic] is inefficient and unpredictable. Almost all of the sectors of economy are in shadow. . . . [G]old deposits at Kumtor are being depleted. . . . Therefore it is crucial for [the Kyrgyz Republic] to diversity [*sic*] economic growth sources and to ensure its long-term sustainability" (IMF 2007, 5).

[4] Other constraints that the Systematic Country Diagnostic identifies but does not prioritize as core for the short term are low accountability or capacity of public officials; infrastructure bottlenecks, particularly for connectivity; quality deficit in social services provision; inadequate management of natural resources; and exposure to climate and disaster risks.

[5] The Second Village Investment Project, $40.8 million, fiscal years (FY) 2007–15; the Bishkek and Osh Urban Infrastructure Project, $27.8 million, FY08–16; Urban Development Project, $12 million, FY16–22.

3 | Operationalization and Performance of World Bank Group–Supported Strategies

Highlights

The Country Partnership Strategy and the Country Partnership Framework programs were implemented largely as planned; however, they deviated from plans by pausing budget support through development policy financing and supporting the COVID-19 pandemic response. The pause in development policy financing was appropriate and demonstrated learning from experience.

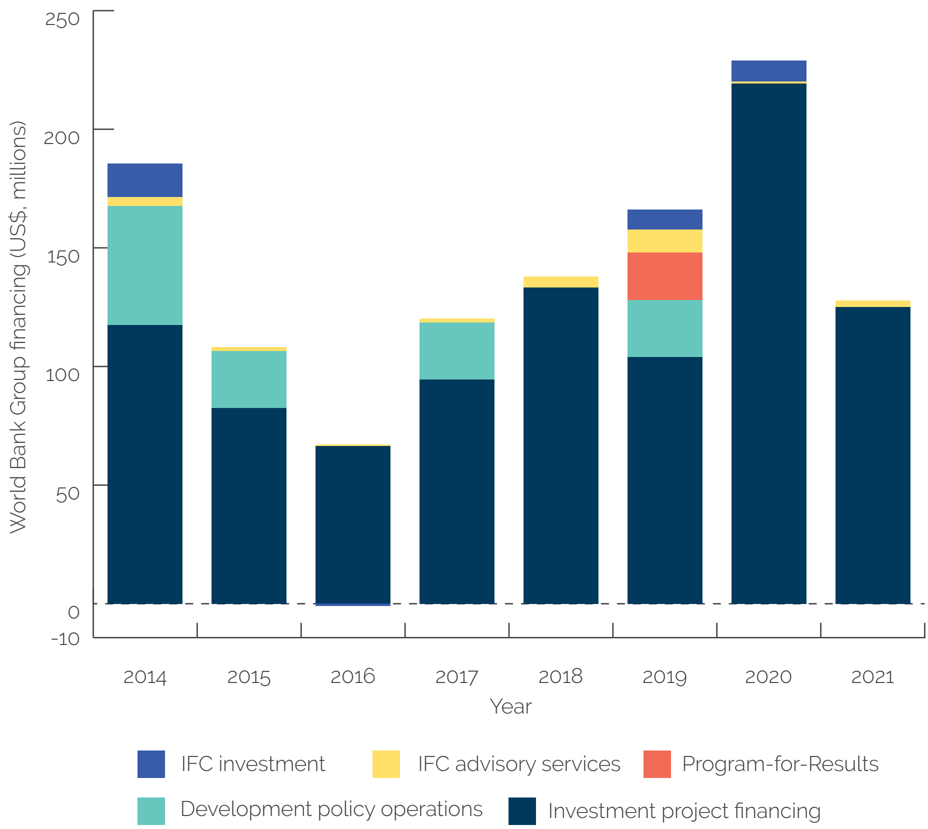
The shift to private sector–led growth was operationalized in the agriculture sector and in the approach to large infrastructure (that is, national roads) and infrastructure in urban areas. However, some reforms needed to improve conditions for firm-level growth and quality assurance were not implemented on the scale conveyed at the Performance and Learning Review stage. Substantial results were achieved in basic education and health over the evaluation period. World Bank Group–supported projects have had less success with improving services for which responsibility rests mainly at the local level.

Dropping the judicial sector reform project reduced the potential effectiveness of the World Bank Group's work, as improving the rule of law is needed to substantially increase private sector–led growth in the Kyrgyz Republic. The approach to improving predictability in the business environment was focused at a low level on technical approaches rather than systemic reforms. The approach to essential local public services was heavily weighted toward infrastructure funding rather than addressing binding constraints in service delivery. These will be discussed in chapters 4 through 6.

The Country Partnership Strategy and the Country Partnership Framework had noted that opportunities for the International Finance Corporation and the Multilateral Investment Guarantee Agency may be constrained given the investment climate and institutional capacity, and that was borne out in practice. The International Finance Corporation did make substantial contributions through investment in financial institutions (discussed in chapter 5).

The Bank Group–supported portfolio grew substantially over the evaluation period. From $503 million in active investment projects in FY14, the World Bank portfolio grew steadily to $1,063 million by FY21. Figure 3.1 shows the Bank Group support approved throughout the evaluation period.

Figure 3.1. World Bank Group Financing Approved by Type and Fiscal Year



Source: World Bank Business Intelligence database.

Note: IFC = International Finance Corporation.

Country Partnership Strategy Implementation and Performance

The CPS objective to establish a robust system of public administration and reform the judiciary was implemented with heavy reliance on development policy operations (DPOs). A series of two DPOs in FY14 contained prior actions related to the adoption of the anticorruption program, its action plan, and the Law on Conflict of Interest; budget discipline and transparency; transparency in public procurement; improving energy sector transparency, governance, and accountability; and judicial reform. A Governance and Competitiveness DPO in FY17 (expected to be the first in a series of two; the second operation was canceled) supported many of the same areas in addition to tax administration reform.

There was significant advisory services and analytics (ASA) and technical assistance through small (trust-funded) investment projects on aspects of PFM, public sector reform, public procurement, and statistics. IFC advisory services contributed to tax administration reform. The planned Judicial Development Project was dropped, which reduced the potential effectiveness of the World Bank Group's work, as improving the rule of law is needed to substantially increase private sector–led growth in the Kyrgyz Republic. The details of the work under this objective are discussed in chapter 4 on governance.

The CPS objective to expand access to and increase the efficiency and quality of education, health, and other public services was supported by a large lending program. Health, social protection, and education are discussed in this chapter, whereas rural water supply and sanitation and village infrastructure are discussed in chapter 6 on essential local public services.

Operations showed good results on health but weaker results on social protection. The Health and Social Protection Project (FY05–15) supported strengthening the targeting of social benefits and mitigating the impact of food price shocks on health and nutrition. However, the Independent Evaluation Group (IEG) rated it moderately unsatisfactory for overall outcome because of modest contributions to improving performance of the health sector and strengthening the targeting of social benefits (World Bank 2016d). The Second Health and Social Protection Project (FY13–20) performed better after the project was restructured to narrow the focus on mother and child health care, as the initial project development objective was considered too ambitious, and client capacity was insufficient to cover all four originally planned service areas (World Bank 2020b). The Results-Based Health project (FY13–17) piloted performance-based payments and enhanced supervision for maternal and neonatal care in selected hospitals and strengthened the recipient and health care provider capacity in performance-based contracting and monitoring and evaluation for results. IEG found that the project successfully implemented the pilot as planned (World Bank 2020c).

The Sector Support for Education Reform project (FY13–19) created conditions for improved learning outcomes in basic education, and the IEG validation found it to be well designed and implemented. The project "created favorable conditions for improved learning in basic education, as it improved pedagogical practices, teacher skills, curricula, availability of textbooks and teaching-learning materials, and applied a Classroom Assessment Scoring System. It established conditions for efficient allocation of resources by supporting a nationwide rollout of Per Capita Financing. It promoted school capacities in budgeting and resource management and transparent school reporting on performance and expenditures" (World Bank 2020d, 8).

Promotion of financial and private sector development was supported by a wide range of World Bank and IFC interventions. Details of the work under this objective are discussed and assessed in chapter 5 on private sector development. IFC increased its investment in domestic financial institutions but did not find investment opportunities in other sectors that were mentioned as possibilities in the CPS. This was due to several factors: (i) expected reforms that were not enacted in the health and education sectors to improve the enabling business environment, (ii) low capacity of the government to implement public-private partnerships, (iii) ongoing concerns related to corporate governance and corruption, and (iv) the continued dominant role of the public sector in the economy and unrealized privatization plans.

CPS support to the agriculture sector was adjusted to focus on export-oriented growth after the PLR stage. After the PLR stage, an effort to link agriculture with export value chains in the dairy sector was pursued jointly by the World Bank and IFC, making the program more relevant to supporting sources of economic growth. *Kyrgyz Republic: Developing Agri-Food Value Chains* (World Bank Group 2018) contributed to this shift. The Completion and Learning Review (CLR) Review rated these objectives as only partially achieved (World Bank 2018d).

The World Bank supported increasing transparency, accountability, and governance arrangements for main energy companies (largely state-owned enterprises). This change was attempted primarily through the FY14 DPO programmatic series and the FY15 Energy sector DPO. Prior actions in the FY17 Governance and Competitiveness DPO supported the revision of the tariff-setting methodology for district heating companies and the introduction of a performance reporting and monitoring framework for the heating sector. Reforms in the heating subsector were prioritized because of its major performance failure during the preceding winter, which had serious political implications. The governance component of the FY15 Electricity Supply Accountability and Reliability Improvement Project was aimed at strengthening metering, procurement, and financial management practices at the major power distribution company. The lack of progress in energy sector reform, including increased tariffs, was a major driver of the World Bank's decision to pause development policy lending after FY17 (although a standalone operation was approved in FY19).

The World Bank's approach to enhancing governance in the energy sector under the CPS failed to adequately reflect the government's anxieties over the reliability of the power supply in winter months and the affordability of electricity consumption. In contrast with the experience of other countries in the region, the push for higher tariffs in the Kyrgyz Republic was not accompanied by reform of the national social protection system (introduction of means-tested poverty benefits) as a mitigation measure.

Country Partnership Framework Implementation and Performance

The core of the FY19–22 CPF program (through FY21) was implemented largely as planned but with a pause in development policy lending and the inclusion of support for the COVID-19 pandemic response.

The objective to strengthen institutions for improved macroeconomic management focused on PFM and debt management and has had modest results. It was supported mainly by ASA and the FY19 Economic Governance DPO with prior actions supporting budget discipline in transparency, transparency in public procurement, and improvements in tax administration. Implementation was off-track "because of political uncertainty, lack of ownership, and poor implementation and coordination" (World Bank 2022e, 5).

The objectives to enhance conditions for private investment and diversification had mixed results. The program design omitted important aspects of the business-enabling environment and access to finance. The FY19 Economic Governance DPO supported a prior action to submit the draft law on food safety to parliament (which was not adopted) and to adopt procedures for dispute resolution among private operators in the telecommunications sector (which is still not effective). The financial sector development program made contributions to transforming microfinance institutions into banks and shifting banking supervision to a risk-based framework, but the support to expand access to financial services through the KPO had limited relevance and effectiveness.

The CPF noted that opportunities for IFC and MIGA were constrained by the investment climate and institutional capacity. IFC investment and MIGA guarantees remain constrained by the small market, the dominance of the public sector, and lack of transparency in aspects of the regulatory environment. IFC's advisory services were implemented as planned during the CPF period, focusing on the investment climate, agribusiness sector, and financial sector development and advising on a public-private partnership transaction for Manas International Airport (see chapter 5).

Development policy lending was paused, driven by a lack of progress and reversals in some reforms supported under previous DPOs. The World Bank canceled the second operation in the Governance and Competitiveness DPO series (slated for FY18) and paused future DPOs because of lack of progress on energy sector reform and attempts to backtrack on public procurement reforms supported in the FY14 DPO series. The World Bank approved a stand-alone Economic Governance DPO in FY19 that was driven by a desire to stop further backtracking on public procurement reform—through two prior actions supporting implementation of the Public Procurement Law (establishing Independent Complaint Review Commission enhancements and adopting standard bidding documents in two key public procurement areas). There has been no development policy lending since FY19.

Relevant lessons from the CPS did not adequately inform implementation of the CPF. The CLR of the CPS highlighted the following as important for reducing corruption and improving governance: (i) strengthening the demand for good governance to generate sustained political commitment to reduce corruption and (ii) implementing a long-term approach spanning several CPF periods and mainstreaming governance considerations throughout the entire Bank Group program. The CPF stated that the Bank Group program would use citizen engagement mechanisms to achieve this. However, the implementation of citizen engagement was not appropriately matched to the governance challenge. Citizen engagement mechanisms were mostly applied in projects at the local level to prioritize local micro infrastructure projects. These engagement mechanisms did not focus on accountability mechanisms at the central government level.

COVID-19 Pandemic Response

The World Bank responded quickly to support the health, private sector, and livelihood impacts of the COVID-19 pandemic. The response included the following:

» A $12.2 million Emergency COVID-19 Project and $20 million in additional financing to strengthen disease surveillance systems, public health laboratories, and epidemiological capacity for early detection and confirmation of cases; combine detection of new cases with active contact tracing; support epidemiological investigation; strengthen risk assessment; and provide on-time data and information for guiding decision-making and response and mitigation activities. It also financed essential medical goods, such as medicines, medical supplies, and equipment. Its implementation progress was strong from late 2020 through early 2022. The original project, approved in April 2020, was one of the first COVID-19 response projects approved by the World Bank.

» A $50 million Emergency Support for Micro, Small, and Medium Enterprises Project approved in July 2020 with $50 million in cofinancing from the Asian Infrastructure Investment Bank and another $50 million in additional financing in FY22. The project sought to address potential risk aversion and decreased lending by financial institutions that would deny firms critical financing during the pandemic. The project experienced considerable delays in implementation as a result of the change in government in 2020–21. Disbursement accelerated in early 2022.

» A total of $17 million in additional financing for the Third Village Investment Project and $20 million in additional financing for the CASA-1000

Community Support Project to reach all rural subdistricts with support for social infrastructure investments and to support reestablishment of livelihoods affected by COVID-19.

» A $50 million Social Protection Emergency Response and Delivery Systems Project that did not become effective and was canceled as per the client's request.

Project Performance across the Evaluation Period

Results from DPOs over the evaluation period were disappointing. During the evaluation period, the World Bank used DPOs to support improvements in governance and competitiveness and the financial viability and governance of the energy sector. Development outcomes were rated moderately unsatisfactory or lower and Bank performance was rated moderately unsatisfactory, reflecting weaknesses in both design and implementation. The energy sector DPO was somewhat more successful with both its development outcome and Bank performance rated moderately satisfactory. Chapter 4 on governance and chapter 5 on private sector development discuss the specific reforms that were supported by these operations.

Results from investment project financing were more positive (figure 3.2). Appendix C presents the portfolio, including project ratings.

Figure 3.2. Development Outcome and Bank Performance Ratings for Investment Project Financing Projects

Source: Independent Evaluation Group.

Note: FY = fiscal year.

4 | World Bank Group Support to Improve Governance

Highlights

Over the evaluation period, the World Bank Group program made several tangible contributions to enhancing governance, particularly with respect to budget transparency, public procurement, and tax administration. However, overall progress was below expectations, and most targets (including in civil service, anticorruption, and access to justice) were not met.

Support to enhance governance under the fiscal years 2014–17 Country Partnership Strategy was mostly relevant, but its effectiveness was limited. The governance program under the fiscal years 2019–22 Country Partnership Framework focused almost exclusively on public financial management, stepping back from support to control corruption and strengthen the rule of law—both major constraints to progress in other areas of the program.

A lack of continuity in the anticorruption program, combined with inadequate government ownership for reform, rendered the ambitious anticorruption initiatives supported by the World Bank ineffective.

The World Bank support to improve governance relied too much on development policy operations to advance reforms that were institutionally demanding and required implementation support over an extended period, which in several cases were absent. The effectiveness of development policy operations was also undermined by inadequate insight and adaptation to political economy considerations.

The Bank Group support for public procurement and tax administration was more effective partly due to stronger government ownership (including relative stability of middle management staff in the relevant agencies).

The World Bank led a pro-reform coalition of local (both government and nongovernment) and international stakeholders on public procurement reform. The effort was initially successful in limiting the influence of vested interests. Unfortunately, there has been considerable backsliding on several key reforms.

According to the Judicial System Diagnostic (World Bank 2011b), Public Sector Reform Roadmap governance assessment, 2015 Public Expenditure and Financial Accountability (PEFA) assessment, and SCD (World Bank 2018c), the main governance weaknesses in the Kyrgyz Republic at the beginning of the evaluation period, which persisted throughout the period, were as follows:

» Low capacity for economic management and effective service delivery across the public sector. High turnover at all levels of the public service undermined the accumulation of administrative and technical skills and experience. Frequent government changes were accompanied by significant policy shifts and frequent reorganization of the public administration. These changes disrupted policy implementation and undermined capacity building, which was further aggravated by limited collaboration among state entities. At the local level, capacity constraints have been worsened by the lack of clarity over allocation of responsibilities across the governments. In addition, patronage networks are used as a way to channel resources to localities linked to those in power. These issues contributed to the widespread public mistrust of government at all levels.

» Weak management and control of public finance. Major weaknesses in the management of public resources were insufficient transparency in PFM, weaknesses in internal financial control, gaps in payroll control, and lack of a modern integrated financial management information system (IFMIS).

» Persistent corruption. The Kyrgyz Republic political system is characterized by competition among patronage networks for power and resources. A weak rule of law and insufficient budget transparency created opportunities for corruption and state capture. Half of firms surveyed in the 2013 Enterprise Survey, and just under 40 percent of firms in the 2019 Enterprise Survey, cited political instability and governance as the top constraints to doing business. The Kyrgyz Republic scored 24th out of 100 and ranked 150th (out of 175) on Transparency International's 2013 Corruption Perceptions Index, and it scored 27th and ranked 144th out of 180 in the 2021 Corruption Perceptions Index.

» Uneven enforcement of the rule of law. Businesses and the population consistently complained about uneven and inconsistent application of laws and regulations, aggravated by uneven access to justice, which has created major uncertainties for investors, undermined competition, and weakened protection of property rights (see, for example, EBRD 2019). The Kyrgyz Republic was in the bottom 15th–20th percentile of countries for the Worldwide Governance Indicator for rule of law from 2013 through 2021. Major constraints identified in the delivery of judiciary services reflect political influence over the judiciary, underfunding of courts, and lack of modern judicial infrastructure (World Bank 2011b).

Governance was a major component of the FY14–17 CPS, but programwide support for controlling corruption and strengthening the rule of law was dropped from the FY19–22 CPF. During the CPF period FY19–22, the scope of Bank Group support to governance was narrowed to an almost exclusive emphasis on PFM. At the same time, the CPF continued the earlier efforts to strengthen governance in the energy sector. There was only limited follow-up in other (non-PFM) governance areas, of which the most prominent was to strengthen statistics as part of the Tax Administration and Statistical System Modernization Project (FY20).

The relevance of the FY19–22 CPF program was undermined by inadequate attention to anticorruption and rule of law—both critical constraints to achievement of other program objectives.[1] The World Bank disengaged from directly addressing governance challenges (outside of PFM and tax administration). To some extent, disengagement reflected a lack of progress on these areas in the CPS period. While some parts of the governance agenda were addressed by other donors (for example, the European Union and the State Secretariat for Economic Affairs [SECO] Switzerland), external assistance to governance was fragmented and not commensurate with the depth or breadth of governance challenges facing the country.

Most governance-related CPS and CPF targets were not met, and overall progress was below expectations. Of five governance targets in the CPS, only one (related to competition in procurement) was achieved (see appendix B). The CPF had only one target on governance (e-filing of VAT returns) that was met. The 2018 SCD acknowledged that the World Bank had insufficient insight into political economy to secure improvements in governance (World Bank 2018c).

Public Administration Reform and Capacity Building

Central Government

The CPS sought to build a meritocratic public administration. The World Bank supported a project to enhance the capacity of central government ministries to formulate and carry out policies, improve policy consistency and interagency coordination, and reform employment and remuneration practices in the civil service (Capacity Building for Economic Management International Development Association grant FY09–14). Under two grant-funded ASA, the World Bank helped develop the Public Sector Reform Roadmap, a comprehensive longer-term strategy that established ambitious reform goals in the civil service, anticorruption, the justice sector, and sector governance and supported the initial steps of its implementation. The World Bank also facilitated implementation of the National Strategy for the Development of Statistics.

The only program results indicator for public administration and civil service reform was the World Economic Forum's index on favoritism in government decisions. The target was to improve the global ranking of the Kyrgyz Republic from 136th in 2012 to 120th in 2017. Actual performance was much stronger—the 2017 ranking was 86th, significantly exceeding the target. The absolute score improved as well—from 2.2 (out of 7) in 2012 to 2.8 in 2017–18 (the latest data available). However, as the Bank Group was not engaged in civil service reform in the Kyrgyz Republic after FY14 (except for the modest amount of policy advice under the preparation of the Public Sector Reform Roadmap), this improved score could not be attributed to the World Bank program under evaluation.

World Bank support for Public Sector Reform Roadmap and capacity building helped facilitate institutional strengthening of key central agencies (particularly the Ministry of Finance). However, overall progress toward building a meritocratic civil service was modest. Moreover, with the exception of capacity building in PFM and statistics, most World Bank efforts in this direction were discontinued after 2017, before any tangible results were achieved. The lack of follow-up on the relatively intense World Bank engagement in the modernization of public administration reduced benefits from the earlier investment in knowledge creation and client relationships.

Local Government

The World Bank also delivered a program to strengthen local government capacity through investment projects of the community-driven development (CDD) type. This program was not linked to an explicit objective in either the CPS or CPF but implicitly supported efforts to enhance transparency and accountability in local government planning and budgeting. The Second and Third Village Investment Projects supported local government participatory planning (see chapter 6). These were complemented by grant-funded projects to improve budget literacy and information transparency at the local level. This work included a considerable effort in building communities of practice (networks of local government practitioners). However, the communities of practice were not sustained after the grant supporting them ended.

The World Bank support in this area was not effective. The objectives were directly linked to the challenge of limited local government capacity and accountability. However, the World Bank approach was through a sequence of small, inadequately connected interventions with serious sustainability risks. Other dimensions of capacity needed to be addressed to improve the delivery of local public services. These included a clear delineation of responsibilities, access to resources, and project planning, management, and technical capacity building—none of which were addressed. Support for training in budgeting and setting up communities of practice was not coordinated with the projects supporting investment in local public infrastructure. Further discussion of support to local public services can be found in chapter 6.

Public Financial Management

PFM reforms supported by the World Bank included steps to enhance budgeting and expenditure management and reporting, tax administration, debt management, public procurement, and audit. CPS objectives in PFM were strengthening budget discipline and transparency in the use of budget resources and increasing competition in public procurement—both expected to limit opportunities for corruption and improve efficiency in public resource use. Analytic underpinnings for this work derived from the 2012 Country Fiduciary System Review, 2015 PEFA assessment, and FY14 Programmatic Public Expenditure Review.[2] The World Bank supported PFM improvements through the following efforts:

- The FY14 DPO series contained prior actions to enhance budget discipline and transparency in the use of budget resources, strengthen the independence and quality of internal audit, and upgrade the legal and regulatory framework on public procurement. Prior actions on procurement were related to the adoption of the Public Procurement Law and the strengthened role of a public procurement regulatory body.
- The Public Finance Management Capacity Building Trust Fund grant (FY10–15) supported capacity building in both the Ministry of Finance and line ministries to (i) improve the Medium-Term Budget Framework, (ii) strengthen the PFM regulatory framework, (iii) improve the costing of budgetary expenditure, and (iv) implement the Internal Audit Law. This was complemented by two smaller trust fund grants (FY14–18) for Public Procurement Capacity Building.
- The FY17 Governance and Competitiveness DPO facilitated reforms in tax administration that aimed to reform VAT administration, including the acceleration of the VAT refund process, and to transfer responsibility for social insurance payments from the Social Fund to the State Tax Service (STS). These policy reforms were expected to raise efficiency in revenue administration and cut compliance costs for taxpayers. In addition, IFC delivered a program of technical assistance and advisory support on tax administration to the STS. The related analytical support was provided through the Tax Administration Diagnostic Assessment Tool (FY17) report.
- Additional support for strengthening audit and accounting in the public sector was provided through the Institutional Development Fund grant Capacity Building for Public Sector Internal Audit (FY13). The FY15 Strengthening the Chamber of Accounts (grant-funded) Project sought to strengthen the Chamber of Accounts' institutional capacity and audit methods to improve efficiency, accountability, and transparency of public spending.

Under the CPF, the World Bank sought to deliver extensive support to strengthen PFM. The World Bank–supported interventions were intended to help control corruption and reduce inefficient resource use. However, the scope of work was substantially narrowed from the CPS program to focus on PFM as a way to reduce budget leakages. The World Bank's support included the following efforts:

- Detailed diagnostics and policy advice were provided through Public Expenditure Reviews (FY20 and FY21), PEFA assessment (FY21), enhancing public investment management (FY18), and tax administration reform development (FY19).

- PFM (technical assistance) was improved through a project funded by the Department for International Development (now the Foreign, Commonwealth and Development Office) to enhance the capacity of the Ministry of Finance Training Center, including an upgrade in its distance learning capabilities to expand online PFM training for local government staff.

- The FY19 Economic Governance DPO assisted in strengthening the regulatory framework for public procurement through a prior action requiring the upgrading of operational procedures of the Independent Complaint Review Commission for public procurement to strengthen the objectivity and transparency in how complaints are handled.

- The grant-funded Second Capacity Building in PFM Project (approved in FY19) extended the World Bank's support to budgeting and broad capacity building within the Ministry of Finance, implementation of a modern IFMIS, and a reform to the formula for allocating central budget transfers across local governments.

- The Tax Administration and Statistical System Modernization Project (approved in FY20) aimed to raise the effectiveness of tax collection through the redesign of core business processes in the STS to be complemented by software and hardware infrastructure upgrades.

The World Bank–supported PFM program sought to address the main weaknesses in expenditure management and tax administration identified in diagnostic work in a comprehensive, programmatic way, while gradually building local ownership within counterpart agencies. The most significant shortcoming in this area related to challenges in procuring a modern IFMIS because of difficulty in agreeing with the Ministry of Finance on a mutually acceptable strategy for the development of the IFMIS.

The World Bank support successfully contributed to enhancing PFM (including public procurement, budget reporting, internal audit, public access to budget information, and tax administration). The 2015 PEFA informed the government's "Strategy for the Development of Public Financial Management in the Kyrgyz Republic for 2017–2025," which served as a long-term governance framework and provided continuity for the implementation of several of these reforms. Many of the changes introduced were supported by legal amendments (Budget Code, Procurement Law, Tax Code), adoption of which was facilitated by World Bank–funded DPOs, and which, despite various pressures, were largely sustained. Table 4.1 presents evidence of progress. Other improvements included the following:

» Improving the transparency of the government's fiscal operations, with the country's Open Budget Index score increasing from 20 out of 100 in 2012 to 62 out of 100 in 2021.[3] This included improvements in both quality and timeliness of in-year budget reports, reduced extent of unreported government operations (for example, budget transfers and loans to state-owned enterprises), and generally improved public access to budget information (PEFA 2021; World Bank 2016b, 2022d).[4]

» Strengthening the institutional capacity of the Chamber of Accounts, resulting in improved external scrutiny of the government's budget—the corresponding score for PEFA indicator PI-30 improved from D+ in 2009 to C+ in 2015 and B+ in 2021 (PEFA 2015, 2021).

» Enhancing public sector accounting and financial reporting framework, improving compliance with international accounting standards, revising the Unified Chart of Accounts, and other efforts, contributing to improved accountability, transparency, and efficiency in the use of public funds (PEFA 2021; World Bank 2016b).

» Strengthening internal audit and control functions, linked to the establishment of the Internal Audit Methodology Unit in the Ministry of Finance and audit units in 19 line ministries (PEFA 2021; World Bank 2016b).

Table 4.1. Kyrgyz Republic Public Financial Management Progress as Reflected in Select Public Expenditure and Financial Accountability Indicators

Indicator	2009	2015	2021
PI-1 Aggregate expenditure outturn	C	A	B
PI-4 Budget classification	B	B	A
PI-5 Budget documentation	B	B	A
PI-7 Transfers to subnational governments	B	A	B+
PI-13 Debt management	B	A	A
PI-16 Medium-term perspective in expenditure budgeting	C+	C+	C+
PI-19 Revenue administration	C	B	C+
PI-21 Predictability of in-year resource allocation	D	C+	B+
PI-22 Expenditure arrears	D	D+	D
PI-23 Payroll controls	D+	D+	B+
PI-24 Procurement management	D+	B	A
PI-25 Internal controls on nonsalary expenditure	D+	C+	A
PI-26 Internal audit	D+	C+	C+
PI-28 In-year budget reports	C+	C+	A
PI-30 External audit	D+	C+	B+
PI-31 Legislative scrutiny of audit reports	C+	C+	A

Source: Public Expenditure and Financial Accountability for 2009, 2015, and 2021.

Note: PI = Public Expenditure and Financial Accountability Indicator.

There is inconsistency between, on one side, positive movement in PEFA and Open Budget scores and several other external assessments of PFM progress in the Kyrgyz Republic and, on the other side, no improvement in Country Policy and Institutional Assessment ratings. Although PEFA scores rose considerably during 2009–20, the Country Policy and Institutional Assessment ratings for the effectiveness of core government functions—including those related to budgeting, public procurement, debt management, and tax administration—showed no improvement over the past decade. The reasons for this inconsistency remain unclear.

Public procurement represents the reform area where the World Bank was initially successful in limiting the influence of vested interests, although there has been recent backtracking. The World Bank supported procurement reforms through prior actions in several DPOs and projects, including the Capacity Building in PFM Projects 1 and 2, and two grants for Public Procurement Capacity Building. The main changes in public procurement, which were implemented with World Bank support and complementary support from the EBRD and the Asian Development Bank, included the following:

» Introduction of legal, regulatory, and institutional arrangements for e-procurement when the e-portal was made operational, which reduced costs of participation in procurement tenders for SMEs and increased transparency.

» Establishment of the public procurement regulatory body within the Ministry of Finance.

» Establishment of a more transparent procedure for resolving complaints in procurement, as an independent government body has been established to deal with procurement complaints.

» Simplified procurement procedures and bidding documentation.

Evidence of improvement in procurement includes an A rating on the 2021 PEFA on all four dimensions of public procurement management (indicator PI-24, compared with a baseline of B in 2014). The number of registered vendors on the e-procurement portal increased by approximately 40 percent between November 2018 and May 2021. With support from the Kyrgyz Republic chapter of Transparency International and Open Contracting Partnership, new online analytical tools, made possible by the e-procurement portal, were developed to help civil society monitor and analyze public procurement processes. Broad progress in procurement has also been recognized by representatives of the private sector, although they emphasized that a stronger government effort was needed to ensure tangible improvements in the quality of the investment climate.

Unfortunately, there has been considerable backsliding on procurement reform. Several amendments to the Procurement Law, which were not supported by the World Bank, reduced the effectiveness of the procurement framework. The first set of amendments reintroduced an option for paper procurement and substantially increased the ceiling on public procurement that was exempt from competitive practices. The April 2022 amendments are potentially even more damaging: they exempted state-owned enterprises from compliance with the Procurement Law.[5]

The Bank Group helped the government advance several reforms in tax administration. Implementation of the activities was supported by IFC's Central Asia Tax Administration Project, with additional support from DPO prior actions. Results (as reported by the 2017 Tax Administration Diagnostic Assessment Tool, Advisory Services Completion Report [IFC 2018], and Project Performance Assessment Report on the related DPOs [World Bank 2022f] and during interviews), included the following:

- Simplification of taxation for SMEs. In July 2015, the frequency of tax reporting and payment for SMEs in the Kyrgyz Republic was reduced from monthly to quarterly. In combination with improved accessibility of new e-filing (since 2017), this change brought considerable time and cost savings to taxpayers. In addition, VAT paper invoices, which required frequent taxpayer visits to tax offices, were replaced by the e-service through the taxpayer portal (prior action in the first FY14 DPO).
- Introduction of risk-based tax audit and associated improvements in tax inspections. Previously, all taxpayers were subject to regular tax audits. Risk-based tax audit principles for planned audits were adopted in 2014 and gradually became an integral part of the STS management system. Risk-based tax audit allowed the STS to focus tax audits on riskier cases and reduce costs for compliant taxpayers.
- Improved accessibility of e-filing. While basic e-filing options have been available since 2012, they were not widely used. The upgrade of both software and hardware helped expand the use of the e-filing system.
- Consolidation of collection of social payments with the regular tax administration by transferring administration of social contributions from the Social Fund to the STS (a prior action in the FY19 DPO), which reduced transaction costs and increased predictability; Bank Group analytics calculated that in 2014, reporting to the Social Fund was the most complicated of seven tax-related activities (World Bank 2022f).
- Improvements in the availability of tax services and information for taxpayers through the launch of a user-friendly taxpayer portal in 2017.

The Bank Group's contribution was direct and significant and was made through a combination of diagnostic work (for example, the Tax

Administration Diagnostic Assessment Tool); an expanded joint IFC–World Bank program of technical assistance and advisory services; and several policy changes supported by DPOs. Prior actions included the elimination of paper-based VAT invoices in favor of electronic invoices, establishment of an accelerated VAT refund process for trustworthy taxpayers, abolishment of sales taxes on exports, and transfer of responsibility for social insurance payments from the Social Fund to the STS. The World Bank supported a strong government communication campaign on tax administration and procurement reforms and mobilized private sector groups to back reform. The Tax Administration and Statistical System Modernization Project aims to consolidate and further advance the reform agenda in tax administration. It supported the modernization of the STS operational functions (through a comprehensive business process reengineering, upgrading the information technology system, improving human resources management, and strengthening the internal control and integrity functions of the STS) and facilitation of taxpayer services, including by upgrading the call center and strengthening internal and external communications at the STS.

The reforms supported by the Bank Group helped enhance efficiency in tax administration and reduced discretion and opportunities for corruption. This was reflected in a decline of the overall tax compliance costs and in improved perceptions of institutional integrity within the STS. The World Bank Enterprise Surveys indicator of percent of firms identifying tax administration as a major constraint declined from 20.2 percent in 2013 to 14.6 percent in 2019. On the basis of taxpayer surveys administered by the IFC tax advisory project, the average time spent during the year on tax compliance (tax reporting and dealing with tax administration) by a single business taxpayer was reduced by more than 40 percent, from 40.4 days in 2012 to 23.6 days in 2016 (IFC 2017). This was also supported by better availability of taxpayer information: the share of taxpayers who have considered the STS website a key source of tax-related information rose from 46 percent in 2012 to 64 percent in 2016 (IFC 2017). E-filing of VAT returns reached 100 percent in 2021 (from 30 percent in 2017), exceeding the CPF target of 70 percent.

However, the sustainability of achievements in tax administration is threatened. While the risk-based tax audit remains on the books as a primary instrument for auditing taxpayers, in practice, the STS has an opportunity to inspect any business.[6] In addition, several fundamental amendments to the Tax Code were adopted in December 2021, after parliamentary elections in November, without consultations with the private sector. As a result, some of the improvements in tax administration, such as reduced frequency of tax payments for SMEs, were eliminated.

Transparency, Accountability, and Anticorruption Policies

The CPS set out to enhance public sector integrity, including reduction in the incidence of bribes and establishment of a system for verification of declarations of personal interest. The FY14 programmatic DPO series supported the strengthening of the government's anticorruption policies through prior actions that called for the adoption of the national anticorruption program and its action plan for 2012–14 and a Law on Conflict of Interest that introduced verification arrangements for asset declarations of civil servants as a key part of the anticorruption program's implementation. These policies received additional support from the FY17 Governance and Competitiveness DPO, including by requiring the setup of a system for the submission and verification of declarations of personal interests of civil servants. However, there was no support for justice sector reform, drawing into question the ability of improvements in policies to have a credible enforcement mechanism.

The World Bank support for the preparation and implementation of the anticorruption program paid inadequate attention to capacity building and monitoring of progress under the agreed plan. Neither FY14 DPO 2 nor the FY17 and FY19 DPOs contained prior actions to advance implementation of the anticorruption action plan, such as requiring completion of specific actions from the anticorruption action plan. The anticorruption program did not have credible penalties for noncompliance.

There was no follow-up support on anticorruption under the CPF. The only significant intervention in this area was a single prior action under the Economic Governance DPO approved in FY19 that required enactment of the Law on Conflict of Interest (which in essence reflected lack of progress with this law despite related prior actions that were part of two earlier DPOs. While the collection of asset declarations did occur, they were not verified. According to the Implementation Completion and Results Report for the Economic Governance DPO (World Bank 2021b), the Law on Conflict of Interest has not been enforced by the government, and mechanisms for prevention and sanction of conflicts of interest as provided under the law do not function.

In IEG's assessment, the World Bank could have done more to build demand for anticorruption reforms by expanding its engagement with civil society organizations to monitor the pace of implementation, build its capacity to undertake an independent review of declarations, and run advocacy campaigns informed by their findings. On implementation of the Law on Conflict of Interest, in other countries, the World Bank has supported the establishment of a dedicated institutional mechanism to analyze and follow up on the declarations collected. This did not happen in the Kyrgyz Republic.

Country strategy targets related to reducing corruption were not met. The share of respondents participating in the regular national public opinion survey who believed that corruption had been either a big or a very big problem in the Kyrgyz Republic remained basically unchanged between 2011 and 2020, fluctuating between 93 and 96 percent of all respondents. The target for reduction in corruption was a decline in the Graft index (ratio of the number of reported bribes for public services to the total number of reported transactions) from 15 to 10 percent. Data on the Graft index stopped being collected, and available alternative measures of the corruption prevalence do not indicate any progress. Another CPS target called for an increase of up to 15 percent in the share of verified declarations of conflict of interest (as percent of total filings) that are filed by civil servants. This target was also unmet, as no verification mechanism was put in place. The CPF did not track the country's corruption trends at all, despite this being the major development challenge for the Kyrgyz Republic.

Judicial Sector Reform

Judicial impartiality was a serious problem throughout the evaluation period, with many court decisions reportedly biased in favor of the government (World Bank 2022f). The CPS aimed to improve access to justice. The prior actions in the FY14 DPO series supported the establishment of the Judicial

Reform Council, approval of a strategic action plan on reforming the judicial system, and submission to parliament of a program to strengthen financial independence of the judicial sector. These actions were expected to reduce discretion in the application of laws and improve citizens' trust through enhanced financial independence of the court system, more transparent and meritocratic appointment of judges, provision of more safeguards against political interference in the judicial process, and other reforms to be implemented over the medium term. The prior actions were a step in the right direction but required that the World Bank continue its support for the sector. However, there was no effective follow-up.

The CPS plan for the Judicial Development Project (investment project financing) was dropped in 2016 because of perceived lack of ownership after several changes to government counterparts. However, IEG interviews of local stakeholders, government representatives, and World Bank staff suggested instead that the World Bank management unilaterally decided to stop project preparation and never fully communicated the rationale for its decision to government counterparts. After the judiciary project was canceled, the EBRD took a lead in supporting the implementation of the judicial sector reform plan. According to the EBRD, although its support helped accelerate the adoption of several new laws, the broader impact on the quality of judicial services was minimal.

Findings

The Bank Group support to address the Kyrgyz Republic's governance challenges witnessed a substantial narrowing over the evaluation period in the face of inconsistent and weak government commitment. Efforts to directly confront corruption and elite capture gave way to a focus on improving PFM. To a significant extent, this shift reflected greater risk aversion by the World Bank after failing to get traction under the CPS. While the pivot from tackling governance challenges more directly had some initial successes, failure to address the underlying governance shortcomings led to policy reversals and an erosion of earlier successes (as was the case in public procurement and tax administration).

Use of DPOs to make progress on politically difficult and institutionally demanding reforms had minimal impact. In the Kyrgyz Republic, ownership of reforms was often fragile, and backsliding was frequent. DPO prior actions in several instances were not completed, and critical implementation support was often lacking. For example, although a detailed anticorruption program was adopted with the support of DPO prior actions, there was minimal technical assistance to implement the plan. There were also important design shortcomings, including the absence of penalties (in the legal framework supported by the World Bank) for noncompliance with conflict of interest guidelines. The program's results frameworks on anticorruption and governance were weak because it used ill-defined indicators and lacked monitoring and follow-up on major policy reforms.

[1] Corruption is the top concern of both businesses and the general public according to a Center for Insights in Survey Research public opinion survey in which 93 percent of respondents said that corruption in government institutions was either a “big” or a “very big” problem in the country. Respondents considered the most corrupt government agencies to be the courts, customs administration, police, and public health entities (IRI 2022).

[2] The 2015 Public Expenditure and Financial Accountability (PEFA) recommendations emphasized a need to strengthen medium-term planning, internal expenditure controls (including over payroll), and integrated financial management information system rollover. The 2014 Public Expenditure Review focused on strengthening public investment management. The Systematic Country Diagnostic underlined the importance of public expenditure rationalization in an environment of limited fiscal space.

[3] See https://internationalbudget.org/open-budget-survey/country-results/2021/kyrgyz-republic.

[4] The outcome rating for the public financial management Capacity-1 grant was moderately satisfactory.

[5] The government has stated that purchases by state-owned enterprises are carried out on the web portal zakupki.okmot.kg and that policies on public procurement are evolving, including through more recent amendments to the Public Procurement Law that were under consideration in Parliament as of June 2023.

[6] The 2021 PEFA contains a critical assessment of tax audit and revenue risk management in the Kyrgyz Republic. In contrast with the positive self-assessment presented in the International Finance Corporation Advisory Services Completion Report (IFC 2018), the PEFA emphasizes incompleteness of the tax registers, absence of documented compliance improvement framework, and only a partial use of the audit software for selecting taxpayers for actual audit. Together these undermine the effectiveness of a risk-based tax audit. The PEFA’s rating for revenue risk management (PI-19-2) is C and for revenue audit (PI-19-3) is D. The overall rating for revenue administration (PI-19) is C+.

5 | World Bank Group Support for Private Sector Development

Highlights

Although the World Bank Group support targeted major constraints to private sector development (including access to finance, agricultural productivity, and financial stability), overall outcomes were modest, particularly in the context of the need to foster additional sources of economic growth.

The Bank Group support to improve the business environment relied on technical solutions to reduce discretion but did not address the roots of the unpredictable business environment. These included weak rule of law and abuse of regulatory processes to pressure businesses.

The International Finance Corporation made some important contributions to help microfinance institutions transform into commercial banks and to provide long-term finance to financial institutions. However, the Bank Group did not seek to enhance competition in the financial sector, which was necessary to lower costs to businesses.

The 2018 Systematic Country Diagnostic identified lack of growth in small firms as a challenge. This was further emphasized in the 2020 Country Economic Memorandum and the fiscal year 2016 Performance and Learning Review. However, apart from the dairy sector, the Bank Group program did not address the weak capabilities of firms.

Partnerships and a stable counterpart were key to the Bank Group's success in helping the National Bank of the Kyrgyz Republic transition to a risk-based supervisory framework consistent with good practices; however, the National Bank of the Kyrgyz Republic's takeover in 2018 of a bank linked to money laundering contravened good practices.

The Bank Group support to private sector development to drive economic growth focused primarily on making the business regulatory environment more predictable and improving access to finance. While there were some improvements in access to finance, there was no resulting increase in private sector–led growth, nor was there any significant improvement in private investment as a share of GDP, nongold GDP growth, or discernible growth of SMEs. In 2019, governance-related issues still topped the list of the top business environment obstacles facing firms (World Bank Group, EBRD, and EIB 2019), with many firms operating in the informal sector as a means to adapt to the uncertainty faced in the formal sector.[1]

At the beginning of the evaluation period, there were three main challenges to private sector development, and these persisted over the period:

» Inconsistent application of laws and regulations. This is reflected in the governance shortcomings with respect to rule of law, government effectiveness, and corruption. Protection of property rights was low relative to comparators (see table 1.3). Regulatory enforcement changed frequently, limiting firms' ability to adapt, increasing the cost of doing business, and pushing many firms into the informal sector. This increased competitive pressures on companies that remained in the formal sector while curtailing access to finance for firms operating informally. Uncertainty also affected foreign investors: among countries in the region, the Kyrgyz Republic has one of the highest numbers of international disputes in which the state is a respondent. A 2015 Bank Group survey found that foreign investors complained about unpredictable, arbitrary, and inconsistent government decisions; lack of transparency in regulations; breach of contract; and expropriation (World Bank 2018c). The nationalization of the Kumtor gold mine in 2021 further deteriorated the risk perceived by foreign investors. There have been politically motivated arrests of businesspeople (Dzhumashova 2022; OCCRP 2021), and businesses have faced extortion from public officials (examples of which were shared in interviews for this evaluation).

» Firms' difficulty accessing finance. In 2013, Kyrgyz Republic performed substantially below regional and lower-middle income country averages on domestic credit to the private sector as a percentage of GDP and percentage of firms with a bank loan or line of credit. Commercial banks concentrated mostly on short-term lending, with a weighted average loan maturity of 20 months and limited reach (NBKR 2014). Deficient financial sector infrastructure remained an important impediment to broader access to financial services in FY14–21 (IFC 2021).

» Limited firm capabilities for financial management to develop business plans, adopt technologies, innovate, and comply with relevant standards, particularly food safety standards. As of 2022, there were only three laboratories accredited to conduct comprehensive food safety tests required for EAEU markets (all of which are in Bishkek), and there is no unified legal framework on food safety. Limited financial management and business planning capacity was cited in interviews as a major constraint to private sector development during 2013–21 by representatives of development partners, banks, and businesspeople. Commercial banks justified high collateral requirements on the grounds that information on SMEs' creditworthiness was not easily available or sufficiently transparent (IMF 2020). In the agriculture sector, land market weaknesses hamper the consolidation of landholding, thereby reducing opportunities to increase agricultural productivity.

Uncertainty in the Business Environment

Discretionary inspections and administrative procedures introduce uncertainty that is burdensome for businesses and provides opportunities for corruption (World Bank 2022f). Core issues include incentives for civil servants to follow the laws on the books, clarity in those laws and opportunities for loopholes or alternative interpretations, and a government structure that enables public office to be used for private gain. The Bank Group's approach to helping reduce uncertainty in the business environment was a major component of the CPS objective to promote private and financial sector development and the CPF objective of enhancing conditions for private investment and diversification. The support was provided through IFC advisory services, with DPOs supporting associated policy reforms.

Despite its critical importance for the country, after FY16, there was little high-level interest on the part of the authorities to address business environment constraints. Bank Group engagement shifted from policy to technical solutions that sought to reduce the discretion of government officials in business inspections and administrative procedures required to obtain permissive documents (for example, licenses, permits, and other documents required to conduct business).

Support through FY18 focused on shifting business inspections to a risk-based system. This was expected to improve predictability in the business environment by introducing clear, risk-based criteria for selecting firms to inspect, inform firms of upcoming inspections, provide clarity on the aspects of business operations that inspections would cover, and provide a mechanism through which firms could provide feedback to the Ministry of Economy on inspections carried out. IFC provided advisory services to the Ministry of Economy and individual inspectorates from FY08 through FY18 to make these changes. The FY14 DPO series supported the introduction of risk-based criteria for planning business inspections, development, and operationalization of a risk-based inspection coordination system in the Ministry of Economy. The FY17 DPO supported amendments to the resolution on risk criteria to allow for less frequent inspections of businesses with lower risk.

Beginning FY19, IFC supported efforts to increase transparency by cataloging permissive documents required by businesses to operate. This involved making legal and regulatory requirements for firms available through one electronic portal. IFC (FY14–24) also supported the agency responsible for promoting foreign direct investment to establish a foreign investor “aftercare” program to help investors identify and help resolve any issue over which the government has influence,[2] with the goal of retaining the investment and fostering additional investment.

Despite effort over the evaluation period, there was no sustained progress as a result of Bank Group support for implementing risk-based inspections of businesses. The Bank Group, through IFC advisory services and Bank DPOs, supported the Ministry of Economy and inspectorates in developing the risk-based inspection approach and systems, including the legal framework, risk criteria, checklists, and training. The government placed a moratorium on planned inspections from January 2019 through early 2022; this decision was taken by the government and not supported by the Bank Group. The moratorium negated much of the expected impact because the system supported by the Bank Group had focused on planned inspections. Nevertheless, unplanned inspections during this time were implemented using tools supported by IFC. However, unplanned inspections were not reduced; from 2016 to 2020, they increased by 35 percent. The website established to provide information to firms on planned inspections and what is to be covered in each type of inspection and a channel for feedback to the Ministry of Economy was down at many points during the conduct of this evaluation (July 2021–December 2022);[3] when it was functioning, it was only partially up to date.

The approach to reducing discretion was not targeted at the right level to be effective. Particularly problematic for businesses, according to numerous interviews, were inspections undertaken by law enforcement bodies and the prosecutor's office (which were outside the scope of the reforms supported by IFC or the World Bank and which were not mentioned in Bank Group program documents). Nor did the Bank Group address the identified knowledge gap on grand corruption and vested interests.

There has been limited progress on permissive documents and investment policy, and the incentives of public officials to follow established rules have not improved. Progress in this area is critical to improve the predictability of the business environment. IFC is supporting the creation of an online registry of permissive documents that contains information on requirements for licenses, permits, approvals, and other documents required for business operations.[4] As of May 2023, the registry was incomplete, and some of its information was out of date.[5] While IFC has indicated that, since October 2021, the website had been visited more than 16,000 times from unique IP addresses, none of the private sector representatives interviewed for this evaluation were familiar with it and could therefore not comment on its effectiveness. IFC support did not simplify any procedures, reduce the number of permissive documents required for business activities, or strengthen the incentives of government officials to follow established rules. Interviews with IFC and government officials indicated that the intention of cooperation with the government on permissive documents had been to automate the issuance of licenses and permits, but this was stymied by problems with system interoperability. Regarding investment policy, an investor grievance mechanism was adopted in mid-2022, outside the end of the evaluation period. IFC reports that the mechanism has resolved grievances of three investors that together represent $76 million in investment and more than 250 jobs. An additional eight grievances are in process. This mechanism is a positive step, but it is too early to assess its impact.

The CPS results framework indicators on the business regulatory environment are presented in table 5.1. Despite its prominence in the CPF, the CPF did not have any results indicators on business regulation.

Table 5.1. Results Indicators and Targets on Business Regulation

Country Partnership Strategy Target	Baseline (year)	Target (year)	Actual (year)	Comments
Reduced tax compliance labor cost for businesses	som 30,800 (US$655) for one taxpayer or 40.4 working days (2012)	10% lower in real terms (2016)	Compliance time decreased by 15.8% and compliance cost decreased by 16.7% (2014)	Target met; evidence suggests that declines in tax compliance costs exceeded the target for MSMEs but that there were limited or no cost reductions for large firms. Most firms in the Kyrgyz Republic are MSMEs.
Decreased regulatory compliance cost and improved quality of business inspections in pilot agencies as measured by nontax inspection compliance cost	US$1.8 million compliance cost savings (2011)	10% lower in real terms (2016)	US$5.3 million	Target met; however, Ministry of Economy data do not reflect the same decrease in the number of inspections as the IFC survey measured.

Source: Project documents and Independent Evaluation Group analysis

Note: IFC = International Finance Corporation; MSME = micro, small, and medium enterprise.

Difficulty Accessing Finance

Access to finance for firms was constrained by the high cost of credit and high collateral requirements, with weaknesses in financial infrastructure contributing to the latter. High interest rates are driven by limited competition in the banking sector, among other factors (IMF 2019a, 2020; World Bank 2010a). Weaknesses in the credit information–sharing infrastructure and deficiencies in the collateral registration and execution regimes contribute to high collateral requirements (World Bank 2010a). These issues persisted through the evaluation period; as of 2021, "the Kyrgyz financial system struggles with high net interest margins and high collateral requirements" (IFC 2021, 59), and "collateral requirements applied by banks are onerous and also constrain the quantity of credit supplied" (IMF 2020, 2).

To support increased access to finance for firms, the Bank Group supported strengthening financial sector infrastructure and domestic financial institutions to expand their services. The Bank Group also supported financial sector stability to safeguard the financial sector from the vulnerabilities uncovered in the 2010 economic and political crisis. All these areas were included in the CPS and CPF under the objectives of promoting financial and private sector development and enhancing financial deepening and inclusion, respectively. However, the Bank Group did not support efforts to increase competition in the banking sector.

To help alleviate collateral constraints, the World Bank and IFC worked in a coordinated way. Efforts were supported by the FY12–21 Financial Sector Development Project (investment loan), the World Bank–executed Kyrgyz-SECO financial sector trust fund (FSTF), and considerable analytical and advisory work. This work aimed to (i) improve the functioning of the private credit bureau so that banks would have better information on which to assess borrowers' creditworthiness and (ii) modernize the movable collateral regime, including its framework and implementation, to expand the range of collateral used in the financial system.

The collateral registry and credit information system are not yet effective in helping to ease collateral constraints:

» The Bank Group supported the development of a new Secured Transactions Law, adopted in 2017, and a unified online collateral registry for movable property that became operational in 2017. However, the system has not enabled the registration of encumbrances; thus, lenders cannot know whether collateral is already encumbered before lending against it (IFC 2021). In 2019, while there were 53 financial institutions connected to the online collateral registration system, only 1 used it extensively, 3 used it moderately, and 49 hardly used the registry (World Bank 2019). An FY21 restructuring of the FSTF in the context of the COVID-19 response added a component to further support secured transactions reform because of renewed government interest.

» IFC supported the development of a legal and regulatory framework for credit information sharing and of the central bank's capacity to supervise credit bureaus. The number of financial institutions reporting data to and using Ishenim (a private credit bureau) increased from 107 in 2013 to 238 in 2018. Overall credit coverage of Ishenim and the public credit bureau increased from 25 percent of adults in 2012 to 39 percent in 2019 (World Bank Group 2020a). However, according to the findings of the 2021 Country Private Sector Diagnostic, companies continue to be reluctant to give commercial banks permission to share their information with the credit bureau, and credit bureaus have only partly automated information exchange with financial institutions (IFC 2021). The FY21 FSTF restructuring added a component to further support credit reporting because of renewed government interest in the agenda.

IFC investments made important contributions to the development of commercial financial institutions in the Kyrgyz Republic. IFC provided long-term financing and supported microfinance institutions to transition to banks. IFC's additionality through investing in financial institutions has mainly been in providing long-term financing, including local currency financing, not available on the market (IFC 2014, 2020). IFC's support for several of the financial institutions in the Kyrgyz Republic extended back to their founding or early years and involved important "hand-holding" and signaling to other investors as they established themselves. A long-running IFC advisory services project helped advance development of the microfinance sector and "lay the foundations for a more mature, resilient, and responsible microfinance sector" (World Bank 2020e). The project supported the Bai-Tushum Bank, FINCA International, and Kompanion Bank to transform into banks. IFC helped the National Bank of the Kyrgyz Republic (NBKR) improve and clarify the legal and regulatory framework governing the transformation of microfinance institutions into deposit-taking institutions or full-fledged banks and adopt regulations on information transparency, complaints handling, and client protection in financial institutions.

IFC's support to commercial financial institutions helped these institutions expand their products and reach. IFC worked through advisory services to (i) strengthen lending and management practices in private financial institutions (especially microfinance institutions), help them transform into deposit-taking institutions or banks, and extend their outreach (especially to rural communities); and (ii) develop capacity in financial institutions to implement agrifinancing and risk management solutions for farmers and provide technical advice to farmer-borrowers. During the evaluation period, IFC had existing or new investments in four commercial banks (including three that were focused on microfinance). It also invested in a fund that provided risk capital to micro, small, and medium enterprises.

IFC clients expanded lending to microenterprises and SMEs over the evaluation period. Kyrgyz Industrial Credit Bank's outstanding portfolio of lending to microenterprises increased by 28 percent from 2013 to reach $11.3 million in 2021. Its outstanding SME portfolio increased by 49 percent from 2013 to reach $85 million in 2021. It fell short of the FY17 target linked to IFC's FY14 investments but has since surpassed it. FINCA International transformed from a microfinance institution into a full-fledged bank and maintains a focus on microlending in rural areas. Its outstanding SME portfolio increased by 176 percent from 2013 to reach $12 million in 2016 (latest data available, since IFC has exited this investment). The Bai-Tushum Bank transformed from a microfinance institution into a commercial bank and is now one of the 10 largest banks in the country. Its outstanding SME portfolio increased by 316 percent between 2013 and 2019 (including conversion of microloans to SME loans), meeting the project's target. During the CPS period (FY14–17), microfinance institutions supported by IFC provided $250 million in loans to micro, small, and medium enterprises, surpassing the CPS target of $200 million. The CPF target of micro, small, and medium enterprises reached with financial services (450,000 by 2021) was also exceeded, with 544,021.

IFC supported three financial institutions to improve risk management practices in agricultural lending. They helped streamline risk assessment processes to enable smaller-scale lending to farmers, introduced tailored agrifinance products, and developed technical extension services to farmer-borrowers. One institution launched value chain financing products, including lending to farmers using milk contracts as collateral. Through IFC's support to financial institutions, 57,397 farmers were reached with $61 million in loans issued by four financial institutions (World Bank 2022e).

The World Bank worked to increase access to finance in rural areas through the expansion of KPO's services, but this approach was only tangentially relevant to addressing firms' constraints to access to finance. The World Bank sought, through the Financial Sector Development Project, to help transform the state-owned KPO into a provider of financial services to increase access for poor and rural communities. Deposit services and modern payment systems were virtually nonexistent in rural areas, and KPO had a wide network throughout the country. The project scope did not include expanding access to credit for firms. World Bank supervision reports noted that "competition" and "digital substitution" were undermining KPO's ability to expand the provision of its nonlending financial services to individuals. More adults were switching to cards or e-wallets, and private financial service providers were overcoming some of the physical and cost obstacles to expanding financial services. These market developments might have warranted a reassessment of the original rationale of the project. The project did ultimately help KPO expand its financial services, with 72 percent of post offices and more than double the number of bank branches in the Kyrgyz Republic offering access to information and communication technology–based financial services and KPO having cooperation agreements with eight banks. As of project close at the end of FY21, the number of KPO financial transactions had declined from the baseline of 17 million in 2012 to 9.8 million (World Bank 2022g) because other services were available in the market.

The CPS and CPF results framework indicators on access to finance are presented in table 5.2.

Table 5.2. Country Partnership Strategy and Country Partnership Framework Targets on Access to Finance

	Baseline (year)	Target (year)	Actual (year)	Comments
Country Partnership Strategy targets				
Rise in volume of MSME loans provided by MFIs supported by IFC (US$)	0	200 million (2016)	249 million (2016)	Met
Rise in yearly registrations in collateral registry	42,000 (2013)	62,000 (2016)	10,947 (2016)	Not met
Increased private credit bureau coverage (% of adults)	24.6 (2013)	30.0 (2016)	37 (2016)	Met, but does not reflect increase in access to finance for enterprises
Country Partnership Framework targets				
MSMEs reached with financial services	205,382 (2017)	450,000 (2021)	544,021 (2021)	Met
Increase of physical access points for financial institutions per number of MSME (%)	0 (2017)	20 (2021)	17 (2021)	Nearly met, but the relationship with increasing access to finance is unclear

Sources: Project documents and Independent Evaluation Group analysis.

Note: IFC = International Finance Corporation; MFI = microfinance institution; MSME = micro, small, and medium enterprise.

Limited Firm Capabilities

While limited firm capabilities were a major challenge for private sector development, the Bank Group support did not address these directly, apart from some work in the agriculture sector. Bank Group analytics, including the 2018 SCD and the 2021 Country Private Sector Diagnostic, show that small firms lacked the competitive potential to grow. Bank Group work in the agriculture sector, envisaged in the CPS and CPF, included activities to support producer-level productivity, which is linked to capabilities. However, Bank Group activities outside the agriculture sector did not focus on developing firms' capabilities. While other development partners were working to support entrepreneurs and micro and small enterprises, IEG interviews suggested that Bank Group support in this area, particularly with analytics, coordination, and technical assistance, would have been helpful. Beyond some work in the dairy sector, the Bank Group did not support firms' financial management, innovation, technology adoption, quality improvement, or other management or technical capabilities. Bank Group work in the tourism sector, introduced in the CPF under the objective of building transport connectivity, did not address firm capabilities. Bank Group interventions did not target growth-oriented firms, which the World Bank Productivity Project had found to be key to private sector development (Cirera and Maloney 2017; World Bank Group 2019; Grover Goswami, Medvedev, and Olafsen 2019).

The Bank Group worked to strengthen the framework for corporate financial reporting; however, it did not work to support firms' adoption of good practices. The Kyrgyz Audit and Financial Reporting Enhancement Project, funded by a grant from the government of Switzerland, supported amendments to the Accounting Law (adopted) and Audit Law (pending parliamentary approval as of August 2021; no update is available), in line with international good practices; development of a new system and curricula for professional accounting qualification; and capacity development on accounting and auditing curricula in professional associations and universities. However, the project did not strengthen knowledge of, or demand for, accounting and auditing services by firms. In addition, while the Accounting Law established an accounting, reporting, and disclosure framework, it is not fully observed in practice (World Bank 2021c). Thus, the project did not "raise standards in both private and state-owned businesses in corporate financial reporting and audit, accounting education, financial literacy, and use of financial information," as was stated in the CPF (World Bank 2018a, 17).

IFC worked to improve corporate governance of enterprises and banks; however, the impact has been small. The 2021 Country Private Sector Diagnostic notes that the country lacks good corporate governance (IFC 2021). The CPS and CPF stated that IFC would implement advisory services to improve corporate governance, with the ultimate goal of contributing to building a sustainable private sector. IFC advisory services contributed to legal amendments related to corporate governance, which were enacted; advised seven financial institutions, one manufacturing firm, one service-sector firm, and Kyrgyzaltyn on improving corporate governance;[6] and trained five local institutions to deliver corporate governance–related trainings and services. However, a World Bank report stated that the adoption of the Corporate Governance Code, which is voluntary, is not common among joint stock companies and that accountability is diluted and enforcement is weakened because corporate governance procedures are regulated by scattered secondary legislation (World Bank 2021c). Nevertheless, according to IFC, corporate governance improvements as a result of the IFC advisory services did contribute to five financial institutions and Kyrgyzaltyn accessing finance that would not have been possible otherwise.

The Bank Group's work on agricultural productivity supported firm capabilities, but the projects had several weaknesses. Support to agriculture was included in the CPS under the "increasing the efficiency and competitiveness of agri-business" (World Bank 2013b, 25) and "improving management of agriculture, forestry, livestock, pastureland, and water resources, including extension and other support services, for sustainable development" (World Bank 2013b, 26) objectives. The projects focused on productivity of primary agriculture. They were of a limited scale that was spread thin across the country. Projects providing inputs to farmers reached approximately 20,000 farmers, equivalent to 5 percent of the estimated 400,000 smallholders in the country, and beneficiaries were scattered throughout the country; there was no targeting strategy. They omitted the market linkages to better position the sector to contribute more substantially to economic growth. The sector's challenges extend to the small size of landholdings and constraints along the value chain, including with respect to intermediaries, processing, and exports.

The Bank Group's agriculture interventions in FY17 and later were more relevant, as they work along specific value chains to address constraints to increasing competitiveness and exports, including product quality (identified by this evaluation as a binding constraint for the country). This approach was taken in the dairy sector through coordinated Bank Group work, influenced by the FY16 PLR's shift toward economic growth and consistent with the CPF objective of supporting regional development. The World Bank worked on enhancing dairy animal productivity and milk quality on beneficiary farms, linkages with processors, and establishment of a milk quality control system linking producers, collectors, and processors in the Issyk-Kul region. IFC provided training to farmers to help increase milk yields, worked with four financial institutions to facilitate access to finance for small dairy farmers (see the Difficulty Accessing Finance section), and introduced cattle traceability, which is key for food safety and animal health, and a prerequisite for exports, all through advisory services. In addition, the agriculture component of the World Bank–funded Regional Economic Development Project (focused on the Osh region) is focusing on high-value agriculture products, such as fruits and vegetables, that can be exported to existing and new markets. The project is aiming to develop partnerships between agribusinesses and small agricultural producers, based on a value chain approach—Productive Alliances—that has been applied successfully in other countries (World Bank Group 2016b). It is also supporting upgrading and accreditation of four regional food safety laboratories. However, information on results is not available, and landholding was not addressed.

More improvements and tracking of outcomes are needed. World Bank projects did not track increases in sales or exports. While exports of dairy products more than doubled from 2016 to 2021, surpassing the CPF target of a 20 percent increase, the increase was driven by concentrated or sweetened milk, butter, and other processed dairy products. Milk and cream exports, which the Bank Group work focused on, fell by 51 percent. Despite increased productivity, milk quality still needs improvement, and milk supply continues to be low, especially during the winter. Continued and sustained support to help develop the knowledge of the farmers on improved animal husbandry practices, nutrition, animal health and breeding, and markets is required. In addition, improvements are needed in the quality and delivery of services (for example, artificial insemination and veterinary services) and ability to meet and obtain certification for quality standards. Furthermore, according to focus group discussions in the Issyk-Kul region, increased productivity of milk has contributed to increased prices for animal fodder, rising demand for pastureland, and growing prevalence of animal diseases.

The availability of food safety laboratory services in the country remains limited. Only three state laboratories are accredited to conduct comprehensive tests (up to 70 percent of the tests) required for export to EAEU markets. All three are in Bishkek, whereas agriculture production is scattered throughout the country. Approximately half of fruit and vegetable and milk production—the main agricultural export commodities—are in the three southern regions of Jalal-Abad, Osh, and Batken. These regions are far from Bishkek and have border crossing points to regional export markets. Private sector representatives interviewed for this evaluation stated that the lack of accredited labs closer to agriculture production is problematic and adds to the time and cost of exporting. The work on food safety standards expected under the CPS, through IFC's regional Food Safety Program, was dropped because of lack of regional cooperation (World Bank 2016c). The FY19 Economic Governance DPO supported the submission of a Food Safety Law that IFC had advised on to parliament, but the law was not adopted. The FY20 Regional Economic Development Project is supporting upgrading and accreditation of laboratories in Osh (which is an important step).

Box 5.1 examines the Bank Group corporate and International Development Association special themes of gender and climate change.

Box 5.1. Cross-Cutting Themes: Gender and Climate Change

This evaluation examined the extent to which the World Bank Group was successful in supporting improvements in women's access to economic opportunities and to which the Bank Group–supported irrigation operations have strengthened farmers' resilience to climate change.

There is some limited evidence that the Bank Group support contributed to some economic empowerment of women at the local level. Agriculture projects from fiscal year (FY)11 through FY22 provided seeds, fertilizer, equipment, and training on good agronomic practices to women's self-help groups (SHGs), reaching just under 16,000 women members of SHGs. The FY17–26 Integrated Dairy Productivity Improvement Project also worked through SHGs. Unfortunately, outcomes were not tracked consistently. The Implementation Completion and Results Report of the Agricultural Productivity Assistance Project stated that there were examples of some women who participated in SHGs becoming entrepreneurs engaged in small-scale agroprocessing for local markets (for example, jams, pickled produce, and juices), thus enabling them to increase their incomes. In the FY13–18 Support to Community Seed Funds Project, sales of all SHG members increased in the range of 7 percent to 36 percent (World Bank 2018e).

(continued)

Box 5.1. Cross-Cutting Themes: Gender and Climate Change (cont.)

The Bank Group support did not have a strong impact on adaptation to climate change. Representatives of irrigation project implementation units who were interviewed for this evaluation stated that the projects did not address climate change and had not been thought of in that light. The National Water Resources Management Project's additional financing included some work on modeling for climate change projections and upgrading degraded land, but no results have been achieved to date.

Source: Independent Evaluation Group.

Main Findings

The most successful Bank Group contribution to strengthening the foundations for private sector development was the support to NBKR to implement a risk-based supervisory framework. Partnerships, donor coordination, and a single counterpart with good capacity were key to this success. SECO funded nearly all the World Bank's ASA and IFC's advisory services projects in the financial sector over FY14–21. Some good practices were developed in the Bank Group's relationship with SECO, including open and continuous communication on implementation progress. The World Bank and the International Monetary Fund coordinated advice and technical assistance to help strengthen NBKR's supervisory capacity. NBKR had the same governor for the entire 2014–21 period, with the exception of a three-month period in 2017, and the implementation of a risk-based supervisory framework was fully under its control. In addition, NBKR has generally been able to attract and retain qualified staff, partly because of higher salaries for professional staff in the central bank compared with those in the regular civil service.

However, the impact of the work on bank supervision is hindered by weaknesses in bank resolution related to governance issues. Under the FY14 DPO series, the World Bank had initially sought to support development of the Prompt Remedial Action Framework to strengthen NBKR's resolution functions for distressed banks. This prior action was dropped from the second operation of the DPO series after an assessment that more time was needed for the reforms. While the World Bank attempted to make progress on the bank resolution framework through the Financial Sector Development Project and FSTF, NBKR's 2018 takeover and recapitalization of Rosinbank—a bank involved in money laundering (IMF 2019b)—contravened many of the good practices for which the World Bank had been advocating. As of June 2021, the International Monetary Fund was continuing dialogue with the government on how to improve the bank resolution framework (IMF 2021).

The Bank Group's work on the business environment and financial sector infrastructure relied on technical approaches, with insufficient attention to critical underlying constraints. After the end of the work on the National Private Sector Development Strategy, there was little dedicated follow-up on business-enabling environment priorities. Although recommended at various stages in the country engagement cycle, a detailed and actionable political economy analysis focusing on grand corruption and vested interests—drivers of the weak rule of law and unpredictability of the business environment—was not conducted. This meant that critical considerations—such as the incentives that public officials face, loopholes that enable alternative interpretations of laws and regulations to persist, and the capture of political office by private interests—were not adequately recognized. The lack of competition in the financial sector—a core reason for insufficient access to finance—was not tackled. The CLR argued that "private sector development reforms need to go beyond a narrow focus on specific business climate indicators to take a more holistic view of the factors affecting investor confidence" (World Bank 2018a, 12). While the CPF indicated that it incorporated this lesson, there was inadequate attention given to implementation of laws and regulations on the books.

Although it was a major focus of Bank Group's work, there is little evidence of reduced uncertainty in the business environment. The government's introduction of a moratorium on planned business inspections undermined the impact of the reform. There is some evidence of compliance cost savings, but inefficiencies remain in the system. Neither the portal providing information on business inspections nor the registry of permissive documents is currently active. No discernible improvements were made in sector-specific regulations, although work is ongoing. The system for identifying and tracking progress in addressing complaints by investors (grievance system) was only recently adopted.

The Bank Group's approach did not seek to build firm capabilities. Thus, there continues to be a "missing middle" as identified in the SCD and more prominently in the 2020 Country Economic Memorandum (Izvorski et al. 2020). The FY16 PLR indicated that it would implement entrepreneurship programs to help firms export and grow, but such programs did not materialize. There were efforts to enhance the quality of auditing and accounting services but not firms' demand for them.

[1] The main constraints to the private sector according to the 2019 Enterprise Survey were the informal sector (23.7 percent of respondents citing it as the biggest obstacle), political instability (21.7 percent), and corruption (17.5 percent). The informal sector is considered a governance issue because of the context that pushes firms to operate informally. These constraints were followed by inadequately educated workforce (9.2 percent), access to finance (8.2 percent), tax rates (6.2 percent), trade regulations (3 percent), transportation (2.9 percent), and electricity (2.1 percent), with other constraints receiving less than 2 percent of responses. The top constraints in 2013 were political instability (38.4 percent), the informal sector (18.6 percent), and corruption (11.5 percent), followed by tax rates (8.4 percent), inadequately educated workforce (6.2 percent), access to finance (5.3 percent), transportation (3.4 percent), and electricity (2.5 percent), with other constraints receiving less than 2 percent of responses. The top constraints in 2009 were electricity (29.6 percent), access to finance (22.8 percent), and tax rates (13.1 percent), followed by the informal sector (10.7 percent), corruption (8.5 percent), political instability (5.7 percent), inadequately educated workforce (5.5 percent), and licensing (2.3 percent), with other constraints receiving less than 2 percent of responses.

[2] The name of the agency changed over the evaluation period. It is currently called the National Investments Agency. Its previous names include the Kyrgyz Agency of Development and Investment and the Investment Promotion and Protection Agency.

[3] See www.proverka.kg.

[4] See https://elicense.gov.kg/index.php/#.

[5] The registry is incomplete in terms of the universe of permissive documents and information on how to obtain each document. For example, the Hotel and Restaurant Services section does not contain information on how to obtain a license to provide hotel or restaurant services; it lists information on copyright law and how to obtain construction permits in border areas. The Education Section provides information on how to start a large university or college but not on what documents are required to provide tutoring services. Registry information is frequently incomplete, without information on, for example, documentation required or associated costs. The Kyrgyz version of the website is only about 10 percent complete, containing mostly Russian text.
Examples of out-of-date information include the following: (i) the News category contains news only from October 2021; (ii) the website provides information on how to obtain licenses to produce and sell alcohol, but a September 2022 Presidential Decree introduced a state

monopoly on production and sale of alcohol, prohibiting private production; and (iii) starting in 2023, casinos are permitted to operate in the Kyrgyz Republic, but the registry contains no information on how to obtain a license to open or operate a casino.

[6] Kyrgyzaltyn is the Kyrgyz Republic state-owned enterprise that owned part of Centerra Gold, which until 2021 owned the Kumtor mine. Arbitration proceedings regarding ownership of the mine are ongoing.

6 | World Bank Group Support to Essential Local Public Services

Highlights

There has been limited support to address the factors that constrain local government capacity to deliver essential services as a result of the incomplete decentralization agenda, including the lack of clarity on the division of responsibilities among levels of government and sustainable access to resources.

The World Bank's approach of relying on the Community Development and Investment Agency as the implementing agency missed an opportunity to build local government capacity. Projects focused on enhancing local government capacity for participatory planning, but the institutional capacity of local self-governments to provide or upgrade services outside a donor-financed project has not improved.

The World Bank–supported projects approached the water supply sector in a holistic way (supporting institutional reform of the sector at the local and national levels) and increased access to and quality of the water supply. While there were issues with the capacity and mandate of the national-level agency and financial sustainability of rural water user unions, efforts are progressing in the right direction and have enabled other development partners to increase their activities.

In contrast, other local public infrastructure was supported through community-driven development modalities that, while providing inputs valued by communities, did not improve quality of services. Moreover, access to and the quality of essential local services were not monitored.

Focus group discussions held in five *ayil okmotus* found that there has been little to no improvement over the past 10 years in access to and quality of local public services in all five *ayil okmotus* and that the link between investments from the Community Development and Investment Agency–administered, World Bank–funded projects and the improvement of local service provision in these *ayil okmotus* was weak.

At the start of the evaluation period, provision of essential local public services was insufficient:

- Water supply. In 2014, residents in urban and rural areas experienced insufficient and low-quality water supply and wastewater disposal (Government of the Kyrgyz Republic 2014c). A 2011 United Nations Development Programme study found that less than 25 percent of rural populations had access to sewerage. In the country's 25 largest cities, drinking water coverage ranged from 60 to 90 percent (UNDP 2011).

- Sanitation. Less than 40 percent of the population in the 25 largest cities had access to improved sanitation (UNDP 2011). World Health Organization and United Nations Children's Fund data indicate that in 2006, only 51 percent of residents of rural areas had access to improved sanitation (World Bank 2009). In 2014, only 2.7 percent of the rural population had access to indoor plumbing (National Statistical Committee of the Kyrgyz Republic and UNICEF 2014).

- Solid waste collection. In 2011, less than 40 percent of the urban population had access to solid waste collection. Between 25 and 50 percent of the population in smaller towns received regular solid waste collection, compared with approximately 96 percent of the population in Bishkek and 60 percent in Osh (UNDP 2011). Waste collection equipment was outdated and inefficient, with lengthy downtime for repairs. Conditions at communal collection sites were unsanitary.

- Key issues in towns and villages. According to a 2013 national opinion poll by the International Republican Institute (IRI 2014), the most important issues faced by residents in towns and villages were the low quality of roads (36 percent of respondents stating that this was among their top three problems), followed by lack of drinking water or water supply (28 percent), jobs and unemployment (25 percent), inadequate preschools and schools (8 percent), insufficient public services generally (8 percent), and unsatisfactory waste disposal (7 percent).

- Patronage networks. In the absence of systems that deliver quality local public services, patronage networks have been used to channel resources to localities and improve service delivery.

The World Bank supported improvements in essential local public services through a targeted approach in the rural water supply sector and a more scattered, mostly demand-driven approach to improving other public infrastructure. Per the focus of the Bank Group strategies and the mandates of local governments, "essential" local public services are thus defined as water supply and sanitation, solid waste, and education and health buildings. The CPS objectives of improving the efficiency and quality of essential public services and ensuring sustainable urban development and communal services were relevant to the country context. The first objective focused on education, health and social protection, and rural water supply and sanitation, whereas the second focused on water supply and sanitation, solid waste management, and other social infrastructure. Attention to local public services diminished in the CPF, with only two relevant objectives—human capital (objective 7) and infrastructure that would support regional development (objective 8)—even though the active portfolio was supporting a broad range of investments in local infrastructure. Several projects supported multiple types of infrastructure, and all projects active during the evaluation period used the same implementing agency.

A core part of the World Bank's approach from FY04 through the present to improving local-level infrastructure in villages and rural areas was through a series of three Village Investment Projects (VIPs 1–3). This has become a flagship CDD program. The first VIP (before the evaluation period) was designed in 2003, when the decentralization agenda was gaining momentum and there was a dearth of local public services. VIP 2 was implemented between FY07 and FY15, and VIP 3 began in FY15 and is expected to run through FY25. The VIPs have two fundamental objectives: to improve governance and capacity at the local level and to strengthen access to essential infrastructure services.[1] The first objective focuses on increasing capacity for participatory planning. Infrastructure investments are identified through rural community development plans agreed to through a participatory process supported by the project and with participation of the local governments (World Bank 2018f). The types of infrastructure are not specified in advance, and the Project Appraisal Documents illustrate a wide range of types of infrastructure.

Only two VIPs aimed to expand access to essential local public services during the evaluation period. The Bishkek and Osh Urban Infrastructure Project aimed to increase the availability of basic services in semiformal settlements in the cities of Bishkek and Osh (which was later expanded to small towns across the country) and the availability of social infrastructure (World Bank 2017a). The project funded improvements in water supply and roads and also included a "community investment" component that took a CDD approach similar to that described for the VIPs, without targeting specific types of infrastructure. The Urban Development Project aimed to improve the quality of municipal services in four participating towns around the country (World Bank 2016f). It funded improvements in water supply, solid waste management, and street lighting, as well as energy efficiency and seismic resilience retrofits of buildings and primarily schools.

All the World Bank–supported projects related to essential local public services implemented during the evaluation period used the same third-party implementing agency—the Community Development and Investment Agency (ARIS),[2] which was established in 2003 to implement VIP 1. Subsequent locally focused World Bank–funded projects used ARIS as a project implementing unit because it was considered more efficient at project management and less vulnerable to government interference than line ministries or other central government entities. Over time, ARIS built up an expansive network across the country that allows World Bank–supported projects to reach remote rural villages; in some villages, ARIS-implemented projects have been the only source of public investment.

Water Supply and Sanitation

The World Bank–supported projects in water supply and sanitation aimed to improve access to potable water and strengthen the institutional framework and capacity for the rural drinking water supply and in the sanitation sector. Both the infrastructure and institutional aspects of this objective were relevant to the country context given the breakdown in local public services, including water and sanitation after the fall of the Soviet Union. The World Bank has supported rural water supply and sanitation through three projects since FY02: the Rural Water Supply and Sanitation Project (RWSSP;

FY02–09, outside the evaluation period); the Second RWSSP (RWSSP 2; FY09–15); and the Sustainable RWSSP (FY17–25).

Projects succeeded in expanding the water supply in villages, towns, and cities around the country, reaching 420,000 people. In the areas supported by the RWSSP 2, 83 percent of households surveyed reported having water supply for more than 12 hours per day, compared with 63 percent in 2011 (World Bank 2015c), and 90 percent of water quality tests in the service area of the rehabilitated programs met national standards for drinking water. The Bishkek and Osh Urban Infrastructure Project met or exceeded its access targets in nearly all of the areas where it worked, providing water supply to slightly more than 230,000 people (greater than its 181,000 target). All beneficiaries in Bishkek received 24-hour supply, and other areas received at least 12-hour supply. The Urban Development Project improved access to water supply for 52,000 people and provided them with water for 8–10 hours per day, meeting its targets.

However, there are efficiency and sustainability concerns regarding water supply services:

» Twenty-eight water supply systems rehabilitated under the first RWSSP required rectification because of weak technical design of the water sources overseen by the project's implementing agency. An additional three systems had not been finished. The scale of the RWSSP 2 had to be reduced so that the project could fund rectifications and finish this work. The 38 water supply programs rehabilitated by the RWSSP 2 included these 28 systems; two-thirds of the expenditure was on fixing the RWSSP 1 subprojects.

» Significant risks to sustaining development outcomes achieved under the RWSSP 2, Bishkek and Osh Urban Infrastructure Project, and Urban Development Project were identified in IEG validations (World Bank 2015b, 2017a, World Bank 2022j). Financial sustainability was in question, with inadequate technical capacity among the Community Drinking Water Users Unions (CDWUUs) and water utilities, lack of financial viability of water utilities, and lack of budgets for maintenance, replacement, or upgrading of distribution infrastructure.

- Regarding the Sustainable Rural Water Supply and Sanitation Project, World Bank staff have raised concerns about financial viability (downward revision of tariffs in some commissioned subprojects) and technical quality (wastewater discharge risks and weak wastewater management capacity in five subprojects). As of the end of September 2022, ARIS had not yet contracted the international firm for design review and supervision.
- IEG validation of the RWSSP 2 noted that sidelining government rural water supply institutions by transferring implementation responsibility to ARIS denied the government the opportunity to benefit from institutional capacity building for design and implementation of investment projects and subprojects (World Bank 2015b).

The World Bank remained engaged with institutional reform of the water sector even when the shifting of institutional structure of the sector and low capacity at the central government level made it difficult to maintain dialogue. Currently, the Sustainable RWSSP is providing capacity building to the Department of Drinking Water Supply and Wastewater Disposal (DDWSWD) and is supporting the drafting of a new water supply and sanitation law and sector standards, assessment of the sector's institutional arrangements, professional development in the sector, and capacity building of water supply service providers. Capacity building to DDWSWD is being coordinated with assistance from the Asian Development Bank. With assistance from the project, an institutional support plan for DDWSWD was developed and approved in October 2022. The World Bank's efforts to engage at the national government level in the water supply sector appear to be slowly making headway. This was confirmed by a lead nongovernmental organization working on local-level issues.

Water service providers remain weak financially. An operational performance analysis of CDWUUs carried out during preparation of the sector strategy found that only 25 percent of the 633 CDWUUs were operating on a financially sustainable basis in 2015. Key issues included limited technical guidance; insufficient service and financial regulation at the local and central levels; and inadequate equipment, human capital, and funding for maintenance and expansion of services (which in effect made it difficult for CDWUUs and local authorities to sustain and increase access to quality services). As of 2022, there is still concern about cost recovery levels in rural water service providers (World Bank 2022h). According to a 2019 presentation by DDWSWD, fees collected by CDWUUs are insufficient to cover the modernization and rehabilitation of water supply systems (Kyrgyz Republic, DDWSWD 2019). The World Bank–supported projects are supporting improved billing and collections, and a main challenge is that water tariffs remain low.

The World Bank–supported projects also increased access to sanitation, but sustainability is a concern. These projects improved sanitation facilities in approximately 62 schools. The RWSSP 2 rehabilitated sanitation facilities at schools in 18 villages. The Urban Development Project improved sanitation at 6 schools. The Bishkek and Osh Urban Infrastructure Project worked to improve sanitation but did not track sanitation-specific outputs. The IEG validation of the RWSSP 2 noted that the risk to development outcome was significant, including because of concerns about inadequate maintenance of school sanitation facilities as a result of low spending by school administrations, with data indicating that such spending may meet as little as 10 percent of needs (World Bank 2015b).

Community-Driven Development Approaches and Essential Local Public Infrastructure

VIP 2, VIP 3, and the community investment component of the Bishkek and Osh Urban Infrastructure Project supported investments in local infrastructure; however, they did not target improvements in service delivery. Communities decided their own priorities for infrastructure improvements financed through the VIP. There was no targeting of the type of infrastructure to be improved. ARIS reports that each subproject had its own arrangements for operations and maintenance and typically depended on the existing institution (for example, school) or the local community (for example, water users) to maintain the infrastructure funded by the projects. This evaluation found no systematic documentation of such arrangements or agreements supporting them. Sustainability is a concern given local government budgets.

Outputs related to public services were not monitored by the World Bank, and outcomes were not monitored at all. World Bank systems did not capture the level of detail to identify what type of infrastructure the subprojects supported; this level of disaggregation was available only directly from ARIS. Regarding outcomes, neither the World Bank nor ARIS monitored the outcomes of these subprojects in terms of access (for example, how many households received access to piped water or solid waste collection, and where these were; whether school enrollment increased) or quality (for example, hours of water supply, water quality, and frequency of solid waste collection). Correspondingly, no targets were set regarding these outputs or service improvements.

The Urban Development Project took a more targeted approach in its efforts to improve solid waste collection service in four towns. It provided nine specialized solid waste trucks, and associated training, across the four towns, and monitored outcomes. The project enabled 41,200 people to receive regular solid waste collection service at least twice a week, exceeding the project target of 40,600 (World Bank 2022j).

Implementation Arrangements

Implementation arrangements for these projects did not contribute to building local government capacity. Implementation of subprojects (including procurement, oversight of contractors, and financial management) was the responsibility of ARIS. Reliance on ARIS missed an opportunity to build capacity in local governments through learning by doing in implementing these projects.

This weakness was known to the World Bank: IEG's validation of the RWSSP 2 noted that "sidelining the government rural water supply institutions by transferring implementation responsibility to ARIS denied the government the opportunity to benefit from institutional capacity building for design and implementation of investment projects [and subprojects]. This was even more egregious given the lack of engineers and technicians who are adequately trained and can fully understand the application of international technical standards, including chlorination" (World Bank 2015b, 8). Consistent with this, IEG put forth the following lesson: "Ensure that expediency does not displace capacity building in government institutions. In this project expediency led to [bypassing] the line agency and outsourcing project management to an NGO [nongovernmental organization], and this approach turned out to be a successful arrangement for getting implementation up to speed and back on track. However, care has to be taken at restructuring that the NGO managers have the skills and capacity to work alongside their government counterparts, transfer knowledge[,] and build capacity" (World Bank 2015b, 12).

Concerns have also been voiced that ARIS has become too big and there is a need for closer oversight from the World Bank. There is a need to ensure that ARIS does not influence project design in a way that would impede progress toward eventually shrinking its role as local government capacity is increased. Following the death of its long-serving chief executive officer, in 2017–18 ARIS experienced a change in leadership that led to political interference and allegations of corruption, culminating in the resignation of some project implementation unit staff in protest. Following the World Bank's threat of suspension of the International Development Association program, leadership was changed, and project implementation oversight improved.

Findings

Focus group discussions held in five *ayil okmotus* in the Chui and Issyk-Kul provinces found that there had been little to no improvement over the past 10 years in access to and quality of local public services (see appendix A for information on focus group methodology). Some participants considered that the provision of certain local services had actually deteriorated compared with the early 2000s. All the selected *ayil okmotus* struggled with financial sustainability over the past 10 years and were underfunded, understaffed, and overburdened with work. The link between investments from ARIS-administered, World Bank–funded projects and the improvement of local service provision in these *ayil okmotus* was weak. The maintenance of infrastructure funded by ARIS-administered projects remains a significant problem in all of the *ayil okmotus* visited. ARIS transferred the task of maintenance and repairs to local governments, which lacked funds to maintain the infrastructure buildings. As a result, the burden of maintenance is falling on the shoulders of the staff working in these buildings.

The only service for which the World Bank took a targeted and holistic approach to improving service provision was water supply. While institutional and financial capacity for sustainable water supply is still lacking, slow progress in access, quality, and the institutional structure supporting service delivery has been made over time. World Bank engagement in the sector contributed to the return of other development partners.

A main reason for the lack of service improvements is that the projects supported by the World Bank through a CDD approach did not target essential local public infrastructure or improvements in service delivery. These projects had a much broader scope than the CPS and CPF focus on essential services, such as water supply and sanitation, solid waste management, education, and health. The lack of targeting, engagement on service provision modalities, and inadequate monitoring meant that the projects did not improve service delivery. Interviews conducted during this evaluation found no coordination between the CDD-type projects funding local-level infrastructure and projects in education, health, and water supply and sanitation sectors. Despite this, and apart from increasing the amount of funding for subprojects in VIP 3, the CDD model has remained virtually unchanged since FY02.

More fundamentally, World Bank–supported projects did not address the main constraints driving the low quality of service provision by local governments, other than in the water supply sector. Those prevailing constraints and the respective gaps in the World Bank's program are the following:

» Lack of resources. Local governments still lack adequate and predictable resources for service delivery. While this problem was identified long ago, the World Bank began to provide technical assistance on it only in 2017. Despite this support, there are few tangible results or improvements to the system.

» Unclear delineation of responsibilities. The World Bank's 2014 Public Expenditure Review concluded that the lack of clarity in responsibilities among different tiers of government had resulted in a lack of accountability in the system (World Bank 2014). In 2021, the World Bank developed *Analysis of Local Governments Capacity for Better Service Delivery in Kyrgyz Republic* (World Bank 2021a), which included a background note on intergovernmental fiscal relations and administrative-territorial reform that again raised this issue (World Bank 2022b). It found that the lack of clear expenditure assignments "is a significant issue that impacts the sustainability of World Bank–supported projects as well as the development of a service delivery system more broadly" (World Bank 2022a). However, this constraint does not appear to have been systematically acknowledged in World Bank–supported investment in local public infrastructure outside the water sector.

» Capacity of local governments. The World Bank supported capacity building for participatory planning but, outside the water sector, did not address the range of needs required to improve the delivery of essential local public services.

  » Local governments lack the human resources and technical and institutional capacity to deliver quality local public services (World Bank 2022b). Outside the water sector, the World Bank projects that invested in local infrastructure did not focus on building the capacity or institutions needed to operate, maintain, and deliver improved services in a sustainable way. The projects did not build capacity for project planning, management, or maintenance of financed infrastructure.

  » VIPs did strengthen local-level participatory planning processes, reflecting their objective to strengthen local-level governance. VIP 2 contributed to increased community engagement and influence of community groups in decision-making and planning (World Bank 2018f). However, this did not address capacity needs for improved service provision.

  » The World Bank helped establish a community of practice on PFM for local government officials. The community of practice initiative laid the foundation for a capacity-building platform, with training on budget literacy and information transparency provided by the World Bank–supported activities, and was appreciated by participants and other donors working on local-level issues (Saetova, Uulu, and Kisunko 2018). However, it was not sustained after the grant supporting the project was exhausted.

[1] The first and second Village Investment Projects had a third dimension of the objective—supporting private small-scale group enterprise development.

[2] The Community Development and Investment Agency was created by Decree of the President of the Kyrgyz Republic in October 2003 as a legally and operationally autonomous institution for the purpose of managing the implementation of the International Development Association–supported first Village Investment Project. It operates under the oversight of a supervisory board composed of 21 representatives of the state administration, the local government sector, and civil society (World Bank 2016f).

7 | Main Findings and Lessons

Main Findings

Governance weaknesses remain a major impediment to fostering private sector development to drive economic growth and achieve development results in the Kyrgyz Republic. The lack of elite consensus and political instability, driven by competition among patronage networks, continue to undermine developmental progress. The 2018 SCD notes that a "substantial body of evidence exists to support the notion that corruption/nepotism, weak accountability, and conflicts of interest are rife in the Kyrgyz Republic, but little has been done by the way of detailed and actionable political economy analysis, specifically focusing on grand corruption and vested interests" (World Bank 2018c, 36–37). The CLR Review for the CPS argues that addressing corruption "will also require a detailed and actionable political economy analysis of grand corruption and the role of vested interests.... Engaging in dialogue with the [g]overnment on actions derived from such an analysis will be critical to make significant inroads in supporting the government to address corruption" (World Bank 2018d, 3). Despite these lessons, the Bank Group–supported program did not address the knowledge gap in this area or adequately mitigate the risks associated with not improving governance.

Frequent, and at times disruptive, changes in government have given the Kyrgyz Republic some characteristics of a fragile state, suggesting that deeper engagement with civil society would have been appropriate for the country context. International experience and the World Bank's governance and anticorruption strategy suggest that engagement with civil society can help build demand and momentum for reform (World Bank 2011b, 2012). The Bank Group facilitated participatory planning processes in local communities, conducted substantial consultations with civil society during CPF and project preparation, and worked with business associations during the implementation of specific reforms (particularly tax administration). However, more engagement with civil society could have been helpful to support pro-reform coalitions, strengthen long-term demand for governance reforms, communicate and address social protection aspects of energy tariff reform, and raise awareness of investment climate issues (for example, that of inspections by law enforcement agencies outside the scope of the Inspections Law).

The World Bank learned from experience when it paused development policy lending, but, other than in the water sector, it did not adapt its approach to local public services in the face of weak results. The World Bank paused development policy lending after FY17 because of limited progress on energy sector reform and backtracking on public procurement reforms. Since then, the lack of reform appetite has kept development policy lending on hold. In contrast, the World Bank's approach to improving essential local public services (except in the water sector) remained virtually unchanged since 2003. Throughout the evaluation period, it used a CDD model that did not strengthen service delivery systems; improve clarity on responsibilities, access to resources, and institutional capacity; or monitor service delivery results. Capacity-building efforts at the local level focused primarily on participatory planning and budget transparency, not project planning or implementation.

Public services where the World Bank took a holistic approach, working with central government authorities, had more positive outcomes. The experience in the education and health sectors, including in the water sector, shows that a holistic approach that addresses delivery of public services (rather than focusing mostly on infrastructure investment) can improve outcomes in the Kyrgyz Republic.

DPO prior actions were spread thinly across multiple reform areas, lacked complementary implementation support, and have not been very effective (World Bank 2022f). DPOs attempted to advance reforms in areas with weak government ownership or in need of complementary capacity building and institutional support to have impact. In other cases, DPO prior actions were not strategic or focused on more binding constraints—for example, reforms to clarify the process of starting a business, improve protection of minority shareholders, and abolish sales tax for exporters (World Bank 2022f). IEG rated the relevance of half of 30 prior actions in DPOs for the Kyrgyz Republic moderately unsatisfactory or worse. Many of the DPO prior actions consisted of draft laws and regulations submitted to parliament and action plans, which failed to meaningfully move reforms along the results chain toward program objectives. In addition, DPO results frameworks had significant shortcomings.

Bank Group interventions to support private sector development did not address weak firm-level capabilities needed to improve productivity and spur growth, except in the dairy sector. This was despite the FY16 PLR's and FY19–22 CPF's shift toward emphasizing private sector–led growth and the World Bank Productivity Project's findings on the importance of targeting growth-oriented firms. The 2018 SCD noted that small firms were not growing; the FY16 PLR, SCD, and CPF discussed the importance of improving agribusiness product quality; and the Kyrgyz Republic performs below comparators on measures of management quality and innovation. Nevertheless, Bank Group work did not target growth-oriented firms or directly address firm capabilities or quality (which is predominantly needed for agribusiness).

The implementation of World Bank–supported projects through quasi-public implementing agencies such as ARIS generates important sustainability concerns. The strong capacity of these agencies is considered one of the factors for successful project implementation, particularly because it helps reach remote areas of the country, provides continuity in project implementation in the face of political volatility, and has the capacity to comply with World Bank guidelines (financial management, procurement, and safeguards). However, working with these semi-independent entities for several decades limited the impact of World Bank–supported projects on capacity building in local governments and in institutions that deliver agriculture and public services in rural areas. In addition, there is a need for stronger World Bank oversight to ensure that projects adapt appropriately to evolving local circumstances.

Lessons

The findings point to the following lessons that could be of relevance to the next CPF for the Kyrgyz Republic.

1. Promoting diversified, export-oriented, inclusive, and sustainable growth—the main objective of the FY19–22 CPF—requires more attention to governance weaknesses and constraints on firm-level growth. Preconditions for economic growth include the interrelated objectives of

reducing corruption, increasing predictability of the business environment (for domestic firms and for foreign investors), and reforming the judiciary. Addressing these can also reduce incentives for informality. Firm capabilities and compliance with quality standards in export markets, particularly in agriculture, also need to be improved. The Bank Group may wish to engage with stakeholders to identify opportunities for providing greater regulatory stability and fostering growth.

2. In areas that are preconditions for the achievement of broader and higher-level development objectives (for example, increasing the predictability of the business environment as a precondition for private investment and thus economic growth), even when the government does not have appetite to reform, the Bank Group should remain engaged, including by remaining current on issues through analytical work. The Bank Group can remain engaged by conducting analytical and diagnostic work to deepen its understanding of constraints and priorities so that it is prepared to act quickly when a window of opportunity opens. It should also engage with civil society to inform debate about the costs of inaction and strengthen demand for reforms.

3. The use of DPOs should continue to be contingent on the government's appetite for reform; if and when development policy financing lending resumes in the Kyrgyz Republic, it should be used more selectively and strategically. The pause in development policy financing demonstrated learning from experience. However, before the pause, reforms supported by DPOs either lacked ownership and complementary implementation support or did not address major constraints.

4. Achievement of development objectives related to essential local public services requires strengthening the institutional and financial capacity of local governments. Binding constraints to local service delivery include clarity in the respective responsibilities of different levels of government, access to adequate resources, and sufficient technical capacity. Future World Bank–supported projects in local infrastructure should address the full system of service provision, not just provide infrastructure outputs; multiple CDD-type projects implemented to date have not addressed such

systems. The Bank Group should draw on the experience with its education and health sector work in the Kyrgyz Republic in this regard.

5. In the context of the Kyrgyz Republic, investment projects should be used to build institutional capacity within all levels of government. This includes central and local governments and institutions that deliver agriculture services in rural areas.

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APPENDIXES

Independent Evaluation Group

The World Bank Group in the Kyrgyz Republic

Appendix A. Methodology

This evaluation used mixed methods to triangulate evidence to answer the evaluation questions (listed in chapter 1). Methods drew on the World Bank Group and non–Bank Group documents, data, interviews, and focus groups and included the following:

» Portfolio review and analysis, including review of project and task-related documents. The evaluation conducted a portfolio review to identify the support delivered by the Bank Group during fiscal years 2014–21 that is relevant to the evaluation questions; the Independent Evaluation Group carried out a structured document review of lending and nonlending portfolios across the Bank Group to extract, code, and analyze data and information relevant to the evaluation questions. Documents reviewed included outputs of advisory services and analytics and advisory services, Project Appraisal Documents, Implementation Completion and Results Reports, Implementation Completion and Results Report Reviews, Implementation Status and Results Reports, Expanded Project Supervision Reports, Project Completion Reports, aide-mémoire, meeting minutes, case studies, and other outputs documenting technical and policy dialogue.

» Existing evaluative evidence. The evaluation drew from existing internal and external evaluations, including Implementation Completion and Results Report Reviews, several Project Performance Assessment Reports, and relevant case studies on the Kyrgyz Republic conducted for previous Independent Evaluation Group evaluations.

» Review of World Bank and International Finance Corporation analytical work. Relevant sources include investment climate assessments and the Country Private Sector Diagnostic, Systematic Country Diagnostic, Country Economic Memorandum, Public Expenditure Reviews, Public Expenditure and Financial Accountability assessments, and Financial Sector Assessment Program assessments, regular economic updates, country opinion surveys, and Country Policy and Institutional Assessment data.

- Review of non–Bank Group analytical work and data. The evaluation reviewed analytical work relevant to the evaluation questions from other development partners, civil society organizations, academia, and others. Government strategies were reviewed to help in understanding the strategic approach of the government. External (to the Bank Group) sources of data and information were used to get a more complete picture of how the country's performance in the areas covered by the evaluation has evolved. Sources included the following:
  - Analytical work and documents. International Monetary Fund, Asian Development Bank, and European Bank for Reconstruction and Development reports; country analysis and diagnostics (for example, public investment management assessment and Article IV Consultation staff reports and program documents); Ministry of Finance and central bank reports; white papers and other documents on perceptions and constraints from private sector associations; research reports from development partners, nongovernmental organizations, and academics on the state of public service delivery at the local level; review of local media sources; reputable opinion surveys (for example, relevant surveys from the International Republican Institute). Sources are cited in the report.
  - Data. The Enterprise Surveys; the National Statistical Committee of the Kyrgyz Republic database, which includes data on small and medium enterprises, economic sectors, local living standards, and so on; the *Global Competitiveness Report*; Economist Intelligence Unit; Transparency International; and Open Budget. Sources are cited in the report.
- Interviews. The evaluation team conducted semistructured interviews with Bank Group staff, former and current government officials, development partners, representatives of private sector associations and companies, and relevant academics and members of the Kyrgyz Republic civil society. Most interviews were conducted virtually given that the COVID-19 pandemic prevented travel to the Kyrgyz Republic. A subset of interviews was conducted in person or hybrid (in person and virtual) by team members based in the Kyrgyz Republic. For some interviews, a question and topic template was consistently applied as appropriate.

- Focus groups and field visits. Four sets of focus groups and field visits were conducted to capture particular elements relevant to the evaluation.
    - Quality of essential local public services. Focus groups and field visits were held in Chui and Issyk-Kul to gain insights into the experiences and perspectives of community members on the quality of public services provided by local governments. The provinces were selected because they received substantial support from Bank Group projects during the evaluation period relevant to local public services. Focus groups were held in two *ayil okmotus* in the Chui province and three *ayil okmotus* in the Issyk-Kul province. Two focus groups were held in each *ayil okmotus*—1 with a mixed-gender group and 1 with women only—for 10 focus groups. Focus groups had 8–13 people each. Participants were asked about access to and quality of drinking water, waste disposal, maintenance of public buildings (including education, health, and recreational buildings), roads, and street lighting.
    - Dairy sector development. Focus groups and field visits were held in Issyk-Kul to gain insights into the experiences and perspectives of dairy farmers and milk collectors and intermediaries about the development of the dairy sector overall and support provided through Bank Group–funded projects. Focus groups included two groups of dairy farmers (12 people in a mixed-gender group; 8 women in a women-only group) and one group of milk collectors and intermediaries (7 people). Sites of milk cooling tanks were also visited, and follow-up conversations (one-on-one interviews) were held with two milk collectors. Participants in all groups were asked about trends in the dairy sector in the area, including milk productivity, animal health, and milk marketing. They were also asked about the usefulness of and outcomes related to the following areas provided through Bank Group–supported projects: quality of breeds and artificial insemination, loans, training, and milk cooling tanks.
    - Private sector development. Two focus group discussions were held in Bishkek with representatives of private sector associations. The associations invited were identified as the largest and most active associations based on their inclusion in national public-private dialogue platforms and size and scope (for example, sectoral representation) of membership. Participants included representatives of associations focused on domestic businesses

(the majority) and foreign investors (a few participants). Participants were asked about the major issues facing the private sector in the Kyrgyz Republic over the past eight years and how they have evolved; specific areas supported by Bank Group–supported interventions, including access to finance, risk-based inspections, tax administration, public procurement, and licenses and permits; and communications with the Bank Group. One focus group included participants working in the agriculture and dairy sectors, and they were also asked about the relevance and effectiveness of Bank Group support provided in agriculture.

» Field visits to local governments. The evaluation team visited and interviewed selected local government staff at the *rayon* (district) level and the local self-government (*ayil okmotu*) level in three localities. The purpose of the visits was to explore the extent of actual progress made at the subnational level in achieving governance reform objectives, including in the areas of tax administration, public procurement, budgeting, and public financial management. The localities included a rural district in the vicinity of Bishkek, a remote rural district, and a town that might be considered a "typical" local government within each type of settlement. The visits checked availability at the local level (and especially outside of major urban areas) and reliability of operations of various web-based government management information systems rolled out with the Bank Group's assistance over the evaluation period. The visits covered reliability of specialized software, speed of internet connection, availability and quality of information technology equipment, availability of technical support and training for local government staff, and staff perceptions with respect to use of the information technology systems. The main findings from the interviews suggest broad availability of the new information technology management informational systems at the local government level.

Appendix B. Progress on Main Governance Indicators

The tables in this appendix present progress against governance targets established in the Country Partnership Strategy, Country Partnership Framework, and development policy operations and on relevant international and other World Bank indicators.

Table B.1. Progress against Governance Targets in the Country Partnership Strategy, Country Partnership Framework, and Development Policy Operations

Targets	Baseline (year)	Target (year)	Actual (year)	Comments
Country Partnership Strategy targets				
Building a meritocratic public administration (measured by the WEF's index on favoritism in government decisions)	Global ranking: 136 (2012)	Global ranking: 120 (2017)	Global ranking: 86 (2017)	Not assessed. The country's score improved from 2.2 in 2012 to 2.8 in 2017–18 (the latest data available, out of 7). Because the World Bank Group has not been engaged in this area after 2013, this improved score could not be attributed to the World Bank program under evaluation.
Verification of declarations of conflict of interest, share of total filings (%)	0 (2015)	15 (2017)	0 (2021)	Unmet. No verification mechanism is in place. This target was added at the PLR stage.
Graft index (ratio of the number of reported bribes for public services to the total number of transactions; %)	15 (2015)	<10 (2017)	n.a.	Unmet. The respective data stopped being collected. Alternative measures of the corruption prevalence did not indicate any progress. This target was added at the PLR stage.

(continued)

Targets	Baseline (year)	Target (year)	Actual (year)	Comments
Improving access to justice (measured by the World Justice Project Rule of Law Index, subindicator 7.1— People can access and afford civil justice)	0.64 (2013)	0.7 (2017)	0.59 (2021)	Unmet.
Increased competition in public procurement (measured by the PEFA PI-19 indicator on competition, value for money, and controls in procurement)	B (2014)	B+ (2017)	B+ (2018), A (2020)	Met. This target was added at the PLR stage. In the 2020 PEFA, the procurement indicator is PI-24.
Country Partnership Framework targets				
E-filing of VAT returns expanded (%)	30 (2017)	70 (2021)	100 (2021)	Met.
DPO (2014) targets				
Improved control of corruption (measured by the Worldwide Governance Indicator for control of corruption, percentile rank)	9.95 (2011)	15 (2014)	12 (2014), 13 (2020)	Unmet.
Improved predictability in budget execution (measured by the PEFA indicator PI-2 on composition of actual expenditure relative to the budgeted)	C (2009)	B (2014)	D+ (2014), D+ (2020)	Unmet.
An increase in the effectiveness of internal audits (measured by the PEFA indicator PI-21)	D (2009)	C (2014)	C (2014), C+ (2020)	Met.

(continued)

Targets	Baseline (year)	Target (year)	Actual (year)	Comments
Improved budget funding of the judiciary (measured by the growth rate in the annual budget allocation for the judiciary)	—	10% annual increase	Between 2014 and 2016, the budget of the judiciary almost doubled.	Met. However, no later data to confirm sustainability of the increase are available.
DPO (2017) targets				
Consolidation of administration of social contributions within the State Tax Service (share of firms filing reports on social contributions to the State Tax Service; %)	0 (2014)	50 (2018)	100 (2021)	Met.

Source: Project documents and IEG analysis.

Note: DPO = development policy operation; n.a. = not applicable; PEFA = Public Expenditure and Financial Accountability; PI = Public Expenditure and Financial Accountability Indicator; PLR = Performance and Learning Review; VAT = value-added tax; WEF = World Economic Forum; — = not available.

Table B.2. Worldwide Governance Indicators, 2010–20

Indicator	Year	Number of Sources	Governance (−2.5 to +2.5)	Percentile Rank	Standard Error
Voice and accountability	2010	13	−0.93	21.33	0.13
	2015	11	−0.40	33.50	0.14
	2020	10	−0.59	31.88	0.13
Political stability and absence of violence/terrorism	2010	5	−1.04	15.17	0.27
	2015	6	−0.88	18.57	0.22
	2020	6	−0.43	31.60	0.23
Government effectiveness	2010	9	−0.65	30.62	0.22
	2015	9	−0.91	18.27	0.23
	2020	8	−0.54	32.69	0.24
Regulatory quality	2010	10	−0.25	43.54	0.16
	2015	11	−0.50	34.62	0.18
	2020	9	−0.40	37.98	0.20
Rule of law	2010	15	−1.27	8.53	0.14
	2015	14	−0.99	14.42	0.14
	2020	12	−0.93	18.27	0.14
Control of corruption	2010	12	−1.17	10.48	0.15
	2015	13	−1.15	11.06	0.15
	2020	11	−1.11	12.98	0.15

Source: Worldwide Governance Indicators database.

Note: The Worldwide Governance Indicators are a research data set summarizing the views on the quality of governance provided by a large number of enterprises and citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, nongovernmental organizations, international organizations, and private sector firms. The Worldwide Governance Indicators do not reflect the official views of the World Bank, its executive directors, or the countries they represent. The Worldwide Governance Indicators are not used by the World Bank Group to allocate resources.

Table B.3. Select International Indexes of Governance Quality, 2012–21

	2012	2014	2017	2019	2021
Corruption Perceptions Index (Transparency International), out of 100	24	27	29	30	27
Open Budget Index score (International Budget Partnership), out of 100	20	54[a]	55	63	62
BTI Governance Index (quality of political leadership), out of 10	4.85	4.67	4.73	4.56	4.42

Sources: Transparency International, https://www.transparency.org/en/cpi/2021/index/kgz; International Budget Partnership, https://internationalbudget.org/open-budget-survey/country-results/2021/kyrgyz-republic; Bertelsmann Stiftung's Transformation Index, https://bti-project.org/en/downloads.

Note: Corruption Perceptions Index is not comparable between 2010 and 2012–19.
a. Data are for 2015.

Appendix C. World Bank Group Portfolio and Ratings, Fiscal Years 2014–21

Table C.1. World Bank Investment Project Financing

Project Name	Project Status	Approval FY	Closing FY	Total Commitments (US$)	ICRR[a] (IEG) Ratings	
					Development Outcome	Overall Bank Performance
Emergency Support for MSMEs	Active	2021	2025	50,000,000		
Tax Administration and Statistical System Modernization Project	Active	2020	2026	35,000,000		
Regional Economic Development Project	Active	2020	2027	60,000,000		
Learning for the Future	Active	2020	2026	50,000,000		
Kyrgyz Republic—Emergency COVID-19 Project (health)	Active	2020	2023	32,150,000		
Heat Supply Improvement Project	Active	2018	2024	46,000,000		
Enhancing Resilience in Kyrgyzstan	Active	2018	2026	75,000,000		
Digital CASA—Kyrgyz Republic[b]	Active	2018	2023	50,000,000		
CASA1000 Community Support Project—Kyrgyz Republic[b]	Active	2018	2025	31,000,000		
Sustainable Rural Water Supply and Sanitation Project	Active	2017	2025	59,500,000		
Integrated Dairy Productivity Improvement Project	Active	2017	2026	22,000,000		
Integrated Forest Ecosystem Management	Active	2016	2023	16,110,000		

(continued)

Project Name	Project Status	Approval FY	Closing FY	Total Commitments (US$)	ICRR[a] (IEG) Ratings	
					Development Outcome	Overall Bank Performance
Urban Development Project	Active	2016	2022	12,000,000		
Central Asia Regional Links—Phase 3[b]	Active	2016	2025	55,000,000		
Electricity Supply Accountability and Reliability Improvement Project	Closed	2015	2020	25,000,000	S	MS
Pasture and Livestock Management Improvement Project	Closed	2015	2019	15,000,000	MS	MS
Third Village Investment Project	Active	2015	2025	29,000,000		
Central Asia Road Links—Phase 1[b]	Closed	2014	2020	45,000,000	MS	MS
Sector Support for Education Reform	Closed	2013	2019	16,500,000	S	S
Second Health and Social Protection Project	Closed	2013	2020	16,500,000	S	MS
Financial Sector Development Project	Active	2012	2021	13,000,000	MU	MU
Emergency Recovery Project	Closed	2011	2014	70,000,000	S	S
Central Asia Hydrometeorology Modernization Project[b]	Active	2011	2023	11,000,000		
National Road Rehabilitation (Osh-Batken-Isfana) Project	Closed	2010	2015	51,000,000	S	MS

(continued)

Project Name	Project Status	Approval FY	Closing FY	Total Commitments (US$)	ICRR[a] (IEG) Ratings: Development Outcome	ICRR[a] (IEG) Ratings: Overall Bank Performance
Second Land and Real Estate Registration Project	Closed	2009	2014	5,850,000	S	MS
Capacity Building for Economic Management Project	Closed	2009	2014	3,000,000	MU	MU
Second Rural Water Supply and Sanitation Project	Closed	2009	2015	10,000,000	MS	MS
Bishkek and Osh Urban Infrastructure Project	Closed	2008	2016	27,800,000	S	MS
Second On-farm Irrigation Project	Closed	2007	2017	31,000,000	MS	MS
Second Village Investment Project	Closed	2007	2015	27,200,000	S	S
Health and Social Protection Project	Closed	2006	2015	45,000,000	MU	MS
Water Management Improvement Project	Closed	2006	2014	19,000,000	U	MU
Governance Technical Assistance Project	Closed	2003	2014	7,775,000	U	U
Total				1,062,385,000		

Sources: World Bank portfolio data and ICRRs.

Note: FY = fiscal year; ICRR = Implementation Completion and Results Report Review; IEG = Independent Evaluation Group; MS = moderately satisfactory; MSME = micro, small, and medium enterprise; MU = moderately unsatisfactory; S = satisfactory; U = unsatisfactory.
a. ICRR ratings are for closed projects only. Projects for which no ratings are provided are still ongoing and have not yet been rated by IEG.
b. Regional projects. Project amounts include additional financing as applicable.

Table C.2. World Bank Development Policy Financing

Project Name	Project Status	Approval FY	Closing FY	Total Commitments (US$)	ICRR (IEG) Ratings	
					Development Outcome	Bank Performance
Kyrgyz Republic Economic Governance Development Policy Operation	Closed	2019	2020	24,000,000	U	MU
Governance and Competitiveness Development Policy Operation	Closed	2017	2018	24,000,000	MU	MU
Energy Sector Development Policy Operation Project	Closed	2015	2016	24,000,000	MS	MS
Programmatic Development Policy Operation 2	Closed	2014	2016	25,000,000	MS	MS
First Development Policy Operation	Closed	2014	2015	25,000,000	MS	MS
Total				122,000,000		

Source: World Bank portfolio data and ICRRs.

Note: FY = fiscal year; ICRR = Implementation Completion and Results Report Review; IEG = Independent Evaluation Group; MS = moderately satisfactory; MU = moderately unsatisfactory; U = unsatisfactory.

Table C.3. World Bank Program-for-Results

Project ID	Project Name	Project Status Name	Approval FY	Loan Closing FY	Total Commitments (US$)
P167598	Primary Health Care Quality Improvement	Active	2019	2025	20,000,000

Source: World Bank portfolio data.

Note: FY = fiscal year; ICRR = Implementation Completion and Results Report Review.
a. ICRR ratings are for closed projects only. Projects for which no ratings are provided are still ongoing and have not yet been rated by the Independent Evaluation Group.

Table C.4. International Finance Corporation Advisory Services

Project Name	Implementation Start FY	Implementation End FY	Primary Business Line Name
Kyrgyz Airport PPP	2021	2024	Transaction Advisory
Power Upstream Engagement in Kyrgyz Republic	2021	2022	Infrastructure
SME V—Highland AS	2020	2025	Disruptive Technologies and Funds
Kyrgyz Airports PPP Diagnostic and Scoping	2020	2020	Transaction Advisory
Kyrgyz Health-2 Phase 0	2019	2019	Transaction Advisory
Energy Infrastructure in IDA Central Asia Countries	2019	2024	Infrastructure
Kyrgyzstan Resilience and Growth Project	2019	2024	Regional Advisory
Kyrgyz Schools PPP	2019	2024	Transaction Advisory
Hydro Power Export	2019	2020	Transaction Advisory
Kyrgyz Medical Rehabilitation PPP	2019	2022	Transaction Advisory

(continued)

Project Name	Implementation Start FY	Implementation End FY	Primary Business Line Name
Central Asia Trade Logistics Project	2018	2020	Equitable Growth, Finance, and Institutions
MegaCom Scoping	2018	2018	Transaction Advisory
Kyrgyz Health Post-Transaction Advisory Support	2018	2020	Transaction Advisory
Agri Exports	2018	2018	Equitable Growth, Finance, and Institutions
Kyrgyz Republic Dairy Development	2017	2020	Regional Advisory
Bishkek Street Lighting PPP	2016	2016	Transaction Advisory
Kyrgyz Road Safety	2016	2016	Transaction Advisory
Management Contract for Kyrgyz Electricity Distribution Companies	2015	2016	Transaction Advisory
Kyrgyz Cold Storage	2014	2015	Transaction Advisory
Kyrgyz Republic Investment Climate	2014	2018	Equitable Growth, Finance, and Institutions
Kyrgyzstan General and Administration	2014	2018	IFC
Kyrgyz Health PPP	2014	2019	Transaction Advisory
Central Asia Tax Project	2013	2018	Equitable Growth, Finance, and Institutions
Kyrgyzstan Housing Microfinance	2012	2023	Financial Institutions Group
Zalkar Bank Privatization	2012	2014	Transaction Advisory
Transformation for MFIs in Kyrgyzstan	2010	2018	Financial Institutions Group
Kyrgyzstan FM Infrastructure	2010	2019	Equitable Growth, Finance, and Institutions

Source: International Finance Corporation portfolio data.

Note: AS = advisory services; FM = financial management; FY = fiscal year; IDA = International Development Association; IFC = International Finance Corporation; MFI = microfinance institution; PPP = public-private partnership; SME = small and medium enterprise.

Appendix D. Government Comments

The comments received from the government on the draft report are presented here in their original format. A translation into English follows.

КЫРГЫЗ РЕСПУБЛИКАСЫНЫН
ФИНАНСЫ МИНИСТРЛИГИ

МИНИСТЕРСТВО ФИНАНСОВ
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06. 06. 23 № 16-21/7006

№

Группа независимой оценки
Группы Всемирного банка

Министерство финансов Кыргызской Республики свидетельствует свое уважение и направляет в приложении комментарии к проекту отчета Группы Всемирного банка в Кыргызской Республике - Оценка страновой программы (ОСП) за отчетный период 2014-2021 финансовый годы относительно оценки значимости и эффективности деятельности Всемирного банка в Кыргызской Республике за отчетный период с 2014 по 2021 финансовый годы.

Приложение: на __ л.

Заместитель министра **Р.С. Татиков**

Управление международного сотрудничества
С. Яншанло, тел.:625313(2223)

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Комментарии Министерство финансов Кыргызской Республики к проекту отчета под названием «Группа всемирного банка в Кыргызской Республике-Оценка страновой программы (ОСП) за отчетный период 2014-2021 финансовый год»

По первому абзацу основных выводов относительно слабого управления государственных финансов отмечаем, что в целях эффективного управления государственными финансами Кыргызской Республики постановлением Правительства Кыргызской Республики от 22 декабря 2016 года № 696 утверждена Стратегия развития управления государственными финансами в Кыргызской Республике на 2017-2025 годы, во исполнение которого разработан, утвержден Среднесрочный план действий по реализации Стратегии. При этом отчет о ходе реализации Плана действий ежеквартально публикуется на сайте Министерства финансов КР. Что касается отсутствия прозрачности управления в этой связи Кабинетом Министров Кыргызской Республики на постоянной основе проводиться работа по совершенствованию бюджетной системы. За последние годы смогла добиться значительных успехов в обеспечении бюджетной прозрачности. Согласно оценке Международного бюджетного партнерства «Индекс бюджетной прозрачности» Open Budget Survey 2021 года Кыргызской Республики составило 62 баллов из 100 возможных. Данный показатель в 2012 году составлял 20 баллов и за последние годы поднялась по показателю прозрачности до 62 баллов, ссылка: https: //internationalbudget.org/open-budget-survey/country-results/2021/kyrgyz-republic. Однако, не смотря на существенные улучшения за последние годы, вопросы прозрачности, полноты, своевременности публикации бюджетной информации, а также низкого общественного участия в бюджетном процессе все еще остаются актуальными. В связи с чем, Министерством финансов Кыргызской Республики согласно международным стандартам бюджетной прозрачности разработано и приняты следующие нормативные правовые акты:

•постановление Кабинета Министров Кыргызской Республики «Об утверждении Дорожной карты по повышению уровня бюджетной прозрачности и подотчетности в Кыргызской Республики на 2022–2023 годы» от 9 сентября 2022 года №501, которое направлено на реализацию задач по улучшению полноты, прозрачности и своевременности публикации бюджетной информации, подотчётности государственных органов и органов местного самоуправления, гражданского участия в бюджетном процессе, контроля (аудита) государственных финансов в соответствии с международной практикой и передовым опытом;

•постановление Кабинета Министров Кыргызской Республики «О некоторых вопросах в сфере бюджетной прозрачности Кыргызской Республики» от 15 мая 2023 года №249 направлено на реализацию статей 126 и 127 Бюджетного кодекса Кыргызской Республики, которое предусматривает проведение общественных бюджетных слушаний и разработку гражданского бюджета по бюджетным документам.

Кроме, этого в соответствии со статьей 125 Бюджетного кодекса Кыргызской Республики, Министерством финансов Кыргызской Республики своевременно на своем официальном сайте размещаются следующие документы:

1) Основные направления фискальной политики;
2) проект республиканского бюджета;
3) гражданский бюджет;
4) закон о республиканском бюджете;
5) полугодовой обзор исполнения республиканского бюджета;
7) утвержденный годовой отчет об исполнении республиканского бюджета;
8) ежемесячные отчеты об исполнении бюджета.

Данные документы размещаются в течение 15 дней после их утверждения (одобрения) в установленном порядке, обеспечив тем самым доступность в соответствии с

Законом Кыргызской Республики «О доступе информации, находящейся в ведении государственных органов и органов местного самоуправления Кыргызской Республики» с учетом обеспечения защиты государственной или иной охраняемой законом тайны.

В порядки информации отмечаем, что мероприятия отраженные в Дорожной карте по повышению бюджетной прозрачности и подотчетности в Кыргызской Республике на 2022–2023 годы направлены на реализацию:

•принципа прозрачности бюджетной системы согласно Бюджетному кодексу Кыргызской Республики;

•основных направлений Стратегии развития управления государственными финансами в Кыргызской Республике на 2017-2025 годы;

•условий Финансового соглашения между Кыргызской Республикой и Европейским Союзом, одобренной распоряжением Правительства Кыргызской Республики от 5 июля 2019 года № 249-р в части прозрачности бюджета.

Так же в оценочном контексте указано, что: «За период оценки программы Группы Всемирного банка внесла ощутимый вклад в совершенствование управления, особенно в сфере прозрачности бюджета, государственных закупок и налогового администрирования. Однако общий прогресс не оправдал ожидания, большинство целей не было достигнуто (в том числе в области государственной службы, противодействия коррупции и доступности правосудия)». При этом далее отмечаете, что «Поддержка, оказываемая Группой Банка в области государственных закупок и налогового администрирования, была более эффективной, однако не все достижения реформы системы закупок оказались устойчивыми». В связи, с чем информируем, что улучшения в сфере налогового администрирования Кабинетом Министров Кыргызской Республики и поддержка финансовых организаций, таких как Всемирный банк, дало определенные результаты в увеличении налоговых поступлений. В связи с проводимой реформой, темп роста налоговых доходов в Кыргызской Республике в сравнении с прошлыми годами в 2021 году составил 141,4%, в 2022 году составил 151,4%

В области государственных закупок была принята новая редакция Закона Кыргызской Республики «О государственных закупках» от 14 апреля 2022 года №27 (далее – Закон), в которой предусмотрен полный переход на электронные закупки посредством применения электронной подписи (квалифицированной ЭП), также заключение контрактов в электронном формате (смарт-контрактов) с последующим его администрированем на вебпортале. Вместе с тем отмечаем, что целью Закона Кыргызской Республики «О государственных закупках» от 14 апреля 2023 года, является оптимизации процессов государственных закупок через создание единой системы государственных закупок и формирование общественного доверия к ней. Относительно выведения из под Закона государственных предприятий сообщаем, что данные закупки регулирует постановление Кабинета Министров КР от 10.06.22 г. №301 «Об утверждении Типового порядка организации и осуществления закупок государственными и муниципальными предприятиями, хозяйственными обществами, где 50 и более процентов доли участия в уставном капитале принадлежат государству, в том числе их дочерними хозяйственными обществами», данные закупки проводятся на вебпортале zakupki.okmot.kg. Также сообщаем, что на постоянной основе ведутся работы по выявлению проблем и недостатков в сфере государственных закупок. В этой связи, учитывая некоторые трудности в процедурах государственных закупок, с целью усовершенствование были разработаны поправки в Закон, который в настоящее время находится на этапе рассмотрения в Жогорку Кенеше Кыргызской Республики.

On the letterhead of the Ministry of Finance of the Kyrgyz Republic

Date: June 6, 2023

Ref. No:16-2/7006

Independent Evaluation Group

World Bank Group

On behalf of the Ministry of Finance of the Kyrgyz Republic, please find attached comments to the draft report to the World Bank Group and the Kyrgyz Republic Country Partnership Framework Evaluation (CPF) with regards to the World Bank's engagement and performance in the Kyrgyz Republic for the FY14-21 reporting period.

Annex: on 2 pages.

Deputy minister **/Signed/** **R. S. Tatikov**

Comments from the Ministry of Finance of the Kyrgyz Republic to the draft report on the World Bank Group and the Kyrgyz Republic – Country Partnership Framework Evaluation (CPF) for the FY14–21 reporting period

With regards to the first paragraph of the main findings regarding weak public finance management, we note that in order to effectively manage public finances of the Kyrgyz Republic, the Government Decree № 696 dated December 22, 2016 endorsed the Kyrgyz Finance Management Development Strategy for 2017–2025, in execution of which the Medium-term Action Plan for the strategy implementation was prepared and approved. At the same time, the progress report on the implementation of the Action Plan is published quarterly on the website of the Ministry of Finance of the Kyrgyz Republic. With regard to the lack of transparency in governance, the Cabinet of Ministers of the Kyrgyz Republic is constantly striving to improve the budget system and in recent years it has achieved a significant progress in the implementation of the Strategy. According to the assessment of the International Budget Partnership Budget Transparency Index—Open Budget Survey 2021, the Kyrgyz Republic has scored 62 points out of a 100 possible. It's worth noting that in 2012 the score of the country was 20 and in recent years it has gone up to 62. For more information please go to https://internationalbudget.org/open-budget-survey/country-results/2021/kyrgyz-republic.

However, despite significant improvements in recent years the issues of transparency, completeness, timeliness of fiscal publications, as well as low public participation in the budget processes are still relevant. In this regard, the Ministry of Finance of the Kyrgyz Republic developed and adopted the following normative legal acts in accordance with international standards of budget transparency:

Decree of the Cabinet of Ministers of the Kyrgyz Republic № 501 dated September 9, 2022 On approval of the road map to improve budget transparency and accountability in the Kyrgyz Republic for 2022–2023 is called to implement measures on improving the completeness, transparency and timeliness of the fiscal information, accountability of state agencies and local governments, civil participation in the budget forming process, control (audit) of public finances in accordance with international best practices;

Decree of the Cabinet of Ministers of the Kyrgyz Republic no. 249 dated May 15, 2023. On selected issues in the area of budget transparency of the Kyrgyz Republic is aimed at implementing articles 126 and 127 of the Budget Code of the Kyrgyz Republic, which provides for public budget hearings and development of the civil budget according to the budget documents.

In addition, in accordance with Article 125 of the Budget Code of the Kyrgyz Republic, the Ministry of Finance of the Kyrgyz Republic shall promptly post the following documents on its official website:

1. Main fiscal policy directions;
2. Draft of the national budget;
3. Civil budget;
4. Republican budget bill;
5. Semi-annual review of the republican budget administration;
6. The approved annual report on the republican budget administration;
7. Monthly budget implementation report.

These documents are posted within 15 days after their approval (approval) in the prescribed manner, thereby ensuring accessibility in accordance with the Law of the Kyrgyz Republic On access to information under the jurisdiction of state bodies and local governments of the Kyrgyz Republic, taking into account the protection of state or other secrets protected by law.

Please note that the activities specified in the Roadmap to improve budget transparency and accountability in the Kyrgyz Republic for 2022–2023 are focused on implementation of the following steps:

- the principle of transparency of the budget system according to the Budget Code of the Kyrgyz Republic;
- the main directions of the Public Finance Management Development Strategy of the Kyrgyz Republic for 2017–2025;

- conditions of the Financial Agreement between the Kyrgyz Republic and the European Union, approved by the Decree of the Government of the Kyrgyz Republic № 249-r as of July 5, 2019 in terms of budget transparency.

Furthermore the evaluation states that: "During the evaluation period, the World Bank Group program has made tangible contributions to improving governance, especially in the areas of budget transparency, public procurement and tax administration. However, the overall progress has not met the expectations, most of the goals have not been achieved (including the areas of civil service, anti-corruption and access to justice)." At the same time, it is further noted that "the World Bank Group's support to public procurement and tax administration has been more effective, but not all of the achievements of the public procurement reform have been sustained." In this regards, we inform that the improvements introduced to the tax administration system by the Cabinet of Ministers of the Kyrgyz Republic and the support of financial institutions such as the World Bank have yielded some positive results namely in the increase of the tax revenues. Due to the ongoing reform, the growth rate of tax revenues in the Kyrgyz Republic as compared with previous years was 141.4% in 2021 and 151.4% in 2022. In the area of public procurement a new revision of Law No. 27 of the Kyrgyz Republic On public procurement dated 14 April 2022 (hereinafter referred to as the Law) has been adopted, which provides full transition to the electronic procurement by applying electronic signature (qualified electronic signature) and signing contracts in electronic format (smart contracts) with its subsequent administration via web portal. At the same time, we note that the purpose of the Law of the Kyrgyz PPL dated April 14, 2023, is to optimize public procurement processes by creating a single system of public procurement and ensuring public trust with the system. With respect to exclusion of state enterprises from the Law, we inform that these purchases are regulated by the Decree of the Cabinet of Ministers of the Kyrgyz Republic No. 301 dated 10.06.22 On Approval of the Typical Procurement Procedures for state and municipal enterprises, economic companies, where 50 percent or more of the equity is owned by the state, including its subsidiary economic entities. Such purchases are operated through the web portal zakupki.okmot.kg. In addition, we would like to inform that work is constantly underway to identify problems and shortcomings in the field of public procurement.

In this regard, taking into account some difficulties in public procurement procedures, amendments to the Law were developed for the purpose of improvement, which is currently under consideration in the Jogorku Kenesh of the Kyrgyz Republic.

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