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Kyrgyz Republic 2020

SNG Saz



PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY (PEFA) PERFORMANCE ASSESSMENT REPORT

October 14, 2021

Final Report



Kyrgyz Republic 2020

SNG Saz

Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report

The PEFA Secretariat confirms that this report meets the PEFA quality assurance requirements and is hereby awarded the '**PEFA CHECK**'.

PEFA Secretariat,
October 20, 2021

Table of Contents

Abbreviations and Acronyms.....	iii
METHODOLOGY.....	iv
MANAGEMENT AND OVERSIGHT	vi
Executive Summary	viii
1. PFM Context in LSG Saz.....	13
1.1. Financial overview.....	13
1.2. Institutional arrangements for PFM.....	14
1.3. Other Key Features of PFM and Its Operating Environment	15
1.4. Legal and regulatory arrangements for PFM	16
1.5. PFM Reform process.....	25
1.5.1. Approaches to PFM reform.....	25
1.5.2. Ongoing PFM Reforms.....	28
1.5.2.1. Improve budget planning	29
1.5.2.2. Improving budget execution.....	33
1.5.2.3. Improved financial reporting and control.....	36
2. Detailed analysis of PFM performance.....	38
Transfers from a higher-level of Government (HLG)	38
HLG-1. Outturn of transfers from higher-level government	38
HLG-2. Earmarked grants outturn.....	39
HLG-3 Timeliness of transfers from higher-level government	40
PILLAR ONE: Budget reliability	41
PI-1. Aggregate expenditure outturn	41
PI-2. Expenditure composition outturn	42
PI-3. Revenue outturn	44
PILLAR TWO: Transparency of public finances	46
PI-4. Budget classification.....	47
PI-5. Budget documentation	48
PI-6. Central government operations outside financial reports	50
PI-7. Transfers to subnational governments.....	51
PI-8. Performance information for service delivery.....	52
PI-9. Public access to fiscal information.....	55
PILLAR THREE: Management of assets and liabilities	57
PI-10. Fiscal risk reporting.....	58
PI-11. Public investment management.....	59
PI-12. Public asset management	62
PI-13. Debt management	65
PILLAR FOUR: Policy based fiscal strategy and budgeting	67
PI-14. Macroeconomic and fiscal forecasting	69
PI-15. Fiscal strategy	72
PI-16. Medium-term perspective in expenditure budgeting.....	75

PI-17. Budget preparation process	78
PI-18. Legislative scrutiny of budgets	80
PILLAR FIVE: Predictability and control in budget execution	85
PI-19. Revenue administration	86
PI-20. Accounting for revenue	89
PI-21. Predictability of in-year resource allocation.....	92
PI-22. Expenditure arrears	94
PI-23. Payroll controls.....	95
PI-24. Procurement	98
PI-25. Internal controls on nonsalary expenditure.....	102
PI-26. Internal audit	106
PILLAR SIX: Accounting and reporting.....	108
PI-27. Financial data integrity	109
PI-27. Financial data integrity	109
PI-28. In-year budget reports	111
PI-29. Annual financial reports	113
PILLAR SEVEN: External scrutiny and audit	116
PI-30. External audit	117
PI-31. Legislative scrutiny of audit reports.....	121
3. Overall analysis of PFM systems	123
3.1 PFM strengths and weaknesses	123
3.2 Effectiveness of the internal control framework	125
ANNEXES	127
Annex 1: Performance indicator summary.....	127
Annex 2: Summary of observations on the internal control framework.....	133
Annex 3: Sources of information by indicator	135
Annex 5: Calculations for PI-1, PI-2 and PI-3.....	144

Abbreviations and Acronyms

A/K	Ayil Kenesh
A/O	Ayil Okmotu
COA	Chart of Accounts
COFOG	Classifications of the Functions of Government
GFMIS	Government Financial Management Information System
GFSM	Government Finance Statistics Manual
GFS	Government Finance Statistics
GKR	Government of Kyrgyzstan
GDP	Gross Domestic Product
IPSAS	International Public Sector Accounting Standards
LSG	Local Self Government
MDFP	Main Directions of Fiscal Policy
MoF	Ministry of Finance
PSED	Plan for Socio-Economic Development
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
SED	Socio-economic development
SOM	Kyrgyz Som
TSA	Treasury Single Account

METHODOLOGY

The assessment team comprises of Elena Morachiello (Team Leader), Elisaveta Teneva (KE2) and Gulira Borubaeva (Local Consultant). The first part of the fieldwork took place from 20 to 24 January 2020. In accordance with the terms of reference, the review teams for both the national and subnational Public Expenditure and Financial Accountability (PEFA) assessments travelled to Bishkek for the introductory mission. An initial all-day workshop was held in the Ministry of Finance on 21 January at which the assessment teams presented the overall shape of the reports to be prepared and explained each of the Performance Indicators (PIs) and Dimensions to be assessed in the course of the work. The workshop was attended by representatives of most of the Departments of the Ministry of Finance (MoF) responsible for the evidence needed to score many of the PIs, and representatives of the three subnational governments (SNGs) which will be assessed alongside the central government. A series of meetings were held on 23 and 24 January with the main stakeholders in the assessment, including those not represented at the workshop; the schedule of meetings is attached to this report.

The SNG representatives for whom the assessments are a wholly new activity were able to discuss fully how the PIs would be applied to their work and responsibilities. Other meetings covered Treasury operations, debt management, public investment planning, revenue forecasting and the allocation of funds to SNGs. Finally, a concluding meeting was held with the Minister of Finance and the WB coordinator of CB2. It was agreed that:

- the assessment would where appropriate be based on the experience of the three years 2017-19. The mission initially scheduled for April 2020 was replaced by missions by the local consultant only and remote work for the TL and the other international consultant due to the travel restrictions imposed by COVID-19.
- The Assessment Team explained that it is not possible on technical grounds to do one Assessment covering 3 SNGs, as the TORs initially described. As a result, it was agreed that three separate reports, one per SNG, would be issued by the Team.

The assessment applied all the seven key pillars of performance and the 31 performance indicators, including HLG-1, the additional indicator for transfers from CG. A comprehensive questionnaire with all the needed data for the 3 assessments was distributed to the SNG representatives present at the seminar and at the meeting on the following day. The questionnaire was translated in Russian and circulated again through the Inception Report submitted shortly after the January mission. The 3 SNG reports will comply fully with PEFA guidance on the structure and content; the final versions will take into account all comments from stakeholders in the Kyrgyz Government, as well as from the PEFA Secretariat and peer reviewers from World Bank, European Union and Swiss Secretariat for Economic Cooperation.

It has not been possible to issue a complete draft report by end of October as the data flow has been interrupted due to the political unrest in the country. The team responsible to issue the SNG PEFA Assessments has thus decided to issue an aide memoire instead with interim results.

The results are based on the data collected by the local consultant Gulira Borubaeva in the 6 onsite missions that took place on the following dates. The cut-off date for the assessment was 12 January 2021.

- 27 February 2020
- 18 and 19 September 2020
- 19 September 2020
- 18 December 2020
- 11 and 12 January 2021

The assessment covered Budget Institutions (Education, Health), Ministry of Finance, State Tax Service, State Customs Service and Parliament (local kenesh) among others. The institutions, departments met during the field missions are listed under Annex 2. Virtual meetings between the team members, DT Global the PIU and the World Bank took place remotely on June 24, September 15, September 25, November 7, December 1, 2020, and January 22, 2021.

Country fiscal year: January 1st to December 31st

Exchange rate: 1USD = 83.09 Kyrgyzstan Soms (KGS) on January 12, 2021

MANAGEMENT AND OVERSIGHT

Composition of the working group

The MoF has established one working group for the national and SNG PEFA assessments which is responsible to provide the data and which will review PEFA reports. The working group is led by the CB PFM Project Coordinator and consist of the Heads of MoF departments and heads of MoF’s local branches in Jalal-Abad city and Sokuluk district as well as the heads of financial and economic units of Saz and Saz LSGs.

Management and oversight team and PEFA CHECK

Box 1.1 below summarises the assessment management, oversight and quality assurance. The Assessment was funded by the World Bank and was managed by the MoF. A management and oversight team has been established. The team includes government officials and development partners for national and SNG PEFA assessments. This team also includes the local government authorities from the Jalal-Abad city and 2 LSGs in Sokuluk district. Local government authorities are coordinating the SNG PEFA assessment in the selected city and 2 LSGs as well as review the draft reports and provide comments. There is one sole oversight team for both the CG and SNGs Assessments.

PEFA Check

The quality assurance framework has been reinforced as of January 1, 2018 (see PEFA Secretariat Note: *PEFA Check: Quality endorsement of PEFA assessments from January 1, 2018*, www.pefa.org). The quality assurance process of this report is shown in Box 1.1 below. The draft report was submitted for peer review on March 3, 2021.

Box 1.1. Management and oversight team and Quality Assurance

Organization name	Team member details
Ministry of Finance	Mr. Mirlan Baigonchokov, Deputy Minister of Finance – Project Coordinator, CB PFM project Board member
Office of Prime Minister	Mr. Samat Kuljiev, Head of the Finance Unit, CB PFM project Board member
Swiss Embassy	Ms. Meuwly Monteleone Danielle, Mr. Aegerter Lucien - representatives from State Secretariat for Economic Affairs (SECO)/Swiss Embassy, CB PFM Project Board members
EU Delegation	Ms. Adriaen Charlotte, Mr. Brudzynski Robert - representatives from the EU, CB PFM Project Board members
PEFA Secretariat	Mr. Martin John Bowen
World Bank team	TTL - Gregory Kisunko, Lilia Saetova, World Bank team
Jalal-Abad City Municipality	Mr. Mairambek Adylbekov, First Vice Mayor of Jalal-Abad City administration

Saz LSG	Ms. Saule Karamurzinova, Head of financial and economic unit of Saz LSG
<p>Review of concept note and/or terms of reference:</p> <ul style="list-style-type: none"> • Date of reviewed draft concept note by the PEFA Secretariat: November 30, 2018 • Other invited reviewers who submitted written comments: Oleksii Balabushko, World Bank (Senior Public Finance Specialist), Martin John Bowen, PEFA Secretariat (Senior Public Sector Specialist), Robert Brudzynski, EU (Project Manager at the Delegation of the European Union to the Kyrgyz Republic), Lucien Aegerter, SECO (Program Manager at the Development Cooperation of the Embassy of Switzerland in the Kyrgyz Republic), Sh. Moldokanov, MoF (Advisor to Minister of Finance) • Review of the assessment report: March 15th, 2021. • Peer reviewers: Oleksii Balabushko, World Bank (Senior Public Finance Specialist), Martin John Bowen, PEFA Secretariat (Senior Public Sector Specialist), Robert Brudzynski, EU (Project Manager at the Delegation of the European Union to the Kyrgyz Republic), Lucien Aegerter, SECO (Program Manager at the Development Cooperation of the Embassy of Switzerland in the Kyrgyz Republic), Sh. Moldokanov, MoF (Advisor to Minister of Finance). • PEFA Secretariat's review. First review: March 15th, 2021. Second review: September 23, 2021. 	

Executive Summary

Purpose of the Assessment

Global objective for subnational PEFA assessment

The SNG PEFA assessment aims to evaluate the PFM performance of an illustrative sample representing the city and LSGs level in Kyrgyz Republic. The main purpose of the 2019 SNG PEFA assessment is to provide the Government of Kyrgyz Republic, subnational governments and its development partners with an objective up-to-date diagnostic of the sub-national public financial management performance based on the latest internationally recognized PEFA methodology. The SNG PEFA assessment will be conducted for the first time in the country. Therefore, the 2019 PEFA assessment is intended to establish a PEFA baseline using the 2016 PEFA methodology for SNG governments.

The national and SNG assessments process seeks to build a shared understanding of PFM performance and those dimensions that require improvement. Both PEFA assessments will aim at: (i) informing the Central and subnational Governments on areas of PFM strengths and weaknesses; (ii) facilitating and updating the dialogue on PFM between Government and donors; (iii) helping donors build budget support programmes; and iv) provide an independent information to civil society on progress in PFM reforms. The results of the assessments are expected to assist the Central and local Governments in monitoring the implementation of Public Financial Management Reform Strategy and Intergovernmental Fiscal Relations Development Concept to achieve a PFM system that meets the requirements of efficiency and effectiveness and long-term sustainability.

Specific objectives

- To conduct national PEFA assessment using the PEFA framework of 2016. The methodology to be used is the official methodology of 2016 provided by the PEFA Secretariat www.pefa.org. The PEFA assessment should be done in full and include all the performance indicators. The 2018 national PEFA assessment should also provide an update of progress in PFM since the last national PEFA in 2014. During the assessment of relevant PIs and in the report the special focus on revenue from mining should be given because of the mining is the most important economic sector contribution to the budget.
- To conduct SNG PEFA assessment for Saz LSG in Sokuluk district using the PEFA framework of 2016. The methodology to be used is the official methodology of 2016 including Supplementary Guidance for Subnational PEFA Assessments (December 2016) provided by the PEFA Secretariat www.pefa.org. The PEFA assessment should be done in full and include all the performance indicators including HLG-1, the additional indicator for transfers from CG.

Impact of PFM performance on budgetary and fiscal outcomes

Aggregate Fiscal Discipline

The aggregate fiscal discipline is positively impacted by the credibility of the higher-level grants, revenue and expenditure budgets. Both revenue and expenditure budgets are reliable at the aggregate level (PI-1 scored A and PI-3 scored B). The transfers from central government are also received in full (HLG-1 scored A). However, this is negatively impacted by the high level of composition variance with regard to both revenue and expenditure. The expenditure composition variance was also very high at both the functional and

economic levels (PI-2 scored D+). Non-tax revenue collection was below target in all the three years, though this was compensated by over collection of tax revenue resulting in achievement of aggregate revenue targets (PI-3.2 scored C). Strong point to note is that no expenditure was charged to contingency vote (PI-2.3 scored A). The classification on the budget classification is good and allows transparency; and the existence and adherence to the rules for in-year budget amendments by the executive positively contribute for fiscal discipline.

There is no data on revenue arrears of LSG Saz since the information is collected by the regional STS in Sokuluk for the entire region and is not breakable to local governments. LSG Saz effectively lacking control over revenue arrears (PI-19 scored NA). There is also no data with respect to expenditure arrears (PI-22 scored NA). The legislature grants local governments the right to borrow by issuing municipal securities on their behalf, as well as receiving budget loans. However, The LSG Saz have not borrowed, issued debt obligations or loan guarantees in the period 2017-2019. Macro-economic and fiscal forecasting at LSG Saz lack basic elements.

Strategic Allocation of Resources

The significant level of budget reallocations at both revenue and expenditure levels negatively impacts strategic allocation of resources (PI-2 and PI-3.2). Frequent budget reallocations override government original policy intentions, leading to poor resource allocation which affects efficient service delivery, going forward. The continuous budget reallocations also raise questions about budget credibility as well as the delivery of government services based on its original policy intent.

The policy based fiscal strategy and budgeting pillar is found to be the weakest area in LSG Saz, where all indicators, PI-14 to PI-18 received the lowest scores. Most of the policy based fiscal strategy and budgeting functions are covered by the national government and hence, some dimensions are not applicable. Fiscal forecast is prepared for three years for revenue while for expenditure, for one year only (PI-14.2 scored D). The capacity of the LSG to develop and implement a clear fiscal strategy is also found to be weak (PI-15 scored D). The fiscal strategy adopted by the LSG does include quantitative fiscal objectives, but not qualitative objectives Expenditure budgets are not developed for the medium term within explicit medium-term expenditure ceilings (PI-16 scored D). Budget preparation process also is weak, PI-17 scored D. There are no budget calendars and guidance on budget preparation. Legislative scrutiny (PI-18) of budget also scored D+ mainly because the legislature's review does not cover fiscal policies and aggregates for the coming year as well as details of expenditure.

Public Investment Management (PI-11 scored D+) does not sufficiently reflect generally accepted good practice in project management. Selection of major investment projects is not based on predetermined economic selection criteria, leading to inefficient allocation of scarce resources.

Efficient Use of Resources for Service Delivery

Low scores in PI-2 and PI-3.1 demonstrates that the PFM system with respect to efficient use of resources for service delivery does not perform well in LSG Saz. Planned service delivery activities will no longer receive the necessary funding, thereby impacting negatively on the quality of primary service delivery. Medium-term budgeting (PI-16) and public investment management (PI-11) also scored low.

The rating related to the specific service delivery performance indicator (PI-8), which can demonstrate the efficiency with which services are delivered, is poor, with all dimensions rated D, except the third dimension, on the performance plans for service delivery, which is rated A, as information on resources received by

frontline service delivery units is collected and recorded for all budgetary institutions, disaggregated by source of funds. A report compiling the information is prepared annually. Public assets management performs average, where all dimension related with financial assets monitoring, non-financial assets monitoring and transparency of asset disposals score C.

The mechanisms in place to reduce possible leakages in the system, such as payroll controls (PI-23), internal controls on non-salary expenditure (PI-25) and internal audit (PI-26) received mixed results, and rated at D+, A and NA respectively. Payroll control is strong, with the first two dimensions scoring A and the fourth dimension B. There was no sufficient data to assess the third dimension, hence scored D*, affecting the aggregate score. There is no internal audit function in LSG Saz. Financial data integrity demonstrates good accounting controls as the three dimensions performed well on bank reconciliations, suspense accounts and advance accounts.

There is also no external audit function at the subnational level of the local self-government of Saz (PI-30 scored NA). The national level Account Chamber performs the external audit of the consolidated budget performance report of Sokuluk region. The external audit reports relating to the LSG Saz were not reviewed by the legislature and this has deprived the parliament from overseeing whether public resources are properly spent as planned (PI-31 scored NA).

Main strengths and weaknesses of the PFM systems in LSG Saz

Strengths

- Aggregate revenue and expenditure budgets are credible at aggregate level
- Transfers from central government are received in full.
- No expenditures were made from contingency.
- The budget preparation, its execution, accounting and reporting of the local budget is undertaken by classification corresponding to the GFS/COFOG standards; and the existence and adherence to the rules for in-year budget amendments by the executive positively contribute for fiscal discipline.
- A strong point to note is the public access to procurement information, where all the required public procurement information is accessible to the public online through the website.
- Generally, the internal control over salary and non-salary expenditures is found to good, though data was lacking to assess some of the dimension on payroll control.

Weaknesses

- Both revenue and expenditure are not reliable at the composition level.
- The legislature grants local governments the right to borrow by issuing municipal securities on their behalf, as well as receiving budget loans. However, The LSG Saz have not borrowed.
- Policy based fiscal strategy and budgeting is found to be one of the weakest areas in LSG Saz.
- Budget forecasts do not contain a mid-term forecast of socio-economic development indicators.
- Budget preparation process found to be weak.
- The legislature's review does not cover fiscal policies and aggregates for the coming year as well as details of expenditure.
- The key weak point of process of public investment management is that there are no approved economic selection criteria for capital investment projects and all documentation relevant to the selection and monitoring of investment projects is not published.

- Service delivery performance indicator which can demonstrate the efficiency with which services are delivered, is poor.
- Public access to fiscal information and transparency of public finances is found to be very weak.
- There is also no external audit function at the subnational level of the local self-government of Saz. The national level Account Chamber performs the external audit of the consolidated budget performance report of Sokuluk region.
- The external audit reports relating to the LSG Saz were not reviewed by the legislature.

Figure 1: Summary of PEFA scores by indicator

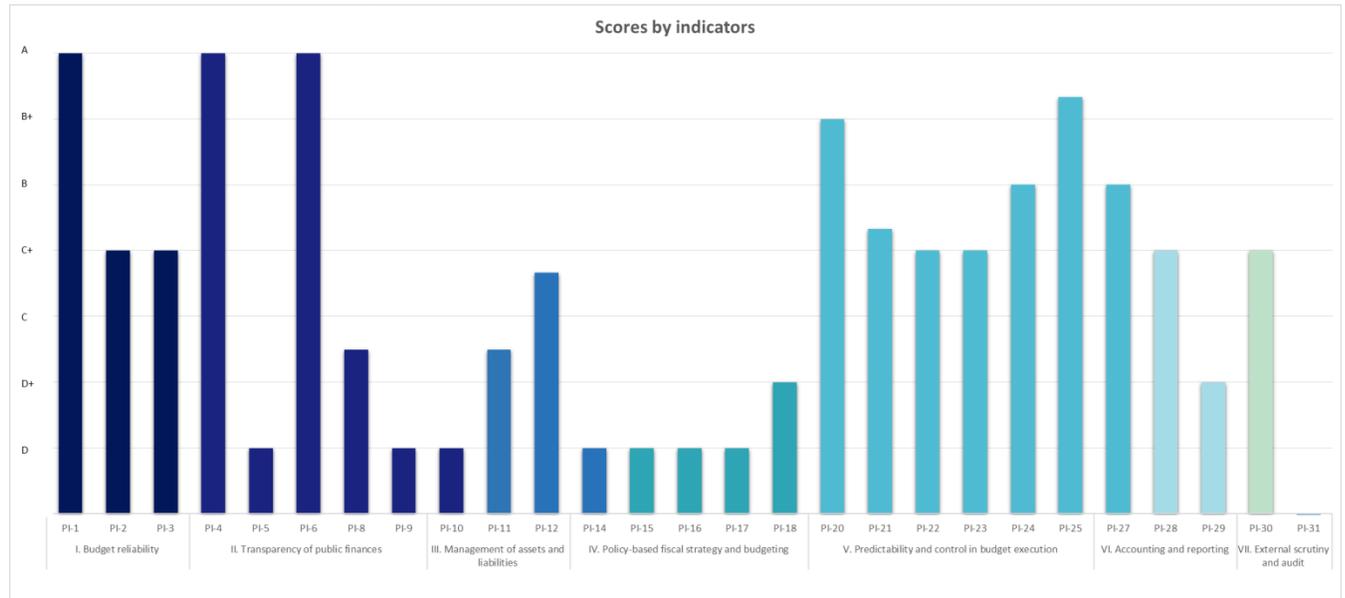


Table 1: Overview of the scores of the PEFA indicators

PFM performance indicator		Scoring method	Dimension score				Overall score
			i.	ii.	iii.	iv.	
I. Budget reliability							
HLG-1	Transfers from a higher-level government	M1	A	B	A		B+
PI-1	Aggregate expenditure outturn	M1	A				A
PI-2	Expenditure composition outturn	M1	C	C	A		C+
PI-3	Revenue outturn	M2	A	D			C+
II. Transparency of public finances							
PI-4	Budget classification	M1	B				B
PI-5	Budget documentation	M1	D				D
PI-6	Central government operations outside financial reports	M2	A	A	NA		A
PI-7	Transfers to subnational governments	M2	NA	NA			NA
PI-8	Performance information for service delivery	M2	D	D	A	D	D+
PI-9	Public access to fiscal information	M1	D				D
III. Management of assets and liabilities							
PI-10	Fiscal risk reporting	M2	NA	NA	D		D
PI-11	Public investment management	M2	D	C	C	C	D+
PI-12	Public asset management	M2	C	C	C		C
PI-13	Debt management	M2	NA	NA	NA		NA
IV. Policy-based fiscal strategy and budgeting							
PI-14	Macroeconomic and fiscal forecasting	M2	NA	D	D		D
PI-15	Fiscal strategy	M2	D	D	D		D
PI-16	Medium-term perspective in expenditure budgeting	M2	D	D	D	D	D
PI-17	Budget preparation process	M2	D	D	D		D
PI-18	Legislative scrutiny of budgets	M1	C	D	C	A	D+
V. Predictability and control in budget execution							
PI-19	Revenue administration	M2	NA	NA	NA	NA	NA
PI-20	Accounting for revenue	M1	B	A	A		B+
PI-21	Predictability of in-year resource allocation	M2	NA	NA	NA	A	A
PI-22	Expenditure arrears	M1	A	C			B
PI-23	Payroll controls	M1	B	A	C	B	C+
PI-24	Procurement management	M2	D	B	A	A	B
PI-25	Internal controls on non-salary expenditure	M2	A	A	B		A
PI-26	Internal audit	M1	NA	NA	NA	NA	NA
VI. Accounting and reporting							
PI-27	Financial data integrity	M2	C	A	B	NA	B
PI-28	In-year budget reports	M1	A	A	C		C+
PI-29	Annual financial reports	M1	D	B	C		D+
VII. External scrutiny and audit							
PI-30	External audit	M1	C	B	A	B	C+
PI-31	Legislative scrutiny of audit reports	M1	D	NA	NA	NA	D

1. PFM Context in LSG Saz

1.1. Financial overview

1. Tables 1.1, 1.2, and 1.3 below outline the structure of the public sector and government operations in the LSG Saz.

TABLE 1.1: Structure of the public sector (number of entities and financial turn-over)

Public sector					
2019	Government subsector		Social security funds	Public corporation subsector	
	Budgetary Unit	Extra budgetary Units		Nonfinancial public corporations*	Financial public corporation
Number of entities	3	NA	NA	NA	NA
Financial Turnover (KGS thousands)	7,368.20	NA	NA	NA	NA

TABLE 1.2: Aggregate fiscal data (KGS thousands)

	Actuals		
	2017	2018	2019
Total revenue	5,412.30	6,473.40	7,402.30
Own Revenue	2,729.40	2,916.60	3,242.90
Grant	2,682.90	3,556.80	4,159.40
Total Expenditure	5,042.90	6,057.20	7,368.20
Non-interest expenditure	5,042.90	6,057.20	7,368.20
Interest expenditure	-	-	-
Overall Deficit ¹	-	-	-
Primary Deficit ²	-	-	-
Net financing	-	-	-
External	-	-	-
Domestic	-	-	-
Overall Deficit as a % of GDP*	-	-	-

* GDP is not calculated at the level of LSG Saz by the National Statistical Committee. LSG Saz's GRP for 2017-2019 was not calculated.

¹Overall and primary deficit is calculated after deducting subsidiary loan repayments from total revenue

²Overall and primary deficit is calculated after deducting subsidiary loan repayments from total revenue

TABLE 1.3: Financial structure of LSG – actual expenditure (in KGS thousands)

2019	Central government			
	Budgetary unit	Extra budgetary Units	Social security funds	Total aggregated
Revenue	7,402.30	NA	NA	
Expenditure	7,368.20	NA	NA	

1.2. Institutional arrangements for PFM

The Kyrgyz public sector consists of the 12 Ministries and 8 State Committees or Agencies whose operations make up the Republican Budget (RB), together with the 484 Local Self-Governments (LSGs) which together with the RB constitute the State Budget. The 484 LSGs all receive funding directly from the central government. LSG Saz has 3 budgetary entities and no public enterprise. The legislative body of the LSG is the Local Keneshes which approve local budgets and control their execution. Financial management is the responsibility of the Finance and Economic Department.

Local budget is a budget of local community in rural district or a town. Preparation, approval, implementation and control of the local budgets are performed by local self-governments. Local budgets are approved by regulatory legal acts of local councils. Reports on the performance of local budgets (revenues, expenditures) are prepared on a cash basis. Local government reports are included in the consolidated state budget and the governmental finance statistics.

In accordance with Budget Code local budgets receive deductions from national revenues according to established rates; land tax; property tax and other local taxes and duties.

National revenue is budget revenues envisaged by the Budget Code of the Kyrgyz Republic that are subject to distribution between republican and local budgets according to established rates of revenue sharing. National revenues include 8 types of taxes: income tax, sales tax, exploitation tax and others.

The main responsibility for Public Financial Management (PFM) rests with the Ministry of Finance (MoF). MoF has overall responsibility for fiscal policy, including budget preparation and execution, debt management and the planning of externally financed public investment, and the Treasury system through which all central and local government transactions pass and which provides the basis for financial reporting. Local budget is a budget of local community in rural district or a town. Preparation, approval, implementation and control of the local budgets are performed by local self-governments. Local budgets are approved by regulatory legal acts of local councils. In accordance with the Budget Code (Articles 78, 79, 127), during the budget process, it is required to organize and conduct Public Budget Hearings (PBH). The procedure for considering the budget is also provided in the Methodological guidance "Formulation and Execution of KR Local Budgets". In addition, the procedures for consideration and approval of local budgets are established in Regulations of the Ayil Kenesh of the LSG Saz.

Reports on the performance of local budgets (revenues, expenditures) are prepared on a cash basis. Local government reports are included in the consolidated state budget and the governmental finance statistics. National revenue is budget revenues envisaged by the Budget Code of the Kyrgyz Republic that are subject to distribution between republican and local budgets according to established rates of revenue sharing. National revenues include 8 types of taxes: income tax, sales tax, exploitation tax and others. Tax sharing is done based on approved rates to local budgets.

The following structure of expenditure obligations distribution is established in the Kyrgyz Republic: 1) Expenditure obligations of the Government; 2) Expenditure obligations of local self-governments.

Intergovernmental fiscal transfers provided to the local budgets are approved by annual law on republican budget. In intergovernmental fiscal transfer system includes transfers to local budgets in the form of:

a) Equalization transfers – funds, provided from the republican budget for covering financial gap between revenue and needs of local budgets. The amount of equalization transfers is defined on the basis of budget capacity level of local budgets and is provided to ensure fullness of local budgets financing for the purpose of maintaining stable social economic situation in the region. The procedure and formula of defining the amounts of equalization transfers is approved by the Government.

b) Targeted transfers – funds provided from one budget level to another for certain purposes. Although there are oblast (region) cities, district and local self-government levels in the administrative structure of the country, there are two tiers in the transfers system: 1) from republican budget to cities, 2) from republican budget to local communities. There are no oblast and district level budgets in the Kyrgyz Republic. Transfers from republican budget are provided directly to LSGs and cities budgets. Oblasts and districts can be seen as deconcentrated units of the Central Government. The LSGs are submitted approved annual budgets and reports on budget execution to the MoF through the MoF local branches. In addition, MoF local branches provide methodology and practical assistance to LSGs on budget preparation and execution issues.

The Ministry of Economy covers macro-economic planning and forecasting, the overall planning of public investment, and taxation policy including subnational governments. Local governments have the right to borrow by issuing municipal securities on their behalf, as well as receiving budget loans. However, the LSG Saz have not borrowed, issued debt obligations or loan guarantees in the period 2017-2019. There is a regional office of the State Tax Service only in Sokuluk region which is a higher territorial and administrative division covering both Saz and Saz districts and their LSGs. Salaries, conditions of employment, and overall staff numbers in central government and LSGs is coordinated by State Personnel Service.

External audit of central and local government, the social insurance funds and public enterprises (including enterprises in which the government has a controlling shareholding) is undertaken by the Chamber of Accounts (AC), the country's Supreme Audit Institution. The independence of the AC is anchored in the Constitution, and the Chamber has the right to put its own expenditure proposals separately to the Parliament if it cannot reach agreement with MoF. The Republican Budget is subject to a comprehensive audit every year, but LSGs are audited only every second year. The AC's report on RB budget execution during the previous year is required to be submitted to the parliament by 1 September each year, so that it can be taken into account during discussion of the budget proposals for the next fiscal year. Audit practice has been substantially developed over the last five years in accordance with International Standards of Supreme Audit Institutions (ISSAIs), with audit extending beyond compliance with laws and regulations to assess the performance of systems and the efficiency of expenditure. At the same time internal audit has been developed within central government, and now covers 85 per cent of budget expenditures. Presently, there are 30 internal audit departments, of which: 26 ministries, 2 state committees and 2 LSG, including: Bishkek City and Osh City. There is no internal audit function in LSG Saz. The Ministry of Finance at national level performs the internal audit in the region of Sokuluk.

1.3. Other Key Features of PFM and Its Operating Environment

There are no other features of PFM.

1.4. Legal and regulatory arrangements for PFM

The legislation on PFM in KR is based on the KR Constitution, consists of the Budget Code and its by-laws, the Tax Code, laws "On the Accounts Chamber", "On Internal Audit", "On Public Procurement", "On Local Self-Governance" and other normative legal acts regulating budgetary legal relations.

Constitutional arrangements for PFM

According to the Constitution of the Kyrgyz Republic, the President of the Kyrgyz Republic is the head of state, its highest official, determining main dimensions for domestic and foreign policy of the state and represents the Kyrgyz Republic within the country and in international relations. President is the Commander of the country's defense forces and appoints the chairman of the National Bank and one third of the members of the Accounts Chamber (the country's highest control body). Constitutional amendments, approved in 2010, provide for delegation of authorities and powers to Parliament and Government. President approves laws on budget and taxes passed by Jogorku Kenesh (Parliament). President can revoke any new law, except for budget and tax issues, which he must approve; and two-thirds majority is required to revoke his veto on other issues.

In accordance with the Article 13 of the Constitution of the Kyrgyz Republic, the State Budget of the Kyrgyz Republic consists of the Republican and Local budgets, includes state revenues and expenditures. The procedure for formulation, adoption and execution of the Republican and Local budgets, as well as audit of their execution are determined by law. The Republican Budget is adopted by law, local budgets - by the decision of the relevant representative bodies.

Budget code

Many aspects of PFM are regulated by the **Budget Code**, which was adopted in 2016 and came into force on January 1, 2017 and covers both central and local executive bodies. With the adoption of the Budget Code, for the first time, all legislation in the budgetary sphere was combined into a single code. One of the reasons for the development and adoption of this code was the need for a significant revision and collection of disparate legal norms into a single regulatory complex and the adoption of a single codified legislative act, which would become the basis of the country's budgetary legislation. In addition, the budget legislation includes the following regulatory legal acts on the budget:

- Law on Republican Budget.
- Laws on budgets of the Social Fund and the Mandatory Health Insurance Fund.
- Normative legal acts of local keneshes on local budgets.

The Budget Code stipulate foundation for legal regulation of relations arising in the field of public finance management in the process of formulation, consideration, approval, revision and execution of Republican and Local budgets, budget investments, state and municipal debt, budgets of the Social Fund of the Kyrgyz Republic, Mandatory Health Insurance Fund under the Government of the Kyrgyz Republic, and also determines the status of participants in the budget process and legal basis for responsibility at violation of budget legislation.

The Budget Code provides for medium-term fiscal planning and use of program budgeting in planning and management of government agencies. The Ministry of Economy (MOE KR) at the central government level was

responsible for medium-term strategic and economic planning until 2021, and the Ministry of Finance (MOF KR) was responsible for preparing and executing the annual budget. The Budget Code also include provisions distributing responsibility for rendering various public services between different levels of government and determine to which level of government the revenue from each tax is to be credited. The Budget Code also provides for a Single Treasury Account at the National Bank for directing all the financial streams of revenues and expenditures across all the levels of government. The Central Treasury of the MoF controls it.

The Budget Code provides for the accounting of the budgets of the Social Fund and the MHIF along with the Republican Budget and Local Budgets and contains mechanisms for the clear work of internal control and internal audit in the government. The Budget Code stipulate requirements for timely publication of budgets and budget execution reports, including the preparation of the Citizens Budget. In accordance with the Code, consideration and approval of budgets of the budgetary system of the Kyrgyz Republic is carried out openly and publicly, with the exception of consideration of issues containing state or other secrets protected by law. Draft budgets of the budgetary system of the Kyrgyz Republic are subject to mandatory public discussion.

Other provisions of the Budget Code cover payment procedures, debt management (responsibility of the MoF), equalizing and targeted transfers from the central government to local governments in addition to local taxes and other accrued income. The Budget Code also stipulates performance monitoring, financial reporting and forms of invoices.

Legislative arrangements

The Constitution of the Kyrgyz Republic provides for the powers of the **JogorkuKenesh (Parliament) of the Kyrgyz Republic**. The Regulations of the JogorkuKenesh (Parliament) of the Kyrgyz Republic determine the order and procedures for undertaking by KR JogorkuKenesh (Parliament) of powers provided by the KR Constitution. Authorities of JogorkuKenesh (Parliament) include approval of the Republican Budget, approval of the Report on Execution of the Republican Budget, approval of the terms of any new external borrowings by the government, approval of legislation on other aspects of PFM.

The Government and the Parliament members have the right to initiate legislation, propose new legislation, which are considered by the Parliament in three readings. Legislation increasing government expenditures can only be passed if the government has identified the source of funding. The draft budget proposed by the government must be agreed with the Parliament. The Parliament Committee on Budget and Finance reviews the Law on Annual Budget and legislation on other aspects of PFM, and this Committee can approve introduction of changes to the allocation of funds during budget execution.

In accordance with the Constitution and the Law "On Local Self-Governance", the system of local self-governance bodies is formed by local keneshes - representative bodies of local self-government (**Parliament of LSG**), Ayil Okmotu, urban municipalities - executive bodies of local self-governance. Local Keneshes, in accordance with the Law, approve local budgets, control their execution, approve programs for the socio-economic development of the local community and social protection of population, introduce local taxes and fees, as well as establish privileges for them, resolve other issues of local importance.

External Audit

External audit on formulation and execution of budgets of the budgetary system of the Kyrgyz Republic is carried out by the Accounts Chamber. The powers, organization and procedure for the activities of the Accounts Chamber of the Kyrgyz Republic are determined by the Constitution of the Kyrgyz Republic, the Law of the Kyrgyz Republic "On the Accounts Chamber of the Kyrgyz Republic", other laws and other regulatory legal acts of the Kyrgyz Republic. The Accounts Chamber has its own territorial divisions. The organization and activities of territorial divisions are regulated by the legislation on the Accounts Chamber. The Accounts Chamber is accountable to the President of the Kyrgyz Republic and the Jogorku Kenesh (Parliament) of the Kyrgyz Republic. The main purpose of the Accounts Chamber's activities is audit and performance audit: assessment of the execution of the Republican Budget, preparation and execution of the local budget, extra-budgetary and special funds, and use of state and municipal property, provision and implementation of international standards for state audit.

Internal Audit

Issues related to the conduct of **internal audit** in state bodies and institutions are regulated by the Law of the Kyrgyz Republic "On Internal Audit" dated by January 26, 2009, No.25. The Law regulates relations associated with the implementation of internal audit of state bodies and institutions and establishes principles and bases of its maintenance (establishment and functioning). Each budgetary institution develops its own internal control system that meet its requirements and specifics in accordance with the Law of the Kyrgyz Republic "On Internal Audit" dated by January 26, 2009, No.25, and the Statement of the Government of the Kyrgyz Republic "On establishment of internal audit services in state bodies and institutions, local governments of the Kyrgyz Republic" dated by March 13, 2009, No.177

Interbudgetary relations

The Budget Code stipulate general provisions and principles of **interbudgetary relations**, distribution of revenues between the Republican and Local budgets, distribution of expenditure obligations between central and local governments. The following instruments of interbudgetary regulation are outlined: interbudgetary transfers, equalizing and targeted transfers of the central government for local governments in addition to local taxes and other revenues attributed for them.

Law of the Kyrgyz Republic "On Local Self-Governance" establishes principles of organizing local government at the level of administrative-territorial units of the Kyrgyz Republic, defines the role of local self-governance in undertaking public power, stipulates organizational and legal framework for their activities, establishes the competence and principles of relationship between local self-governance bodies and central authorities, state guarantees of the right of local communities to self-governance. To organize functioning and development of the life and environment system at a territory, socio-economic planning and provision of social and cultural services to population, the following issues of local importance are under the jurisdiction of local governments: 1) economic development of its relevant territory, and attraction of investments and grants; 2) management of municipal property; 3) formulation, approval and execution of the local budget, etc.

The country has 40 Raions and 484 local self-governance bodies (LSG). The LSG includes two main cities (Bishkek and Osh), 29 other towns and 453 settlements (AyilOkmotu). Each LSG has its own Local Kenesh (parliament),

executive bodies (city halls, AyilOkmotu) through which the budgets of LSG are executed. LSGs have limited responsibility for the provision of services; they are responsible for local infrastructure, but most of the costs of secondary education and healthcare is maintained by the central government (including the Mandatory Health Insurance Fund (MHIF)). Most of LSG revenues come from withholding tax revenues collected locally.

Equalizing transfers are calculated and distributed on the basis of formula approved by the KR Government Statement No.321 dated by June 16, 2011 “On Approval of the Procedure for Determining the Amount of Equalizing Transfers”. The equalizing transfer formula calculates the amount of revenue per capita that can be received by the local budget based on the level of economic development of the corresponding territory, taking into account differences in the population structure, socio-economic, climatic, geographical and other objective factors and conditions affecting the cost of provision of budgetary services per capita. It should be noted that when calculating an equalizing transfer, a unified approach is applied for all the local governments and is aimed at equalizing the minimum budgetary provision. A size of equalizing transfers from the Republican Budget is approved annually by the Law of the Kyrgyz Republic “On the Republican Budget of the Kyrgyz Republic for the corresponding year”.

The Law of the Kyrgyz Republic dated by July 9, 2013, No.127 "On the Procedure for Delegating Specific State Powers to Local Self-Government Bodies" defines the legal, organizational and financial basis for delegating state powers to local self-government bodies, as well as the procedure for the execution, suspension and termination of the execution of delegated state powers by local self-government bodies.

The KR Government Statement dated by December 19, 2014, No.715 determined the list of state bodies and powers delegated by them to local self-government bodies.

The KR Government Statement dated by March 17, 2014, No.145 approved a Model Agreement on delegating specific central government powers to local governments.

Accounting

The Regulation on **Accounting** in the Public Administration Sector (hereinafter referred to as the Regulation) establishes a unified procedure for the maintenance of accounting and preparation of financial statements for budgetary institutions. Accounting is maintained by budgetary institutions in accordance with the Regulations and funding sources with the mandatory use of Chart of Accounts (cash basis accounting, with partial use of the accrual basis).

The source of information for the preparation of financial statements of budgetary institutions is the data of accounting registers. The main administrators of budgetary funds, in agreement with the Ministry of Finance of the Kyrgyz Republic and taking into account the specifics of their activities, have the right to develop and approve internal documents regulating accounting.

The Instruction on the procedures of the authorized state body for forecasting and budget execution for accounting and reporting was approved by the Statement of the Government of the Kyrgyz Republic dated by August 16, 2017, No.488. The Instruction establishes unified accounting procedures, as well as regulates the composition, procedure for preparing, consolidating and submitting reports on the execution of budgets of the

budgetary system of the Kyrgyz Republic in accordance with requirements of international standards for public finance statistics.

Taxation

Taxation is regulated by the Tax Code, which entered into force in 2009. The Tax Code regulates relationship on development, implementation and collection of taxes in the Kyrgyz Republic and relationship arising in the process of implementing tax control. The tax legislation of the Kyrgyz Republic covers the entire territory of the Kyrgyz Republic, with exception of regulatory legal acts of Local Keneshes, operating at their respective territories.

Pensions and other long-term social benefits are mainly paid through the Social Fund, which is financed from salary payments (about 60% of income) and subsidies from the Republican Budget (about 40% of income). About three quarters of total government allocations on health services is administered through the MHIF, which receives 2 percentage points of 17.25% of employers' social contributions but is mainly financed through transfers from the Republican Budget (11,1 billion soms in 2019). The State Tax Service now collects social contributions, and MHIF operations are integrated into the national treasury system, but payments to the Social Fund are still made through the commercial banking system.

Procurement

The Law "**On Public Procurement**" dated by April 3, 2015, No.72 stipulate general legal and economic principles for public procurement and regulates the procedure for conducting public procurement. The Law does not regulate public procurement: related to the protection of state secrets, production and (or) personification of documents of state importance and special state forms, and hemodialysis services for patients with chronic renal failure of the fifth stage.

In addition, the Law does not regulate public procurement of the National Bank in relation to the procurement of goods, works, services and consulting services carried out within the framework of the implementation of investment and other projects financed in whole or in part by international organizations. Public procurement legislation is the responsibility of the Public Procurement Department under the Ministry of Finance of the Kyrgyz Republic. The Department is a subordinate unit of the Ministry of Finance of the Kyrgyz Republic that provides regulation of the public procurement system and is responsible for all procurement carried out by ministries, departments, local governments (including State owned enterprises) in accordance with the standard list of goods, services and works. The conclusion of many contracts passes through the state portal of public procurement, but the latter is not obligatory for use when making purchases from a single source, where the legislation provides for a wide range of exceptions from participation in a competitive environment. Complaints about government procurement decisions are subject to review by the Interdepartmental Independent Commission.

The Department of Public Procurement under the Ministry of Finance of the Kyrgyz Republic on an ongoing basis conducts selective monitoring of tenders at the web portal of public procurement. The main purpose of the monitoring is to assess the compliance with the legislation in the field of public procurement by procuring organizations during public procurement. According to Article 48 of the Law "On Public Procurement", complaints must be submitted through the Official Public Procurement Portal (hereinafter referred to as the Portal). All complaints submitted through the Portal are publicly available. In 2019, there were 2877 complaints and 349 appeals

in total. At the end of 2019, the Independent Interdepartmental Commission considered 1050 complaints, 1603 complaints were rejected, 33 are under consideration, 16 new and 175 complaints were withdrawn. At the end of 2019, 47 suppliers were included in the Database of Unreliable (Unscrupulous) Suppliers (Contractors).

Judicial system

According to the Constitution, **the judicial system** operates independently of the government. The judges of the Supreme Court and the Constitutional Chamber of the Supreme Court are appointed by the Parliament on the proposal of the President in accordance with the recommendations of the Council for Selection of Judges; local court judges are appointed by the President in accordance with the recommendations of the Council for Selection of Judges.

Main PFM laws and regulations

PFM area	Law/ regulation	Brief description and coverage
All	Constitution	According to the Constitution of the Kyrgyz Republic, the President of the Kyrgyz Republic is the head of state, its highest official, determining main dimensions for domestic and foreign policy of the state and represents the Kyrgyz Republic within the country and in international relations. President is the Commander of the country's defense forces and appoints the chairman of the National Bank and one third of the members of the Accounts Chamber (the country's highest control body). Constitutional amendments, approved in 2010, provide for delegation of authorities and powers to Parliament and Government. President approves laws on budget and taxes passed by Jogorku Kenesh (Parliament). President can revoke any new law, except for budget and tax issues, which he must approve; and two-thirds majority is required to revoke his veto on other issues. In accordance with the Article 13 of the Constitution of the Kyrgyz Republic, the State Budget of the Kyrgyz Republic consists of the Republican and Local budgets, includes state revenues and expenditures. The procedure for formulation, adoption and execution of the Republican and Local budgets, as well as audit of their execution are determined by law. The Republican Budget is adopted by law, local budgets - by the decision of the relevant representative bodies.
Planning	Budget Code of the Kyrgyz Republic	The Budget Code stipulate foundation for legal regulation of relations arising in the field of public finance management in the process of formulation, consideration, approval, revision and execution of Republican and Local budgets, budget investments, state and municipal debt, budgets of the Social Fund of the Kyrgyz Republic, Mandatory Health Insurance Fund under the Government of the Kyrgyz Republic, and also determines the status of participants in the budget process and legal basis for responsibility at violation of budget legislation. The Budget Code provides for medium-term fiscal planning and the use of program budgeting in the planning and management of government agencies.

PFM area	Law/ regulation	Brief description and coverage
Budgeting	Budget Code of the Kyrgyz Republic	<p>Budget Code establish basis for legal regulation of relations arising in the field of public finance management in the process of approval, revision and execution of the Republican and Local budgets. The execution of the approved budgets is carried out, respectively, by the Government, the Social Fund, state bodies and executive bodies of local self-governance. A by-law (normative legal act) on a budget for a next budget year empower state bodies and local self-government bodies to make expenditures and take budget commitments. Expenditures made within the process of budget execution are to be within the approved budgets. Republican and Local budgets are executed by authorized executive bodies on the basis of quarterly budget distribution in the order stipulated by the authorized state body.</p> <p>Expenditures for maintenance of activities of budgetary institutions are made on the basis of approved limits for budgetary commitments, and Government determine the procedures for establishing and approving those commitments. KR MoF ensure organization of execution of the Republican Budget and coordination of the activities of state bodies and local self-government bodies regarding execution of the Republican and Local budgets.</p>
Accounting	<p>1. Decree of the Ministry of Finance "On approval of the Regulation on accounting and financial reporting in the public administration sector" dated by December 25, 2018 No. 137.</p> <p>2. Statement of the KR Government "On approval of the Instruction on procedures of the authorized state body for forecasting and executing the budget on accounting and reporting" dated by August 16, 2017 No. 488.</p> <p>3. Decree of the KR MoF "On reporting about results of execution of the KR State Budget for a corresponding reporting period"</p>	<p>1. The Regulation on Accounting in the Public Administration Sector (hereinafter referred to as the Regulation) establishes a unified procedure for the maintenance of accounting and preparation of financial statements for budgetary institutions. Accounting is maintained by budgetary institutions in accordance with the Regulations and is presented by funding sources with the mandatory use of the Chart of Accounts.</p> <p>The data of accounting registers is the source of information for preparation of financial statements of budgetary institutions. The main administrators of budgetary funds are entitled, in agreement with the KR MoF (hereinafter - MoF), and taking into account the specifics of its activities, to develop and approve internal documents regulating accounting.</p> <p>2. The instruction establishes unified accounting procedures, as well as regulates the composition, procedure for preparing, consolidating and submitting reports on the execution of budgets of the budgetary system of the Kyrgyz Republic in accordance with the requirements of international standards for public finance statistics.</p>
Audit	Law of the Kyrgyz Republic "On the Accounts Chamber of the Kyrgyz Republic" dated by August 13, 2004 No. 117.	External audit over formulation and execution of budgets of the budgetary system of the Kyrgyz Republic is undertaken by the Accounts Chamber. The Law define status, goals, objectives, principles, functions, powers, rights and responsibilities of the Accounts Chamber of the Kyrgyz Republic. The Accounts Chamber is responsible for auditing central government, local governments, Social Fund and MHIF, as well as Republican Budget.

PFM area	Law/ regulation	Brief description and coverage
Intergovernmental fiscal relations	<p>1. Budget Code of the Kyrgyz Republic</p> <p>2. Law of the Kyrgyz Republic "On Local Self-Governance" dated by July 15, 2011 No. 101</p> <p>3. Procedure for determining values for equalizing, approved by the Statement of the KR Government, dated by June 16, 2011, No.321</p> <p>4. Law of the Kyrgyz Republic dated by July 9, 2013, No.127 "On the procedure for delegating specific state powers to local governments"</p>	<p>1. The Budget Code stipulate general provisions and principles of interbudgetary relations, distribution of revenues between the Republican and Local budgets, distribution of expenditure obligations between central and local governments. The following instruments of interbudgetary regulation are outlined: interbudgetary transfers, equalizing and targeted transfers of the central government for local governments in addition to local taxes and other revenues attributed for them.</p> <p>2. Law of the Kyrgyz Republic "On Local Self-Governance" establishes principles of organizing local government at the level of administrative-territorial units of the Kyrgyz Republic, defines the role of local self-governance in undertaking public power, stipulates organizational and legal framework for their activities, establishes the competence and principles of relationship between local self-governance bodies and central authorities, state guarantees of the right of local communities to self-governance. According to the Law, the issues of ensuring the economic development of the relevant territory, attracting investments and grants, managing municipal property, formulation, approval and execution of local budget are referred to issues of local importance.</p> <p>3. Equalizing transfers are calculated and distributed on the basis of formula approved by the KR Government Statement No.321 dated by June 16, 2011 "On Approval of the Procedure for Determining the Amount of Equalizing Transfers". The equalizing transfer formula calculates the amount of revenue per capita that can be received by the local budget based on the level of economic development of the corresponding territory, taking into account differences in the population structure, socio-economic, climatic, geographical and other objective factors and conditions affecting the cost of provision of budgetary services per capita. It should be noted that when calculating an equalizing transfer, a unified approach is applied for all the local governments and is aimed at equalizing the minimum budgetary provision. A size of equalizing transfers from the Republican Budget is approved annually by the Law of the Kyrgyz Republic "On the Republican Budget of the Kyrgyz Republic for the corresponding year".</p> <p>4. The Law of the Kyrgyz Republic dated by July 9, 2013, No.127 "On the Procedure for Delegating Specific State Powers to Local Self-Government Bodies" defines the legal, organizational and financial basis for delegating state powers to local self-government bodies, as well as the procedure for the execution, suspension and termination of the execution of delegated state powers by local self-government bodies. The KR Government Statement dated by December 19, 2014, No.715 determined the list of state bodies and powers delegated by them to local self-government bodies.</p>

PFM area	Law/ regulation	Brief description and coverage
		The KR Government Statement dated by March 17, 2014, No.145 approved a Model Agreement on delegating specific central government powers to local governments.
Parliament	<p>Constitution of the Kyrgyz Republic.</p> <p>Law of the Kyrgyz Republic "On the Regulations of the Jogorku Kenesh (Parliament) of the Kyrgyz Republic" dated by November 25, 2011, No.223</p> <p>Law of the Kyrgyz Republic "On Local Self-Government" dated by July 15, 2011, No.101</p>	<p>1. The Constitution of the Kyrgyz Republic provides for the powers of the Jogorku Kenesh (Parliament) of the Kyrgyz Republic.</p> <p>The Regulations of the Jogorku Kenesh (Parliament) of the Kyrgyz Republic determine the order and procedures for undertaking by Jogorku Kenesh (Parliament) of the Kyrgyz Republic of powers provided by the Constitution of the Kyrgyz Republic. Authorities of Jogorku Kenesh (Parliament) include approval of the Republican Budget, approval of the Report on Execution of the Republican Budget, approval of the terms of any new external borrowings by the government, approval of legislation on other aspects of PFM. The Government and the Parliament members have the right to initiate legislation, propose new legislation, which are considered by the Parliament in three readings. Legislation increasing government expenditures can only be passed if the government has identified the source of funding. The draft budget proposed by the government must be agreed with the Parliament. The Parliament Committee on Budget and Finance reviews the Law on Annual Budget and legislation on other aspects of PFM, and this Committee can approve introduction of changes to the allocation of funds during budget execution.</p> <p>The constitutional composition of the Jogorku Kenesh (Parliament) is represented by 120 deputies elected for a term of 5 years.</p> <p>2. In accordance with the Constitution and the Law "On Local Self-Governance", the system of local self-governance bodies is formed by local keneshes - representative bodies of local self-government (Parliament of LSG), Ayil Okmotu, urban municipalities - executive bodies of local self-governance.</p> <p>Local Keneshes, in accordance with the Law, approve local budgets, control their execution, approve programs for the socio-economic development of the local community and social protection of population, introduce local taxes and fees, as well as establish privileges for them, resolve other issues of local importance.</p>
Internal Audit	Law of the Kyrgyz Republic "On Internal Audit" dated by January 26, 2009 No. 25	The law regulates relations associated with the implementation of internal audit of state bodies and institutions, and states principles and bases of its conducting and functioning. This Law cover ministries, state committees, administrative departments, other state bodies, and other executive bodies, bodies of the state social insurance and pension system, local self-government bodies, their subordinate organizations, state enterprises.
Internal control	Law of the Kyrgyz Republic "On Internal Audit" dated by January 26, 2009, No.25	Each budgetary institution develops its own internal control system that meet its requirements and specifics in accordance with the Law of the Kyrgyz Republic "On Internal Audit" dated by January 26, 2009, No.25, and the Statement of the Government of the Kyrgyz Republic "On establishment of internal audit services in state bodies

PFM area	Law/ regulation	Brief description and coverage
		and institutions, local governments of the Kyrgyz Republic" dated by March 13, 2009, No.177.
Procurement	Law of the Kyrgyz Republic "On Public Procurement" dated by April 3, 2015, No. 72	Public procurement legislation consists of the Law and other regulatory legal acts regulating public procurement processes. The Law establishes general legal and economic principles of public procurement and regulates the procedure for conducting public procurement. State bodies, budgetary institutions, local self-government bodies, state enterprises are obliged to undertake purchases in accordance with the Law. The Law does not regulate public procurement directly related to 1) national security; 2) defense; 3) protection of state secrets; 4) natural disasters.
Public participation	1. Budget Code of the Kyrgyz Republic 2. Law of the Kyrgyz Republic "On access to information under the jurisdiction of state bodies and local self-government bodies of the Kyrgyz Republic".	1. The Budget Code stipulate requirements for timely publication of budgets and budget execution reports, including the preparation of the Citizens Budget. In accordance with the Code, consideration and approval of budgets of the budgetary system of the Kyrgyz Republic is carried out openly and publicly, with the exception of consideration of issues containing state or other secrets protected by law. Draft budgets of the budgetary system of the Kyrgyz Republic are subject to mandatory public discussion. 2. The Law regulates access of individuals and legal entities to information under the jurisdiction of state bodies and local self-government bodies.

1.5.PFM Reform process

1.5.1. Approaches to PFM reform

Strategic objectives of budgetary policy for the medium term are formulated in the Strategy for the Development of Public Finance Management for 2017-2025 (Statement of the Government of the Kyrgyz Republic dated by December 22, 2016, No. 696)³. The goal of public financial management reform is to ensure a modern, effective, accountable, responsible management of public finances in the Kyrgyz Republic, able to provide main public services efficiently, effectively, fairly and equitably, ensuring comprehensive increase of population well-being.

The main objectives of the Strategy are: 1) improving the planning and execution of the state budget, including: increasing the transparency, completeness and reliability of the budget; 2) bringing the budget in line with state policy; 3) improving control over budget revenues and expenditures; 4) timeliness of accounting and financial reporting; 5) improvement of internal and external audit procedures.

The sequence of the ongoing reforms of the Strategy provides for 3 stages of implementation, characterized by guidelines, plans and approaches.

³ PFM Development Strategies for 2017-2025, The document is available at: <http://cbd.minjust.gov.kg/act/view/ru-ru/98725/10?mode=tekst#unknown>

Within the framework of the Stage I, a work will be undertaken to improve financial discipline. As a result of the implementation of the first stage of the Strategy, the current PFM system in the Kyrgyz Republic will reflect the observance of financial discipline: budget execution in accordance with the plan, which will contribute to the achievement of budget feasibility and reliability.

One of the main tasks of the Stage II of the implementation of the "Fiscal Sustainability" Strategy is to improve the accuracy and validity of forecasts, which will ensure fiscal sustainability and switch to medium-term planning. The expected result of this stage of the Strategy implementation: budget planning and execution in accordance with priority areas and realistic forecasts for the medium term, which will contribute to the implementation of a sustainable fiscal policy.

Stage III of the Strategy is aimed at improving the quality-of-service delivery. The expected result of the III stage of the Strategy "Effectiveness": is the management of budgetary resources, which will contribute to the quality delivery of services and rational use of funds.

As part of the implementation of the first stage, by the Decree of the Ministry of Finance, the "Medium-Term Action Plan for the Implementation of the PFM Development Strategy for 2017-2019" was approved.

By the Decree of the Ministry of Finance of the Kyrgyz Republic dated by June 30, 2020 No. 70-p, the Medium-Term Action Plan for 2020-2022 (stage II) for the implementation of the Strategy for the Development of Public Finance Management in the Kyrgyz Republic for 2017-2025 was approved⁴.

In order to implement reforms in the development of local self-government and financial decentralization in the Kyrgyz Republic, improve the public finance management system, - the Concept for the development of interbudgetary relations in the Kyrgyz Republic for the period 2016-2019 and Action Plan for implementation of the Concept⁵ were adopted by the KR Government Statement dated by March 10, 2016, No. 116.

The purpose of the Concept is to create favourable and stable conditions for providing financial resources to local budgets of AyilAimaks and cities of the Kyrgyz Republic, regardless of the geographical location and characteristics of the development of the territory.

The main tasks of the Concept were: a) improving the interaction of state bodies, local self-government bodies in interbudgetary relations; b) development of motivational factors for local self-government bodies and local communities during the enlargement of AyilAimaks and districts as part of the implementation of the administrative-territorial reform in the Kyrgyz Republic; c) determination of the main directions for increasing the income potential of local self-government bodies; d) development of an effective mechanism for financing state programs at the local level at the expense of the Republican and Local budgets; e) improving the transfer policy based on the formation of incentives for local governments to increase their own revenues and optimize costs.

The reform of the public finance system and the development of the country's regions are among the important directions expressed in the National Strategic documents on sustainable development. In these documents, the

⁴Medium-term action plan for 2020-2022 (stage II). The document is available at: <http://www.minfin.kg/ru/novosti/novosti/utverzhdensrednesrochnyy-plan-deystviy-na-2020-20>

⁵ Concept for the development of interbudgetary relations in the Kyrgyz Republic for the period 2016-2019 and the Action Plan for the implementation of the Concept. The document is available at: <http://cbd.minjust.gov.kg/act/view/ru-ru/99087?cl=ru-ru>

President of the Kyrgyz Republic, the Jogorku Kenesh and the Government of the Kyrgyz Republic declare their **commitment to the process of transition to sustainable development** through various development elements, one of which is “Generation of a Sustainable Environment for Development”, which focuses on public finance reform and the sustainability of State External Debt. In addition, one of the development elements is "Development of the Country's Regions", which focuses on budgetary policy at the local government level, a clear distribution of functions and powers between local state administrations and local government bodies and strengthening of legislation regulating local government.

The National Development Strategy of the Kyrgyz Republic for 2018-2040⁶, as a vision in the areas of establishing a sustainable environment for development of the country's regions, determines that:

Generation of a sustainable environment for development

The economic policy will be focused on reforming with the formation of a new institutional structure and environment for the functioning of the economic system. Ensuring macroeconomic stability and the development of political and legal institutions is considered as a basic prerequisite for the success of the country's development, creating conditions for sustainable economic development. In the long term, minimization of macroeconomic risks and transaction costs will become a powerful factor in the growth of the country's investment attractiveness and motivation for business activity.

Development of regions in the country

There will be conditions developed when every citizen, community, organization will have an opportunity to implement their initiatives in order to develop their city, village, region. There will be conditions developed to attract investment and develop business in the regions of the country. The regions will receive necessary opportunities and resources to implement their own development programs.

The vision of “Generation a Sustainable Environment for Development” will be achieved through changes in the philosophy and principles of financing development with a gradual reduction of dependence from “donor’s” financial resources and mobilizing domestic resources. Another step will be a real transition to program budgeting and changes in the system of budget planning and execution, taking into account the program approach". The long-term debt policy of the state will be aimed at ensuring and maintaining the stability of the State External Debt. Priorities with regard to the structure of State Debt, including the need to diversify the portfolio, will be formulated by the government's medium-term debt management strategies based on regular analysis of the risks and costs of the debt portfolio. Close attention will be paid to the possibilities of borrowing in the domestic market, including with the aim of stimulating the development of the domestic financial market. The role of domestic borrowing instruments as an affordable and reliable source of financing budget needs will increase.

The vision for "Developing Regions of the Country" will be achieved through a clear distribution of functions and powers between local state administrations and local governments, strengthening the legislation governing local government, including in comparison with the sectoral legislative framework. The third element of the transformation should be a change in the national planning system and the principle of linking to the spatial development of specific territories should be ensured. The budgetary policy at the level of local self-government will be based on the need to meet the needs of the population, and not on a residual principle. A key characteristic of an effective budgeting process will be presence of a development budget. The system of splitting revenues between the Republican and Local budgets will be changed in accordance with the functions assigned to the relevant governing bodies. The methodology for calculating equalizing grants will be revised in order to ensure a

⁶National Development Strategy of the Kyrgyz Republic for 2018-2040, pp. 109, 121 and 122. The document is available at: <http://www.president.kg/sys/media/download/52135/>.

fair, understandable and effective equalization of local budget revenues. An important task affecting the effectiveness of interbudgetary relations is the informatization and automation of the planning processes and execution of local budgets.

Specific measures in the field of PFM and development of regions that need to be implemented during 2018-2022 are set out in the government program "Unity, Trust, Creation", approved by the Statement of the Jogorku Kenesh of the Kyrgyz Republic dated by 20.04.2018, No.2377-VI⁷. This was complemented by the Public Debt Management Strategy (2018-2020) published in February 2018. The implementation of improvements in PFM is currently supported by a second Capacity Development Program (CB2) funded by a multilateral trust fund managed by the WB. Other relevant actions are being undertaken under the program of the government "Digital Kyrgyzstan", which aims to increase the benefits to the Kyrgyz economy through the use of information technology. Since 2020, the implementation of Stage II of the Strategy, aimed at ensuring fiscal sustainability, has begun. By the Decree of the Ministry of Finance of the Kyrgyz Republic dated by June 30, 2020, No.70-p, the Medium-Term Action Plan for 2020-2022 (stage II) for the implementation of the Strategy for the Development of Public Finance Management in the Kyrgyz Republic for 2017-2025 was approved. The Covid 19 crisis inevitably delays progress on PFM reform initiatives. The situation was exacerbated by political instability following the failed parliamentary elections in October 2020.

1.5.2. Ongoing PFM Reforms

The PFM reform is currently being carried out in accordance with the "Strategy for the Development of Public Financial Management for 2017-2025 (Statement of the Government of the Kyrgyz Republic No.696 dated by December 22, 2016) and is supported by the Second Capacity Development Program (CB2), funded by a multilateral trust fund managed by the WB.

Within the implementation of Stage I, the "Medium-term Action Plan for the Implementation of the PFM Development Strategy for 2017-2019" was approved by the Decree of the Ministry of Finance and a work was undertaken to improve financial discipline.

Since 2020, the implementation of Stage II of the Strategy, aimed at ensuring fiscal sustainability, has begun. By the Decree of the Ministry of Finance of the Kyrgyz Republic dated by June 30, 2020, No.70-p, the Medium-Term Action Plan for 2020-2022 (stage II) for the implementation of the Strategy for the Development of Public Finance Management in the Kyrgyz Republic for 2017-2025 was approved. The Covid 19 crisis inevitably delays progress on PFM reform initiatives. The situation was exacerbated by political instability following the failed parliamentary elections in October 2020.

At the same time, within the framework of the implementation of the Medium-Term Action Plan for the implementation of the PFM Development Strategy for 2017-2019 and the Medium-Term Action Plan for 2020-2022, the following activities were carried out in three areas: A) improving the budget planning; B) improving budget execution; C) improved financial reporting and control.

⁷Program of development of the Kyrgyz Republic for the period 2018-2022 "Unity, Trust, Creation". The document is available at <http://www.kenesh.kg/ru/article/show/3678/2018-zhildin-20-aprelindegi-2377-vi-kirgiz-respublikasinin-okmotunun-ishinin-programmasin-bekituu-zhonundo>

1.5.2.1. Improve budget planning

In order to improve forecasting of budget revenues, the Law of the Kyrgyz Republic "On Amendments to the Law of the Kyrgyz Republic "On State Forecasting of Social and Economic Development of the Kyrgyz Republic" dated by April 6, 2018 No.36 was adopted. In order to improve the process of forecasting the socio-economic development of the Kyrgyz Republic and improve interaction between forecasting participants, the Government of the Kyrgyz Republic has developed and issued a Statement "On approval of the State Forecasting System in the Kyrgyz Republic and the Procedure for developing a forecast of socio-economic development of the Kyrgyz Republic" dated by May 17, 2018 No.239.

In order to prepare a unified and agreed macroeconomic forecast for the socio-economic development of the Kyrgyz Republic and provide timely recommendations on addressing macroeconomic stability issues, active joint actions are being carried out within the framework of the technical group on financial programming. Based on the results of the work of the technical group, a draft Medium-term forecast of socio-economic development of the Kyrgyz Republic for 2020-2022 was formed (KR Government Statement dated by June 3, 2019 No.270), a draft Medium-term forecast of socio-economic development of the Kyrgyz Republic for 2020-2022 was developed (KR Government Statement dated by September 10, 2019 No.465).

By the Statement of the Government of the Kyrgyz Republic dated by November 13, 2018 No. 532 "On Amendments to the Statement of the Government of the Kyrgyz Republic "On organizational issues of generation of the draft State Budget revenues" dated by August 26, 2015, No.604", the Guidelines for performing functions of administrators of budget resources of the Kyrgyz Republic were approved, Register of sources of budget revenues by administrators of budget resources of the Kyrgyz Republic in accordance with the Budget Classification of the Kyrgyz Republic, as well as amendments have been made to the Procedure for the formation of the state budget revenues. There is a work undertaken on automatization of forecasting state revenues.

Within the framework of improving accuracy of forecasts on collection for special funds, the Government of the Kyrgyz Republic issued a Statement "On Funds of Budgetary Institutions Accumulated in Special and Deposit Accounts of the Treasury" dated by September 29, 2017, No.626.

In order to develop and approve the list of budget resource administrators, by the Statement of the KR Government dated by November 13, 2018, No.532, the Guidelines for performing the functions of the KR budget resource administrators and the Register of sources for budget revenues by administrators of the Kyrgyz Republic budget resources were approved.

To improve the mechanisms of financial reporting of enterprises with a state share and an analysis of the associated risks of reducing budget revenues, work is being carried out to analyze the financial and economic activities of business entities with a state share.

In order to improve the administration of non-tax revenues, an inventory of regulatory legal acts is carried out on an ongoing basis, a draft Law of the Kyrgyz Republic "On Amendments to Legislative Acts of the Kyrgyz

Republic in the Field of Collecting Non-Tax Revenues" was developed, which was approved by the Government of the Kyrgyz Republic dated by June 27, 2019 No. 319. The Decree of the Ministry of Finance of the Kyrgyz Republic was issued: "On Approval of the Action Plan for the Management of Non-Tax Revenues for 2018-2020" dated by April 4, 2018, No.39-P was adopted, in order to identify ways to improve the administration of non-tax revenues for 2018-2020. The Law of the Kyrgyz Republic "On the Enactment of the Code on Non-Tax Incomes of the Kyrgyz Republic" and the Code of the Kyrgyz Republic on Non-Tax Income dated by August 10, 2018.

In order to improve forecasting of budget expenditures, the "The Procedure for Formulation of draft Republican Budget and Amendments to the Republican Budget of the Kyrgyz Republic" was developed and approved by the Statement of the KR Government No.723 dated by November 1, 2017, which defined unified rules for all participants of the budget process. The KR Government Statement "On the Procedure for Formulation and Execution of the Cash Plan of the Republican Budget of the Kyrgyz Republic" was developed and approved on October 2, 2017, No.632. "Methodological Guidelines for Compiling information on fiscal risks" were approved by the KR MoF Decree on January 26, 2016, No.9-p.

A work is being undertaken to automate the budget expenditure planning process within the FMIS. As part of improving public investment policies and procedures, starting from 2018, the draft "Main directions of fiscal policy for 2019-2021" in terms of forecasting public investment expenditures is developed in accordance with the newly developed format of the need for funds for the corresponding years.

The Process of Implementing Program Budgeting in the Kyrgyz Republic. Activation of the process on introduction of the program budgeting in the Kyrgyz Republic took place in 2011, when six-line ministries were included in the Pilot Project on Program Budgeting, which presented their budgets for 2012-2014. Since this period, the list of ministries and agencies presenting their budgets in a program format was gradually expanding, with full coverage of all ministries and agencies financed from the National Budget in 2014. Since 2014, the expenditures of the National Budget in the program format are presented by more than 85%. Program budgets for 2018-2020 are also presented by all ministries and agencies funded from the National Budget.

The Kyrgyz Republic Government issued a Statement "On Program Basis Budgeting" dated by December 30, 2017 No. 854, to enable implementation of the following Kyrgyz Republic Budget Code norms (Articles 82, 84, 86) in 2017: 1) Instructions on the procedure for the development, consideration and implementation of Medium-term strategies for budget expenditures; 2) Instructions on the procedure for the development, consideration and implementation of budgets on a program basis; 3) Instructions on developing indicators for determining budget programs and measures performance.

The Kyrgyz Republic Ministry of Finance with the purpose to introduce implementation on the basis of budget programs – introduced program classification to the automated system of Treasury.

In 2017, a pilot project of financing was implemented among four ministries (the Ministry of Labor and Social Development of the Kyrgyz Republic, the Ministry of Education and Science of the Kyrgyz Republic, the Ministry of Healthcare of the Kyrgyz Republic, the Ministry of Agriculture, Food Industry and Melioration of the Kyrgyz Republic) and piloted collection of reports on execution of budget programs through the automated Treasury system.

In addition, from January 1, 2018, the Article 87 of the Budget Code of the Kyrgyz Republic entered its force, and it provides for an assessment of the effectiveness of budget programs of ministries and agencies based on the achievement of performance indicators. In this regard, the Statement of the Government of the Kyrgyz Republic of 2019 №17 "On monitoring and evaluating the effectiveness of budget programs", following was approved: 1) procedure for submitting reports on achievement of performance indicators of budget programs; 2) procedure for assessing effectiveness of budget programs.

Since 2018 the Automated Information System of Treasury "IS: Treasury. Budget" includes implementation of budget based on budget programs and measures.

In order to introduce program-based budgets (PBBs) at the level of local budgets, in 2017, an analysis and monitoring of international practice on the application of the methodology for the formulation of local budgets on a program basis was undertaken. An Instruction was developed on the procedure for the formulation, consideration and execution of budgets on a programmatic basis at the local level, which was approved by KR MoF Decree No. 69-P dated by July 23, 2018.

Considering the importance of regional development as well as limited budgetary resources, within the framework of the OSCE project "Environmental safety and sustainable management of natural resources" over the past few years, there is an expert assistance provided to local governments (hereinafter referred to as LSGs) in the development of local program budgets to identify areas for spending funds by local governments, including on environmental development issues. Such expert assistance in 2018-2019 was provided to the following cities: Naryn, Kochkor-Ata, Osh, Kant, Balykchi, Kochkor village. In 2020, expert assistance was provided to the city of Mailuu-Suu, the village of Min-Kush and the Sumsaraiylaimak.

The PFM reform is currently supported by a second Capacity Building Program (CB2) funded by a multilateral trust fund managed by the WB. A consultant from the Republic of Georgia is currently working on improving the medium-term planning of expenditure programs, including identifying specific results to be achieved within the specified time frame.

Within the framework of ensuring the completeness and transparency of the budget on an ongoing basis in accordance with the regulatory legal acts of the Government of the Kyrgyz Republic, amendments are introduced to the relevant sections of the budget classification of the Kyrgyz Republic. Format and presentation of budget for publicity is being improved. In accordance with the KR MoF Decree dated by July 11, 2019, No.12-1-6/217, the Action Plan of the Ministry of Finance of the Kyrgyz Republic for the implementation of the National Action Plan for Building an Open Government of the Kyrgyz Republic for 2018-2020 was approved.

In order to widely familiarize citizens of the Kyrgyz Republic with the budget and the budgetary process, the Civil Budget of the Kyrgyz Republic is formulated and published, and a public hearing of the draft budget is held annually. Press releases are periodically posted at the MoF website and press conferences are held to clarify new norms in budgetary legislation.

As part of the development of interbudgetary relations, work is currently being carried out on a stage-by-stage reform of the administrative-territorial structure of the Kyrgyz Republic. The above activities are carried out in

accordance with the Resolution of the Government of the Kyrgyz Republic No. 461 dated by December 28, 2018, which approved the Roadmap for the phased reform of the administrative-territorial structure of the Kyrgyz Republic, with participation of ministries and departments of the Kyrgyz Republic.

In order to improve the legislative and regulatory framework on interbudgetary relations, the KR Government issued a Resolution No.235 dated by May 30, 2019, "On Amending the Resolution of the Government of the Kyrgyz Republic "On Approval of the Temporary Methodology for Calculating the Value of Transfers Provided to Local Budgets from the Republican Budget for Implementation separate delegated state powers" dated by December 19, 2014 No. 715". The changes introduced are aimed at increasing the list of state bodies and powers delegated to local self-government bodies.

As part of improving the legal framework of the budgetary process of LSG bodies in terms of providing them with information on transfers from the republican budget before the start of the financial year and improving the equalization transfer formula, the Government of the Kyrgyz Republic has developed and adopted a Statement dated by January 15, 2018, No.18 "On Amendments to the Statement of the Government of the Kyrgyz Republic "On approval of the Methodology for calculating equalization grants" dated by June 16, 2011, No.321"⁸ providing for the growth of the revenue potential of local budgets.

The Ministry of Finance of the Kyrgyz Republic, in order to implement the budgetary policy aimed at increasing the incomes of local self-government bodies, as well as the implementation of measures "Concept for the development of interbudgetary relations in the Kyrgyz Republic for the period 2016-2019", provides for the reform of the distribution of taxes between the Republican and Local budgets by introducing the principle "one tax, one budget".

As part of this, it is planned to gradually redistribute the rate of deductions from income tax in favor of local budgets and bring it to 100%, while increasing the rate of deductions from sales tax in favor of the Republican Budget.

In this regard, the Law of the Kyrgyz Republic "On the Republican Budget of the Kyrgyz Republic for 2020 and forecast for 2021-2022" provides:

- For 2020, an increase in the standard of income tax deductions to local budgets from 70% to 85%, while reducing sales tax deductions to the local budget from 50% to 25%. At the same time, given that the income tax relative to the sales tax is more tax-intensive, additional revenues to the local budget will amount to about 1.2 billion soms;
- For 2021, it is envisaged to increase the rate of income tax deductions to local budgets from 85% to 100%, at the same time establishing a rate of deductions of sales tax of 100% to the Republican Budget. At the same time, taking into account the tax intensity of the income tax relative to the sales tax, additional revenues to the local budget will amount to about 1.2 billion soms.

⁸ Statement of the Government of the Kyrgyz Republic of January 15, 2018 No. 18 "On Amendments to the Resolution of the Government of the Kyrgyz Republic "On Approval of the Methodology for the Calculation of Equalizing Grants" dated by June 16, 2011, No.321" The document is available at: <http://cbd.minjust.gov.kg/act/view/ru-ru/11683>

To ensure budget transparency at the level of local self-government, by the KR Government Statement dated by September 5, 2019, No.452, the "Methodology for assessing the municipal budget transparency index"⁹ was approved. When assessing the indicators of budgetary transparency, the reporting data on the execution of the local budget, statistical reporting, the audit report of the Accounts Chamber of the Kyrgyz Republic, and socio-economic development programs are used.

In order to ensure transparency in the registration, submission, selection and implementation of projects for obtaining stimulating (equity) grants through the use of information technologies, the software for this system has been developed and in accordance with the KR MoF Decree No.153-P dated by 30.11.2017, "On starting the Automated System for Registration, Submission, Selection and Implementation of Projects for Obtaining Stimulating (Equity) Grants" - this program was launched and the acceptance of projects is carried out through the website <https://stimgrant.okmot.kg> in electronic form in the online mode, which today operates smoothly.

1.5.2.2. Improving budget execution

Improving the expenses control system in budget execution. In order to provide more freedom for the main budget funds managers (MBFM), a rule has been included in the Budget Code of the Kyrgyz Republic: in the process of budget execution, the MBFM has the right to reallocate funds for the MBFM/recipients of budget funds within the general allocations of budget funds between the items of the economic classification of expenditures. MBFM in the process of budget execution have the right to reallocate funds between individual measures and articles of the economic classification. Changes have been made to the Budget Classification of the Kyrgyz Republic for the consolidation of items. In addition, MBFM estimates are made without quarterly breakdown.

Public Procurement Regulatory- Aiming at improvement of the regulatory legal framework in the field of public procurement, eliminate collisions, omissions and gaps, as well as in order to harmonize the Law of the Kyrgyz Republic "On Public Procurements" with the regulatory legal framework of the Eurasian Economic Union and bring it in compliance with other regulatory legal acts, the following changes were introduced:

- On introducing amendments to the Law of the Kyrgyz Republic "On Public Procurements" (adopted by the Jogorku Kenesh of the Kyrgyz Republic on December 6, 2018, signed by the President of the Kyrgyz Republic on January 11, 2019, No. 4);
- On introducing amendments to the Law of the Kyrgyz Republic "On Public Procurements" (adopted by the Jogorku Kenesh of the Kyrgyz Republic on June 20, 2019, signed by the President of the Kyrgyz Republic on June 26, 2019, No. 76).

In order to bring by-laws in the field of public procurement in accordance with the Laws mentioned above, the Ministry issued a Decree on approval of regulatory legal acts in the field of Public Procurement, dated by December 31, 2019, No. 150-P, - to be in accordance with the Statement of the Kyrgyz Republic Government "On delegating certain policy-making powers of the Kyrgyz Republic Government to National Bodies and Executive Bodies of Local Self-Governance" dated by September 15, 2014, No. 530.

⁹Methodology for assessing the municipal budget transparency index. The document is available at: <http://cbd.minjust.gov.kg/act/view/ru-ru/157069?Cl=en-ru><http://cbd.minjust.gov.kg/act/view/ru-ru/157069?cl=ru-ru>

In particular, this Decree provides for the approval of the following regulatory acts in the field of Public Procurement: 1) Methodological instructions for the evaluation of bids; 2) Provision on the application of the framework agreement; 3) Standard tender documentation for procurement of goods, works and services by the one-stage bidding method; 4) Standard tender documentation for procurement of goods, works and services using the two-stage bidding method; 5) Standard tender documentation for procurement of goods, works and services using a simplified method.

In addition, this Decree also provides for amendments to the Methodological Instruction on the Application of Benefits to Internal Suppliers (Contractors) and to the Regulation on the Rules for Conducting Electronic Public Procurement, approved by the Decree of the Kyrgyz Republic Ministry of Finance dated by October 14, 2015, No. 175-P.

The Statement of the Kyrgyz Republic Government dated by September 13, 2019, No. 473 "On special terms for joint-stock companies, in the authorized capital of which 50 or more percent of shares belong to the state" - was approved.

In addition, in accordance with the Statement of the Kyrgyz Republic Government dated by April 15, 2019, No.162, the procedure for public procurement related to the production and (or) personification of documents of state significance and special state forms - was approved.

In accordance with the Statement of the Kyrgyz Republic Government dated by May 31, 2019, No.243, the Regulation on the Procedures for Conducting Public Procurement of Goods, Works and Services through the Electronic Catalogue of the Public Procurement Web Portal - was approved.

During 2020, in order to bring regulatory legal acts in line with the Law of the Kyrgyz Republic "On public procurement" (hereinafter referred to as the Law), the following have been **developed**:

- "Standard Tender Documentation for Consulting Services" (approved by the Statement of the KR Government dated by March 6, 2020, No.136);
- "On Amendments to the Regulations on the Procedure for the Operation of the Independent Interdepartmental Commission for Consideration of Complaints against the Actions of Procuring Organizations and the Inclusion of Unreliable Suppliers (Contractors) in the Database during Public Procurement" (approved by the KR MoF Decree dated by March 30, 2020, No.P);
- "On the allocation of funds within the framework of the digital transformation program of the Kyrgyz Republic to complete work on the introduction of an electronic signature on the web portal of public procurement, in order to fulfil obligations to ensure the mutual recognition of an electronic signature under the" Treaty on the Eurasian Economic Union "(approved by the KR Government Resolution dated by 05.06.2020, No.203-r).

According to the draft Law of the Kyrgyz Republic "On Amendments to the Law of the Kyrgyz Republic "On Public Procurement", initiated by the deputies of the Jogorku Kenesh of the Kyrgyz Republic, proposals were made to introduce changes in the Law regarding publishing information on beneficial owners at the public procurement web portal, publishing information on agreement (contract) in terms of the name of the company to which the contract was awarded, the list of cases of applying the direct contracting method was expanded,

which allows procurement under the exemption from the national regime for a period of two years, as well as a number of changes to eliminate gaps and collisions aimed at reducing corruption risks in the implementation of public procurement.

The Law mentioned above, on November 5, 2020, was adopted at a plenary session of the Jogorku Kenesh of the Kyrgyz Republic, on December 18, 2020, signed by the President of the Kyrgyz Republic, on December 29, 2020, published in the Erkin-Too newspaper, and came into force after 30 calendar days from the date of official publication.

In addition, in order to provide state support to domestic manufacturers (internal contractors), stimulate the domestic economy, increase their competitiveness and provide the population with jobs, as well as for the timely adoption of anti-crisis measures to reduce the negative consequences of the spread of COVID-19, there were amendments made to the Law in terms of establishing a fixed amount of benefits for internal suppliers and contractors, conducting operational purchases in high readiness mode (procurement under force majeure circumstances) (approved by the Law of the Kyrgyz Republic "On Amendments to the Law of the Kyrgyz Republic "On Public Procurement" dated by 20 April 2020, No.48)

The KR MoF Decree was developed and approved on October 2, 2020, No.99-P "On approval of the Instruction (Manual) for the administration of the electronic catalogue of goods, works and services of the public procurement web portal". The KR MoF Decree dated by October 30, 2020, No.105-P "On approval of the general classifier of public procurement of the Kyrgyz Republic" was developed and approved.

According to the Article 48 of the Law "On Public Procurement", complaints must be submitted through the Official Public Procurement Portal (hereinafter referred to as the Portal). All complaints submitted through the Portal are publicly available. The total number for 2020 is 2877 complaints. On the basis of the 2020-year results, the Independent Interdepartmental Commission considered 764 complaints, 1321 complaints were rejected, 9 are under consideration, 103 complaints were withdrawn. At the end of 2020, 41 suppliers were included in the Database of Unreliable (Unscrupulous) Suppliers (Contractors).

To Reduce Risks of Corruption:

- Introduction of a two-package one-stage method for public procurement, where at the first stage the bids are assessed for compliance with the qualifications and technical requirements of the procuring entity, and at the second stage - the assessment of determining the winner is at the lowest estimated cost;
- Access to quotations through commercial banks was closed, so amendments have been made to the Law of the Kyrgyz Republic "On Public Procurements", where the guaranteed security of the tender application is made from the planned purchase amount, when it was previously made from the amount of the participant's tender application.
- The Kyrgyz Republic Ministry of Finance attracted technical assistance from USAID (United States Agency for International Development) in the Kyrgyz Republic to generate a database on all suppliers (contractors), consultants involved in public procurement with complete and reliable information.

Active work is underway to reform the public procurement system in order to support domestic producers, and at present a lot of attention is paid to procurement of goods within the framework of public procurement from domestic producers.

In order to develop small and medium-sized businesses in the regions, the Kyrgyz Republic Ministry of Finance is actively working on introduction of an Electronic Catalogue. At present time, the Kyrgyz Republic Government issued the Statement "On Approving the Procedure for State Procurement of Goods, Works and Services through Electronic Catalogue" dated by May 30, 2019, No. 243, and developed a platform for Electronic Catalogue of goods, works and services, which operates in pilot mode at the link <http://catalog.gov.kg>

In September 2019, the Catalogue (www.tandoo.zakupki.gov.kg) was launched and work began on filling the content. Procurements through the Catalogue are not performed, since not all the processes are integrated with the Electronic Government Procurement Portal.

Improving the revenue control system in budget execution. In order to improve tax administration, analysis and collection of revenues during the year, by the Resolution of the Government of the Kyrgyz Republic dated by November 13, 2018, No.532 "On Amendments to the Resolution of the Government of the Kyrgyz Republic dated by August 26, 2015, No.604", in accordance with the Budget Classification of the Kyrgyz Republic there were approved: the Guidelines for implementation of functions of budget resource administrators of the Kyrgyz Republic, and the Register of sources of budget revenues by administrators of budget resources of the Kyrgyz Republic. The Resolution of the Government of the Kyrgyz Republic of December 31, 2018 No.648 was adopted on the full transfer from January 15, 2019 of the functions of administering insurance contributions from the Social Fund of the Kyrgyz Republic to the State Tax Service.

Since July 1, 2018, a project for the issuance of electronic patents (E-patent) was implemented, which enabled to significantly reduce time and labor costs of taxpayers, created favorable conditions for taxpayers, expanded reach of entrepreneurs by means of attractiveness and availability of the procedure for remotely obtaining patents and paying for them through technical infrastructure devices.

1.5.2.3. Improved financial reporting and control

Improving accounting and reporting standards By the KR MoF Decree "On Approval of Regulatory Legal Acts and Methodological Documents on Accounting and Reporting of Budgetary Institutions" dated by December 31, 2013, No.221-P, the accounting policy of the general government sector was approved (includes 11 standards of Financial Reporting Standards for the Public Sector).

Within the framework of the implementation of the Second project of CBPFM, the adopted standards of FRSPS will be elaborated further.

Improving internal audit and control procedures-The Statement of the Government of the Kyrgyz Republic dated by January 18, 2018, No.33 "On Amending the Statement of the Government of the Kyrgyz Republic "On the Creation of Internal Audit Services in State Bodies and Institutions, Local Self-Government Bodies of the Kyrgyz Republic" dated by March 13, 2009, No.177" was adopted. According to this resolution, Internal Audit Services were created (in 30 state bodies and institutions), qualification requirements for internal auditors were established (today 84 internal auditors have qualification certificates for internal auditors in the public sector).

The Law of the Kyrgyz Republic of May 26, 2018, No.55 "On Amendments to Certain Legislative Acts of the Kyrgyz Republic on Non-Tax Revenues and Internal Audit Issues" was adopted. By Decrees of the Ministry of Finance of the Kyrgyz Republic, the Regulation on Certification of an Internal Auditor in the Public Sector was approved, and the Examination and Appeal Commission was established to certify internal auditors in the public sector. The program of the Qualification Exam was approved by the Minister of Finance of the Kyrgyz Republic.

Improving external control and audit procedures- As part of improving the methodological base of the Accounts Chamber of the Kyrgyz Republic in the field of state audit, the following documents were developed and approved by the Resolution of the Council of the Accounts Chamber of the Kyrgyz Republic:

- Methodological recommendations for ensuring quality control of the audit;
- Methodological recommendations for the application of audit sampling procedures;

In pursuance of the Decree of the Accounts Chamber of the Kyrgyz Republic dated by February 21, 2018, No.10-6/28 "On approval of the Procedure for organizing audits and ensuring their quality", the leaders of the audit teams are working to strengthen control over the quality of audits by filling out standard forms for controlling the quality of Audit Decisions. The system of the state audit is being improved further.

2. Detailed analysis of PFM performance

Transfers from a higher-level of Government (HLG)

What does HLG measure? This indicator assesses the extent to which transfers to the subnational government from a higher-level government are consistent with original approved high-level budgets and are provided according to acceptable time frames. The indicator contains three dimensions and uses the M1 (WL - weakest link) method for aggregating dimension scores.

Indicator/Dimension	Score
Transfers from a higher level of government	B+
HLG -1. Outturn of transfers from higher-level	A
HLG-2. Earmarked grants outturn	B
HLG-3 Timeliness of transfers from higher-level	A

General description of the system in place in Kyrgyz Republic:

The relations within the budgetary system of the Kyrgyz Republic are regulated by establishing standards for deductions from the national revenues and inter-budgetary transfers (Article 53 of the Budget Code). The transfers to local budgets are in the form of a) equalizing transfers; and b) targeted transfers. The equalizing transfers are provided from the republican budget to cover the financial gap between the level of income and the needs of the local government budgets. While the targeted transfers are provided from the national (central) level budget usually to the sub-national budget purposes. It should be noted that when calculating the equalizing transfers, a unified approach is applied for all local governments.

Recent or ongoing reform activities: Not reported

HLG-1. Outturn of transfers from higher-level government

Performance level and evidence for scoring:

The planned and actual total transfers for the three years of assessment are in the table below.

(the amounts are in KGS)

Year	Budget	Actual	%
2017	2,403,800	2,403,800	100%
2018	3,383,800	3,383,800	100%
2019	3,666,900	3,666,900	100%

Source: LSG Saz MoF

The volume of all transfers from the Republican Budget is approved annually by the Law of the Kyrgyz Republic “On the republican budget of the Kyrgyz Republic for the corresponding year”. The planned volume of all transfers to Saz for the period 2017-2019 was the actual performance. Transfers have been 100 percent of the original budget estimate in the three years of assessment.

Possible causes of PFM performance identified during the PEFA assessment: Once planning is approved it is performed without changes, this is a very usual principle in almost all PEM procedures. Rules and procedures are very closely adhered to.

Dimension score - A

HLG-2. Earmarked grants outturn

Performance level and evidence for scoring:

The earmarked (also referred to hereafter as targeted) transfers are defined in Article 55 of the Budget Code. They are made available from the republican budget to LSG Saz for the following purposes: i). compensation for less revenue in local budgets during the budget year, as well as additional expenses or losses resulting from the adoption of regulatory legal acts; ii). financing of local budget expenditures when certain powers of the national government are delegated to the local self-government bodies on the basis of a law or an agreement; iii). joint financing of expenditure from the republican and local budgets.

The planned and actual targeted transfers for the three years of assessment are in the table below.

(the amounts are in KGS)

Year	Budget	Actual	%
2017	279,100	279,100	100%
2018	426,700	173,000	41%
2019	492,500	492,500	100%

Source: LSG Saz MoF

There was no difference between the original budget estimate and actual earmarked transfers in all three years of assessment. However, the legislation requires returning the amount that remains unabsorbed at year-end. Thus, in 2018, Saz had to return to the Republican Budget a significant amount i.e. 59% of the received earmarked transfers. Therefore, there were only 41% of the earmarked transfers used for the targeted purpose.

Possible causes of PFM performance identified during the PEFA assessment: The difference between the budgeted and the actual outturn of earmarked grants was 100% in two of the three years of assessment.

Dimension score - B

HLG-3 Timeliness of transfers from higher-level government

Performance level and evidence for scoring:

There are two types of transfers: i) equalizing - funds provided from the Republican Budget to cover the financial gap between the revenues and the needs of the local budgets and ii). targeted - funds provided as grants for specific purposes. Both are subject to approval with the issue of the Republican budget every year.

Article 95 of the Budget Code stipulates that the Ministry of Finance of the Kyrgyz Republic send budget calendar, no later than July 15 of the year preceding the next budget year, to the local governments together with the revenue estimate and the inter-budgetary transfers (equalizing transfers).

After the approval of the Republican budget, the Ministry of Finance of the Kyrgyz Republic, within 10 days, send to the local self-government bodies the amount of inter-budgetary transfers (equalizing transfer).

In accordance with the procedure for the volume of equalization transfers, they are distributed by the Ministry of Finance of the Kyrgyz Republic to the local budgets through their territorial offices in accordance with the established methods and formula. Equalizing transfers are provided in accordance with the quarterly distribution of budget revenues and expenditures for the next financial year.

The targeted transfers are provided by the Ministry of Finance on a month-by-month basis. The transfers should be requested by the local government by the 20th day of the current month. Based on the submitted applications of the local governments, the transfers are extended by the end of the current month.

Information about the timeliness of equalising and targeted transfers was provided for FY 2017-2019. Both types of transfers were provided to LSG Saz monthly within the month of request. There is no disbursement timetable agreed with MoF at national level. The actual requested amount is transferred within the month in each of the last three years.

Possible causes of PFM performance identified during the PEFA assessment: The organization of providing transfers is regulated in a way that allows transfers to be made available to the requesting LSG within the same month. Therefore, there are no preliminarily agreed disbursement timetable with MoF at national level.

Dimension score – A

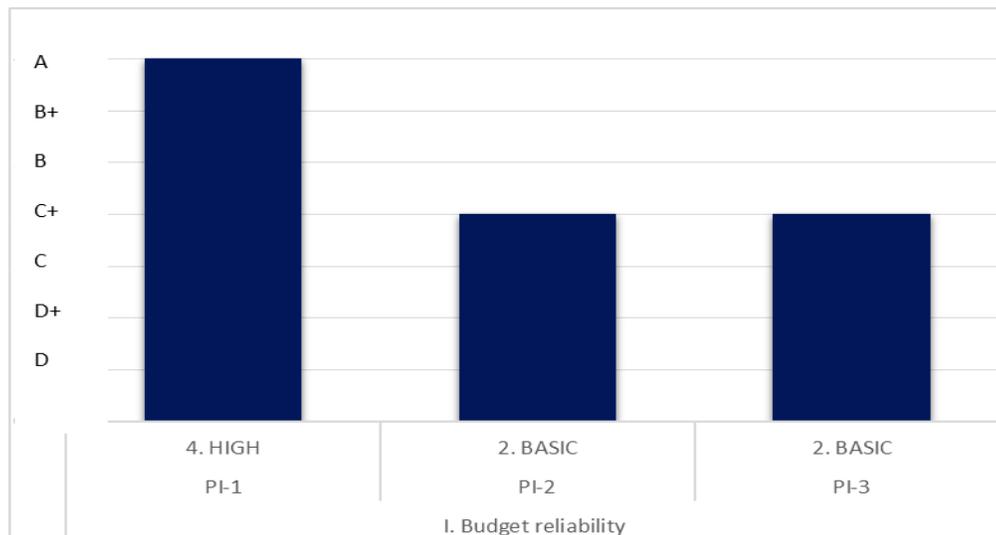
PILLAR ONE: Budget reliability

What does Pillar I measure? The government budget is realistic and is implemented as intended. This is measured by comparing actual revenues and expenditures (the immediate results of the PFM system) with the original approved budget.

Overall performance: key strengths and weaknesses:

Both revenue and expenditure budgets, at aggregate levels, are reliable (PI-1 and PI-3). However, this reliability is not demonstrated at the composition level. Expenditure budget is not found to be less credible at both functional and economic levels (PI-2.1 and PI-2.2). Revenue is also not reliable at composition level (PI-3.2). The continuous budget reallocations also raise questions about budget credibility as well as the delivery of government services based on its original policy intent. There is no contingency expenditure in LSG Saz. Figure 2.1 below shows the aggregate scores per indicator for this pillar.

Figure 2.1: Pillar 1-Summary of PEFA scores



PI-1. Aggregate expenditure outturn

What does PI-1 measure? This indicator measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved, as defined in government budget documentation and fiscal reports. There is one dimension for this indicator.

Coverage: BCG.

Time period: Last three completed fiscal years.

Indicator/Dimension	Score
PI-1. Aggregate expenditure outturn	A
1.1. Aggregate expenditure outturn	A

General description of the system in place in LSG Saz: In accordance with the Article 95 of the Budget Code, drafts of local budgets for the following/next budget year and the forecast period are developed in accordance with the procedure and terms established by the relevant local keneshes. The Budget Code clearly sets out the conditions for budget adjustment including increasing of the total budget.

Recent or ongoing reform activities: None

1.1 Aggregate expenditure outturn

Performance level and evidence for scoring (KGS thousands)

Year	Budget	Actual	%Outturn
2017	5,109.80	5,042.90	98.7%
2018	6,266.80	6,057.20	96.7%
2019	6,694.30	7,368.20	110.1%

Source: Resolution of the Aiyl Kenesh of LSG SAZ (Parliament) on the budget and annual budget performance reports 2017, 2018 and 2019.

As shown in the above table, the aggregate expenditure outturn is reliable in which the outturn deviated less than 5% in FY 2017 and FY 2018. However, this was not maintained in FY 2019, in which the outrun was more than the budget by 10%. The detailed calculation on which the above table is based is given in Annex 5. *Hence, the score for the present dimension is A.*

Possible causes of PFM performance identified during the PEFA assessment: Strong fiscal discipline where realistic budget estimates are set out and expenditure resulted in the reliability of aggregate expenditure outturn.

PI-2. Expenditure composition outturn

What does PI-2 measure? This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition. It contains three dimensions and uses the M1 (WL) method for aggregating dimension scores.

Coverage: BCG. Time period: Last three completed fiscal years.

Indicator/Dimension	Score
PI-2. Expenditure composition outturn (M1)	C+
2.1. Expenditure composition outturn by function	C
2.2. Expenditure composition outturn by economic type	C
2.3. Expenditure from contingency reserves	A

General description of the system in place in LSG Saz: The conditions for amendment and redistribution of funds from Republican and Local budgets in the process of their execution are clearly stipulated in the Budget Code. Article 109 of the Budget Code states that the total value of redistributed funds throughout a financial year should not exceed 5 percent of the total expenditures for each main budget unit (unit, recipient) of budget funds separately.

Recent or ongoing reform activities: None.

2.1. Expenditure composition outturn by function

Performance level and evidence for scoring: The composition variance by functional classification was above 10% in the three years under assessment. As shown in Table 2.1 below, the variance was 11.9%, 11.2% and 10.8% in 2017, 2018 and 2019. The detailed calculation on which the above table is based is given in Annex 5. *Hence, the score for this dimension is C.*

Possible causes of PFM performance identified during the PEFA assessment: Even though the LSG Saz's fiscal discipline in terms of respecting aggregate budget (PI-1) is generally good, in-year adjustments within the government agencies' budget and across agencies is frequent resulting in high composition variance.

2.2. Expenditure composition outturn by economic type

Performance level and evidence for scoring: The expenditure composition outturn by economic classification has shown significant improvement in assessment period. As shown in Table 2.1 below, the composition outturn decreased from 21% in FY 2017 to 3% in FY 2019. Even though the composition variance has shown an improvement, the score for this dimension will be C since it was less than 15% in two of the three years.

Possible causes of PFM performance identified during the PEFA assessment: Even though the LSG Saz's fiscal discipline in terms of respecting aggregate budget (PI-1) is generally good, in-year adjustments within the government agencies' budget and across agencies is frequent resulting in high economic variance. This has however shown an improvement over the years.

Table 2-1: Expenditure composition outturn

Variance	2017	2018	2019
Functional classification	11.9%	11.2%	10.8%
Economic classification	21%	13.5%	3%

Data source: Resolution of the Ayl Kenesh of LSG Saz (Parliament) on the budget and annual budget performance reports 2017, 2018 and 2019

2.3. Expenditure from contingency reserves

Performance level and evidence for scoring: Reserves for contingencies are provided for in the initially approved budget, both in the National Budget and in the Local Level Budgets. During the assessment period, there was no allocation provided as reserve for unforeseen expenditures in the budget of SAZ A/O and accordingly there was no expenditure charged to contingency vote. Hence, the score for this dimension is A.

Possible causes of PFM performance identified during the PEFA assessment: There was no expenditure charged to contingency reserve in the last three completed fiscal years.

PI-3. Revenue outturn

What does PI-3 measure? This indicator measures the change in revenue between the original approved budget and end-of-year outturn. It contains two dimensions and uses the M2 (AV) method for aggregating dimension scores.

Coverage: BCG.

Time period: Last three completed fiscal years.

Indicator/Dimension	Score
PI-3. Revenue outturn	C+
3.1. Aggregate revenue outturn	A
3.2. Revenue composition outturn	D

General description of the system in place in LSG Saz: There is a territorial office of State Tax Service (STS) in Sokuluk region covering LSG Saz. There is no tax administration service on the level of LSG Saz. The revenue administration service is shared between the regional office of the State Tax Service in Sokuluk and the non-tax revenue collection by the SNG Saz. SNG Saz collects only non-tax revenue (local fees, penalties, etc.) and the regional office of the State Tax Service in Sokuluk collect the tax revenue. Tax revenue constitutes 60% and non-tax revenue 40% (PI-19).

Recent or ongoing reform activities: None

3.1. Aggregate revenue outturn

Performance level and evidence for scoring: Actual revenue outturn was between 97% and 106% of budgeted revenue in at least two of the last three years. As shown in Table 3.1, the revenue outturn was 100.9%, 101.2% and 107.1% for the years 2017, 2018 and 2019 respectively. The calculations upon which the Table is based are reported in Annex 5. Hence, the score for the present dimension is A.

Table 3.1: Comparison of Budgeted & Actual Revenue (KGS thousands)

Year	Budget	Actual	Outturn (%)
2017	2,706.	2,729.40	100.9
2018	2,883	2,916.60	101.2
2019	3,027.40	3,242.90	107.1

Source: Resolution of the AiyI Kenesh (Parliament) of LSG Saz on the budget and annual budget performance reports 2017, 2018 and 2019.

Possible causes of PFM performance identified during the PEFA assessment: Non-tax revenue collection was below target in all the three years, but this was compensated by over collection of tax revenues, resulting in achievement of aggregate revenue targets.

3.2. Revenue composition outturn

Performance level and evidence for scoring: This dimension measures the variance in revenue composition during the last three years. It includes actual revenue by category compared to the originally approved budget. The composition variance in all the three years was more than 15% as shown in Table 3.2. The calculations upon which the Table is based are reported in Annex 5. *Hence, the score for the present dimension is D.*

Table 3.2: Revenue Composition Outturn FYs 2017-2019

Years	Composition Variance
2017	18.7%
2018	29.6%
2019	24.8%

Source: Resolution of the Aiyl Kenesh (Parliament) of LSG Saz on the budget and annual budget performance reports 2017, 2018 and 2019.

Possible causes of PFM performance identified during the PEFA assessment: The poor performance was mainly caused because of over collection of tax revenues and under collection of non-tax revenues. This occurred in all the three years.

PILLAR TWO: Transparency of public finances

What does Pillar II measure? Information on public financial management is comprehensive, consistent, and accessible to users. This is achieved through comprehensive budget classification, transparency of all government revenue and expenditure including intergovernmental transfers, published information on service delivery performance and ready access to fiscal and budget documentation.

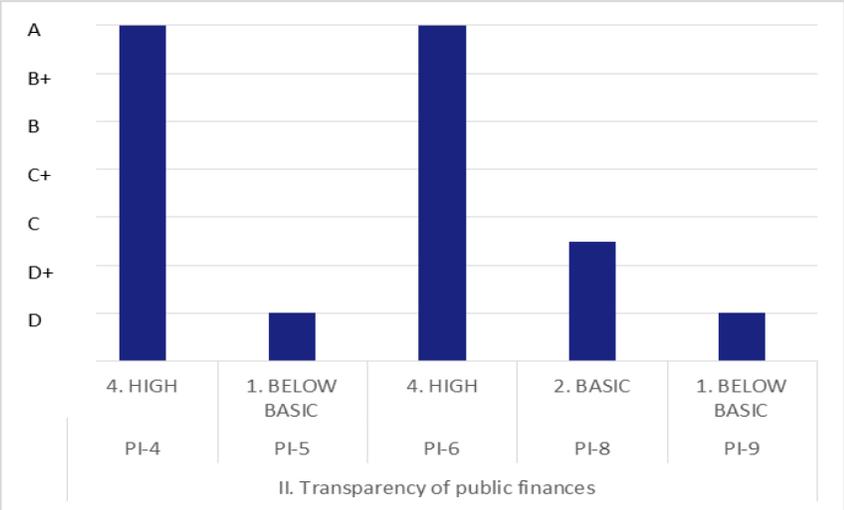
Overall performance: key strengths and weaknesses

The Budget Classification of the Kyrgyz Republic currently allows the aggregation of expenditures up to two (2) digits, revenues - up to three (3) digits, and for the purposes of microanalysis - disaggregation is possible up to eight (8) digits, both in terms of expenditures and revenues of the budget (PI-4) scores ‘B’. The classification of the Charts of Accounts (CoA) allows full comparison to the budget for the recurrent and capital expenditures and hence, full coverage and comparability of reports (PI-28.1) scores ‘A’.

Budget documentation is found to be the weakest (PI-5) scores D, where only 2 basic elements out of 4 and 1 additional element out of 8. Strong point is that there are no expenditures or revenues outside financial reports (PI-6) scores A. Extra budgetary units do not exist at LSG Saz. Since there are no subnational governments at LSG Saz, PI-7 is not applicable.

Main weaknesses identified in the transparency of public finances are related with performance information for service delivery, where information is not published annually on the activities to be performed under the policies or programs of ministries or a framework of performance indicators relating to the outputs or outcomes of ministries is not in place. Extensive work has been done to introduce program-based budgets (PBBs) at the level of local budgets; however, this is not yet implemented in LSG Saz. A strong point to note that information on resources received by frontline service delivery units is collected and recorded for all budgetary institutions, disaggregated by source of funds. A report compiling the information is prepared annually (PI-8).

Public access to fiscal information remains to be poor (PI-9) score D. out of the required five basic and four additional elements, the government makes available to the public one basic element and none of the additional elements in accordance with the specified timeframe. The LSG doesn’t operate a website and fiscal information is posted in announcement board only. Figure 2.2 below shows the aggregate scores per indicator for this pillar.



PI-4. Budget classification

What does PI-4 measure? This indicator assesses the extent to which the government budget and accounts classification is consistent with international standards. There is one dimension for this indicator.

Coverage: BCG.

Time period: Last completed fiscal year.

Indicator/Dimension	Score
PI-4. Budget classification	B
4.1. Budget classification	B

General description of the system in place in LSG Saz: The LSG Saz's Chart of Accounts (COA) reflects administrative, economic and functional classifications for formulation, execution, and reporting. The classifications can be, and are, easily mapped to international standards, such as GFS and COFOG.

Recent or ongoing reform activities: None

4.1. Budget classification

Performance level and evidence for scoring: LSG Saz currently applies the Budget Classification of the Kyrgyz Republic, which was developed and implemented in 2007 in accordance with the Government Finance Statistics Manual 2001 (GFSM 2001). Prior to the transition to the GFS 2001, the Kyrgyz Republic used the budget classification developed according to GFS 1986.

Changes and additions are made to the budget classification in the course of budget execution. So, in connection with the implementation of the program budget in the Kyrgyz Republic, the current classification was supplemented with a new section: "Program classification" (Decree of the Kyrgyz Republic Ministry of Finance No. 161-P dated by December 21, 2017). Currently the budget classification includes the following sections:

- Revenue classification.
- Expenditure classification.
- Classification of operations with assets and liabilities.
- Functional classification (COFOG).
- Departmental classification.
- Program classification

At present, the Budget Classification of the Kyrgyz Republic currently allows the aggregation of expenditures up to two (2) digits, revenues - up to three (3) digits, and for the purposes of microanalysis - disaggregation is possible up to eight (8) digits, both in terms of expenditures and revenues of the budget.

In addition, the Chart of Accounts for accounting in budgetary institutions in the Kyrgyz Republic is integrated with the Budget Classification, which ensures comparability and transparency of the budget.

Consequently, in the Ayil Okmotu Saz, budget preparation, its execution, accounting and reporting of the **local budget** is undertaken by classification corresponding to the GFS/COFOG standards. *Hence, the score for the present dimension is B.*

PI-5. Budget documentation

What does PI-5 measure? This indicator assesses the comprehensiveness of the information provided in the annual budget documentation, as measured against a specified list of basic and additional elements. There is one dimension for this indicator.

Coverage: BCG.

Time period: Last budget submitted to the legislature.

Indicator/Dimension	Score
PI-5. Budget documentation	D
5.1. Budget documentation	D

General description of the system in place in LSG Saz: In accordance with the Article 95 of the Budget Code, drafts of local budgets for the following/next budget year and the forecast period are developed in accordance with the procedure and terms established by the relevant local keneshes, in compliance with the requirements of the Budget Code, taking into account the calendar plan for development of the draft republican budget approved by the Government.

Recent or ongoing reform activities: None

5.1. Budget documentation

Performance level and evidence for scoring: The last budget submitted to the legislature was for FY 2020 and the requirements are met for 2 basic elements out of 4 and 1 additional element out of 8. Two of the additional elements are not applicable. The detail is shown in Table 3.3 below. *Hence, the score for the present dimension is D.*

Table 3.3 Information in Budget documentation for 2020

Elements required	Fulfilled	Explanation
Basic Elements		
1. Forecast of the fiscal deficit or surplus or accrual operating result.	Yes	The projected budget balance is the difference between tax, non-tax revenues plus targeted transfer from the Republican Budget and total operating and capital expenditures. However, the information provided allows estimate a difference between total revenues and total expenditures.

Elements required	Fulfilled	Explanation
Basic Elements		
2. Previous year's budget outturn, presented in the same format as the budget proposal.	No	This information is not included in the documentation submitted to Parliament.
3. Current fiscal year's budget (revised budget or estimated outturn) in the same format as the budget proposal.	No	This information is not attached to the budget documents submitted to Parliament. However, this information is provided to the Sokuluk department of the Ministry of Finance
4. Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous years.	Yes	Tables containing information for all three years together on different classifications are included in the budget documents
Additional elements		
5. Deficit financing, describing its anticipated composition.	No	This information is not provided to Parliament
6. Macro-economic assumptions, including at least estimates of GDP growth, inflation, interest rates and the exchange rate.	NA	GDP growth, inflation and other forecasts for the main macroeconomic indicators are the responsibility of the National Government.
7. Debt stock, including details at least for the beginning of the current year presented in accordance with GFS or other comparable standard.	NA	The LSG Saz have not borrowed, issued debt obligations or loan guarantees in the period 2017-2019
8. Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard.	Yes	The assessment team was informed that information on financial assets held by LSGs is available.
9. Summary information on fiscal risks, including contingent liabilities such as guarantees, and contingent obligations such as those arising from PPP contracts.	No	LSG did not publish information on financial risks, arising from non-publication of actual amounts of debts

Elements required	Fulfilled	Explanation
Basic Elements		
10. Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programmes.	No	The budget documentation does not include explanations about an impact made by main political initiatives and others on the budget
11. Documentation on the medium-term fiscal forecasts.	No	This is not presented.
12. Quantification of tax expenditures	No	This is not presented

Source: Letter to Aiyil Kenesh on the draft budget for 2020-2022 (the letter is dated by December 30, 2019 No. 02-16/358); Statement of the Aiyil Kenesh of LSG Saz dated by January 22, 2020 No. 1/1 "On the approval of the budget for 2020.

Possible causes of PFM performance identified during the PEFA assessment: The Government of LSG Saz does not submit most of the basic and additional elements with the budget document.

PI-6. Central government operations outside financial reports

What does PI-6 measure? This indicator measures the extent to which government revenue and expenditure are reported outside government financial reports. It contains three dimensions and uses the **M2 (AV)** method for aggregating dimension scores.

Coverage: CG.

Time period: Last completed fiscal year.

Indicator/Dimension	Score
PI-6. Central government operations outside financial reports	A
6.1. Expenditure outside financial reports	A
6.2. Revenue outside financial reports	A
6.3. Financial reports of extrabudgetary units	NA

General description of the system in place in LSG Saz: There are no government operations outside financial reports in LSG Saz. All operations are part of the financial statements.

Recent or ongoing reform activities: None

6.1. Expenditure outside financial reports

There are no expenditures outside financial report. Hence, the score for the present dimension is A.

Possible causes of PFM performance identified during the PEFA assessment: All expenditures are reported in the financial statements.

6.2. Revenue outside financial reports

Performance level and evidence for scoring: There are no revenues outside financial reports. Hence, the score for the present dimension is A.

Possible causes of PFM performance identified during the PEFA assessment: All revenues are reported in the financial statements. Hence, the score for the present dimension is A.

6.3. Financial reports of extrabudgetary units

Performance level and evidence for scoring: There are no extrabudgetary units in LSG Saz. Hence, this dimension is NA.

Possible causes of PFM performance identified during the PEFA assessment: There are no extrabudgetary units in LSG Saz.

PI-7. Transfers to subnational governments

What does PI-7 measure? This indicator assesses the transparency and timelines of transfers from central government to subnational governments with direct financial relationships to it. It considers the basis for transfers from central government and whether subnational governments receive information on their allocations in time to facilitate budget planning. It contains two dimensions and uses the M2 (AV) method for aggregating dimension scores.

Coverage: CG
Time period: Last completed fiscal year.

Indicator/Dimension	Score
PI-7. Transfers to subnational governments	NA
7.1. System for allocating transfers	NA
7.2. Timeliness of information on transfers	NA

General description of the system in place in LSG Saz: There are no subnational governments in LSG Saz.

Recent or ongoing reform activities: None

7.1. System for allocating transfers

This dimension is not applicable.

7.2. Timeliness of information on transfers

This dimension is not applicable.

PI-8. Performance information for service delivery

What does PI-8 measure? This indicator examines the service delivery information in the executive’s budget proposal or its supporting documentation, and in year-end reports or performance audits or evaluations, as well as the extent to which information on resources received by service delivery units is collected and recorded. It contains four dimensions and uses the **M2 (AV)** method or aggregating dimension scores.

Coverage: CG.

Time period: Dimension 8.1: Performance indicators and planned outputs and outcomes for the next fiscal year.

Dimension 8.2: Outputs and outcomes of the last completed fiscal year. Dimensions 8.3 and 8.4: Last three completed fiscal years.

Indicator/Dimension	Score
PI-8. Performance information for service delivery	D+
8.1. Performance plans for service delivery	D
8.2. Performance achieved for service delivery	D
8.3. Resources received by service delivery units	A
8.4. Performance evaluation for service delivery	D

General description of the system in place in LSG Saz: According to the current legislation of the Kyrgyz Republic, certain issues of education, health care, cultural institutions, social security and the state services provided by them are fully funded from the Republican Budget. Buildings and structures of educational institutions, cultural institutions, incl. ongoing and major repairs and arrangement of the adjacent territories are maintained at the expense of the local budget.

In this connection, planning of the provision of services and the achieved efficiency of the provision of services by the sectoral institutions of LSG is carried out within the framework of program budgets of relevant ministries and agencies, financed from Republican Budget.

Recent or ongoing reform activities: Within the framework of training activities for consolidation of PBB methodology and maintaining a required level of skills in working with PBB at the level of local budgets, the Training Center of KR MoF, together with Department of Budget Policy of the KR MoF, in 2019, organized and conducted a seminar on generation and execution of a budget on program basis for 55 employees of budgetary institutions and municipal enterprises. For 32 employees of KR MoF, subordinate and territorial departments of KR MoF, representatives of local self-government bodies, an online course was held on the topic “Program budgeting, using DLT” (distance learning technologies), and 16 persons were trained during this course and registered.

As a result of the pilot project, the program budget and program classification will be introduced across all the LSGs. At the same time, given that certain issues of education, health care, cultural institutions, social security and the public services provided by them are fully funded from the Republican Budget, while local budget maintains

buildings and structures of educational institutions, including current and major repairs and development of the adjacent territories; that is the program budget of LSG include only those establishments, which are within the competence of those LSGs.

The implementation of the program budget in Saz has not yet begun. At the same time, the Ayil Okmotu Saz, together with the territorial bodies of the Ministry of Education and Science and secondary education, preschool and out-of-school organizations, ensure the implementation of the state policy in the field of education in accordance with the legislation of the Kyrgyz Republic. It monitors the activities of educational institutions on implementation of state policy in the field of education, provision of quality education, proper performance of functions defined by a Charter of an educational institution, protection of students and employees' health.

Aiyl okmotu maintain records of children to be trained in educational programs of preschool, primary, secondary education. Aiyl okmotu promote development of municipal educational institutions in accordance with needs of population; studies a current level and trends in development of educational processes in educational institutions.

Annual action plans are prepared by LSG bodies and are approved together with the budget. However, performance indicators for planned outcomes in services delivered by general education institutions are not included in Saz's budget documents and are not published.

8.1. Performance plans for service delivery

Performance level and evidence for scoring: Introduction of program budgeting in the Kyrgyz Republic was active in 2011, when six-line ministries were included in the pilot project for program budgeting. These six line ministries presented their budgets for 2012-2014. Starting from this period, the list of ministries and agencies presenting budgets in a programmatic format has gradually expanded, with full coverage of all ministries and agencies financed from the Republican Budget. Since 2017, budgets on a programmatic basis are submitted by all ministries and agencies financed from the Republican Budget.

In 2017, in the implementation of the norms of the Budget Code of the Kyrgyz Republic (Articles 82, 84, 86), approved by the Statement of the KR Government dated December 30, 2017 No. 854 "On budgeting on a program basis", instructions were issued:

- On the procedure for generation, consideration and implementation of Medium-term strategies for budget expenditures.
- On the procedure for generation, consideration and implementation of budgets on a programmatic basis.
- On procedure for determining indicators of effectiveness of budget programs and measures.

In the same year, a pilot project was implemented on financing of 4 ministries (Ministry of Labor and Social Development of the Kyrgyz Republic, Ministry of Education and Science of the Kyrgyz Republic, Ministry of Health of the Kyrgyz Republic, Ministry of Agriculture, Food Industry and Melioration of the Kyrgyz Republic) and there were reports received on piloting budget programming through the automated treasury system.

In addition to this, the Article 87 of the KR Budget Code became effective from January 1, 2018, and it stipulated an assessment of the effectiveness of budget programs of ministries and agencies based on the achievement of performance indicators. In this regard, the 2019 KR Government Statement No. 17 "On monitoring and evaluating

the effectiveness of budget programs" approved the following: 1) procedure for submitting reports on achievement of budget program performance indicators; and 2) procedure for assessing the effectiveness of budget programs. The implementation of the budget on the basis of budget programs and measures is undertaken within the Treasury automated information system "IS: Treasury (Kazna). Budget" since 2018.

In order to introduce program-based budgets (PBBs) at the level of local budgets, in 2017 an analysis and monitoring of international practice on applying a methodology for generation of local budgets on program basis was undertaken. An Instruction was developed on the procedure for the generation, consideration and execution of budgets on a programmatic basis at local level, which was approved by the Decree of the Ministry of Finance of the Kyrgyz Republic No. 69-P of 23.07.2018. Since 2018, program budgeting has been gradually introduced at the level of local budgets in pilot local governments. Over the past 3 years, the MoF, together with the OSCE Program Office, has provided expert assistance to local governments in the development of local program budgets to identify areas for expenditures for local governments. Such assistance was provided to the following cities and towns: Naryn, Kochkor-Ata, Osh, Kant, Balykchi and Kochkor village. In 2020, expert assistance was provided to the city of Mailuu-Suu, village of Min-Kush and Sumsar aiyl aimak (rural area). Program budgets and indicators of efficiency and effectiveness of service delivery were developed for the above-mentioned LSGs. However, the implementation of the program budget in Saz has not yet begun. *Hence, the score for this dimension is D.*

Possible causes of PFM performance identified during the PEFA assessment: Information is not published annually on the activities to be performed under the policies or programs of ministries or a framework of performance indicators relating to the outputs or outcomes of ministries is not in place.

8.2. Performance achieved for service delivery

Performance level and evidence for scoring: In accordance with the requirements of the Budget Code of the Kyrgyz Republic, Decree of the KR MoF No.128, budgetary institutions prepare annual reports on their activities, but they are not published. At the meetings of Ayil Okmotu and Ayil Kenesh issues on the effectiveness and evaluation of the provision of services by institutions providing services are constantly considered. *Hence, the score for the present dimension is D.*

Possible causes of PFM performance identified during the PEFA assessment: Budgetary institutions prepare annual reports on their activities and performances achieved, but they are not published.

8.3. Resources received by service delivery units

Performance level and evidence for scoring: The automated treasury system collects monthly and annual reports from at least two large ministries based on budget allocation, Education and Health. The report compiles information from each institution (primary school, polyclinic), on expenditures from budget funds and from "special funds" (i.e., from their resources generated by fees collected for services rendered and other revenue collection activities).

The revenues of budgetary organizations providing paid services (receipts to a special account) are approved by the annual Statement of Ayil Kenesh on approval of budget. Revenues collected by preschool institutions (parental fees for kindergarten), etc. are approved in the budget of LSG Saz. *Hence; the score for the present dimension is A.*

Possible causes of PFM performance identified during the PEFA assessment: Information on resources received by frontline service delivery units is collected and recorded for all budgetary institutions, disaggregated by source of funds. A report compiling the information is prepared annually.

8.4. Performance evaluation for service delivery

Performance level and evidence for scoring: For the year 2017-2019, LSG Saz did not assess the effectiveness or efficiency of the provision of services. *Hence, the score for the present dimension is D.*

Possible causes of PFM performance identified during the PEFA assessment: LSG Saz does not have the practice of assessing the effectiveness or efficiency of the provision of services.

PI-9. Public access to fiscal information

What does PI-9 measure? This indicator assesses the comprehensiveness of fiscal information available to the public based on specified elements of information to which public access is considered critical. There is one dimension.

Coverage: BCG.

Time period: Last completed fiscal year.

Indicator/Dimension	Score
PI-9. Public access to fiscal information	D
9.1. Public access to fiscal information	D

General description of the system in place in LSG Saz: Partial budget information is available at the Announcements Board in the building of the Saz Aiyl Aimak, which contains: The Work Plan of the Aiyl Kenesh (parliament) for the year (the Plan indicate dates of consideration of draft budget, approval of budget and reports on execution of budget for half year and the annual budget).

Recent or ongoing reform activities: None.

9.1. Public access to fiscal information

Performance level and evidence for scoring: The table below shows the information for the completed fiscal year 2019 against the five basic and four additional elements required. The government makes available to the public one basic element only, and none of the additional elements in accordance with the specified timeframe. Element 9 is not applicable to LSG Saz. *Hence, the score for the present dimension is D.*

No.	Element/Requirements	Met (Yes/No)	Evidence Used/Comments
Basic Elements			
1	Annual Executive Budget Proposal Documentation.	No	

No.	Element/Requirements	Met (Yes/No)	Evidence Used/Comments
2	Enacted Budget.	No	
3	In-Year Budget Execution Reports.	No	
4	Annual Budget Execution Report.	Yes	Semi-annual and annual budget execution reports are posted in the announcement board in the building of the Saz Aiyl Aimak.
5	Audited Annual Financial Report, Incorporating or Accompanied by the External Auditor's Report.	No	There is no external audit function at the subnational level of the local self government of Saz. The national level Account Chamber performs the external audit of the consolidated budget performance report of Sokuluk region and the reports are submitted to the legislature.
Additional Elements			
6	Pre-budget Statement.	No	
7	Other External Audit Reports.	No	There is no external audit function at the subnational level of the local self government of Saz. The national level Account Chamber performs the external audit of the consolidated budget performance report of Sokuluk region and the reports are submitted to the legislature.
8	Summary of the Budget Proposal.	No	
9	Macroeconomic Forecasts.	NA	Macroeconomic forecast is not prepared at the level of LSG.

Possible causes of PFM performance identified during the PEFA assessment: Budget information is made available to the public basically through the announcement board in the building of the Aily Aimak and the LSG doesn't operate a website. The LSG doesn't have the practice of posting basic fiscal information in the announcement board.

PILLAR THREE: Management of assets and liabilities

What does Pillar III measure? Effective management of assets and liabilities ensures that public investments provide value for money, assets are recorded, and managed, fiscal risks are identified, and debts and guarantees are prudently planned, approved, and monitored.

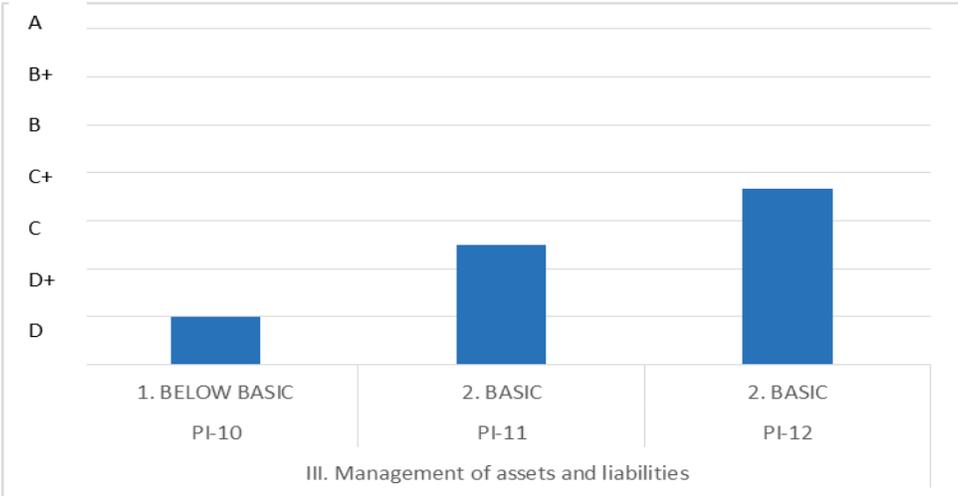
Overall performance: key strengths and weaknesses

The assessment shows that fiscal risks are not well managed (PI-10). There are no public corporations belonging to LSG Saz. The contingent liabilities of government are not reported. Even if they are not expected to have huge impact on the overall fiscal discipline, such risks may have potential impact on the local government and should be closely monitored and reported.

The process of public investment management (PI-11) demonstrated several weaknesses: i). there are no approved economic selection criteria for capital investment projects and all documentation relevant to the selection and monitoring of investment projects is not published.

The annual financial report covers data on assets and disposal. The assessment shows that the management of assets is good but still not sufficiently effective (PI-12). There is a record of financial assets and liabilities but there are no details about their acquisition value. The records of non-financial assets are rather detailed on land, rents, equipment and vehicles; however, the information about these assets is not public. There are well established rules for assets transfer and disposal.

Figure 2.3: Pillar 3-Summary of PEFA scores



PI-10. Fiscal risk reporting

What does PI-10 measure? This indicator measures the extent to which fiscal risks to central government are reported. Fiscal risks can arise from adverse macroeconomic situations, financial positions of subnational governments or public corporations, and contingent liabilities from the central government's own programs and activities, including extra-budgetary units. They can also arise from other implicit and external risks such as market failure and natural disasters. This indicator contains three dimensions and uses the M2 (AV) method for aggregating dimension scores."

Indicator/Dimension	Score
PI-10. Fiscal risk reporting	D
10.1. Monitoring of public corporations	N/a
10.2. Monitoring of subnational governments	N/a
10.3. Contingent liabilities and other fiscal risks	D

General description of the system in place in Kyrgyz Republic:

Article 62 in the Law of the Kyrgyz Republic "On Local Self-Government" (2011) No. 101 empowers local governments to establish and control municipal enterprises and non-profit organizations, as well as to own shares, (Закон КР от 15 июля 2011 года № 101 "О местном самоуправлении" (minjust.gov.kg). with purpose of achieving targets of local and operational significance as well as to encourage economic development. Local governments establish such enterprises in order to render services which are inherent in the functions and operation of the local government.

Recent or ongoing reform activities: Not reported

10.1. Monitoring of public corporations

Performance level and evidence for scoring: There are no municipal enterprises in LSG Saz. This dimension is not applicable.

Possible causes of PFM performance identified during the PEFA assessment: N/a.

10.2. Monitoring of subnational governments

Performance level and evidence for scoring: There are no lower government levels in the local self-government of Saz. The dimension is non-applicable.

Possible causes of PFM performance identified during the PEFA assessment: N/a

10.3. Contingent liabilities and other fiscal risks

Performance level and evidence for scoring: There is no information on contingent liabilities and other fiscal risks in the financial reports of LSG Saz.

Possible causes of PFM performance identified during the PEFA assessment: There is no information if there is a legal requirement to perform the function on monitoring and reporting of contingent liabilities and other fiscal risks.

Dimension score – D

PI-11. Public investment management

What does PI-11 measure? This indicator assesses the economic appraisal, selection, costing, and monitoring of public investment projects by the government, with emphasis on the largest and most significant projects. It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores.

Indicator/Dimension	Score
PI-11. Public investment management	D+
11.1. Economic analysis of investment projects	D
11.2. Investment project selection	C
11.3. Investment project costing	C
11.4. Investment project monitoring	C

General description of the system in place in Kyrgyz Republic:

Article 28 and 29 of the Budget Code (see Chapter 5) set the general conditions for public investment. They are made for setting and development of infrastructure, innovation systems, support of social sector through institutional reconstruction as a result of investment projects. There are four types of investments: i) capital investment; ii) budget crediting; iii). stimulating (incentive) grants and iv). regional development funds. Public investments are meant to be external investment projects or public-private partnerships.

The Incentive (equity) grants are provided from the republican budget to the executive bodies of local self-government in order to support efficient spending of budgetary funds, increase local budget revenues and more fully mobilize local sources of revenue. They are also extended to the local governments on competitive basis. The local governments are supposed to apply, in accordance with the conditions stipulated by the Regulations and Instructions for Preparation and Implementation of Investment Projects, in order to receive funds.

The regulation on the selection and financing of projects from the incentive grants fund is approved by a Resolution of the Government of Kyrgyzstan dated April 21, 2015 No. 230. The rule is that the maximum amount allocated from the Republican Budget for one project should not exceed KGS three million. The competition is held in two stages: i) collection and registration of applications and ii) assessment, selection and approval of projects for co-financing. The assessment of projects goes at different levels by a) commission for the selection of projects at the district level; b) a commission for the selection of projects at the level of cities of regional significance; c) commission for the selection of projects at the level of cities of republican significance - Bishkek and Osh; d) commission for approval of projects. Local governments carry out procurement tenders in order to assign contractors. The local governments submit signed procurement contracts in order to justify the receipt of incentive (equity) grants financing.

Recent or ongoing reform activities: Not reported

11.1. Economic analysis of investment projects

Performance level and evidence for scoring:

The Department of Incentive Grants in the Ministry of Economy and Finance is responsible for allocating incentive grants to finance local infrastructure improvements.

The public investments in LSG Saz, in the period 2017-2019, were carried out only through incentive grants.

Local budget funds, in 2018-2019, were allocated as co-financing of projects within the framework of the SDG. The share of the local budget in projects depends on the level of income in the respective LSG. The level of income is determined by the authorized state body for public finance management according to a formula approved in the decree of the Government of the Kyrgyz Republic of April 21, 2015 No. 230.

Due to restrictions in the budget of LSG Saz, there were very few capital investments projects in the period 2017-2019. The local budget funds were extended mostly for current repair work in school, kindergarten, medical centres.

Public investments, in LSG Saz (ayil aimak) in the period 2017-2019, were implemented only by means of incentive grants. The Republican budget provided SOM 1599,8 in 2018 to LSG Saz, own source funds were also extended for the repair of administrative buildings and schools. In 2019, the Republican budget provided SOM 2,226.6 thousand and 472.3 thousand KGS from the local budget of Saz for major repair work.

Table 11.1: List of major capital investment projects for FY2018- 2019

Name of capital project	Capital cost	Total budget expenditure	% of total budget
Repair of administrative buildings and schools	2,027	6,057	33%
Boiler house overall repair work in the village of Saz	2,699	7,368	37%

Source: Ministry of Finance Saz

There are no external or budget investments as capital investments from the Republican Budget in LSG Saz.

There are no approved economic selection criteria for capital investment projects funded from the local budget. There is no unified and established system of economic analysis for selection of public investment projects.

Possible causes of PFM performance identified during the PEFA assessment: There are no established economic analysis and selection criteria for capital investment projects funded by the local budget of Saz.

Dimension score – D

11.2. Investment project selection

Performance level and evidence for scoring:

Incentive grants projects are selected by a commission.

For capital investment projects financed from the local budget, projects are selected in accordance with the priorities established by the forecast of socio-economic development of the region. There are no approved selection criteria. The list of projects for construction and maintenance of social facilities is drawn up on the basis of the Strategic Development Plan of Saz, public debate and discussions among the members of the local Parliament (ayil kenesh). The list of construction and capital repair works is considered during the hearings on budget approval and is approved at a meeting of the local Parliament (ayil kenesh).

However, due to the limited budgetary funds in LSG Saz, except for the allocated incentive grants, capital investments for 2017-2019 were not carried out. Basically, the local budget funds were directed to the current repair of schools, kindergartens, clubs, midwife stations, repair of water supply networks and maintenance of roads (patching, etc.).

There is a list of projects as part of the Social Development Plan for FY 2019 provided as evidence. They were all discussed at Parliament but there are no standard criteria for project selection.

Possible causes of PFM performance identified during the PEFA assessment: There is no information how many projects in the period 2017-2019 were subject to the above-described selection process.

Dimension score - C

11.3. Investment project costing

Performance level and evidence for scoring:

The budget documentation of LSG Saz includes total capital current cost and life-cycle cost for the entire implementation period of each project. There is costing information included in subnational budget documents; these are partially integrated in the budget documentation – for the next year, only.

Possible causes of PFM performance identified during the PEFA assessment: The organisation and practice of work concerning reporting of public investment in LSG Saz and in the country as a whole.

Dimension score - C

11.4. Investment project monitoring

Performance level and evidence for scoring: The implementation of the selected investment projects is monitored by the local government, in particular costs and physical progress.

The implementation of investment projects (in terms of costs and actual progress) within the framework of incentive (equity) grants is controlled by the local government. Progress covered in the report on the implementation of the Plan of Social and Economic Development of LSG Saz on a semi-annual and annual basis.

The government of Saz (Ayil Okomotu) is accountable to the local parliament, the local community, and the Sokuluk department of the Ministry of Economy and Finance for the implementation of projects within the framework of the

incentive grants. The following levels of monitoring and evaluation of project implementation are established: (i) Sokuluk Department of the Ministry of Economy and Finance monitors the implementation of the requirements of the Regulations and Instructions for the preparation and implementation of projects by the commissions for the selection of projects; (ii) The local parliament monitors and evaluates the implementation of projects.

Quality control of the work performed is assigned to the government. For this purpose, in accordance with the Instructions for the preparation and implementation of projects, a group of Joint Monitoring and Evaluation (JM&E) is established. The activities of the JM&E group are carried out on the basis of the Joint Monitoring and Evaluation Plan.

The JM&E group is formed from among the representatives of the local community and is approved by the LSG Saz. The number of the group is at least 5 people. They monitor and evaluate the project implementation according to the following indicators: (i) technical supervision; (ii) keeping a log of technical supervision; (iii) photo report on the implementation of the project; (iv) 50% of work completion; (v) 100% completion of work; (vi) commissioning of facility. The report of the JM&E group is provided to LSG Saz. The government informs the population about the results of the work of the JM&E group. They are also presented and discussed at a session of the local parliament.

Possible causes of PFM performance identified during the PEFA assessment:

Public investment projects are monitored in terms of cost and physical progress. The achieved progress and output are not published.

Dimension score - C

PI-12. Public asset management

What does PI-12 measure? This indicator assesses the management and monitoring of government assets and the transparency of asset disposal. It contains three dimensions and uses the M2 (AV) method for aggregating dimension scores.

Indicator/Dimension	Score
PI-12. Public asset management	C
12.1. Financial asset monitoring	C
12.2. Nonfinancial asset monitoring	C
12.3. Transparency of asset disposal	C

General description of the system in place in Kyrgyz Republic:

Ministry of Finance monitors financial assets in accordance with the Budget Code and the developed State Accounting Standards -2001. The chart of accounts applied in the accounting is integrated into the budget classification.

Recent or ongoing reform activities: an Interagency Commission was established in 2017 in accordance with a Parliamentary Resolution in May 2016 of the national government of Kyrgyzstan to develop an inventory of the country’s tangible and intangible assets. In February 2017, the State Property Fund issued Regulations setting out how the Single State Property Register was to be established and maintained. The Government Decree of 18 August 2017 on the Interagency Automated Information System “Unified State Property Register of the Kyrgyz Republic”

gave the overall responsibility for the Register to the State Property Fund. The Interagency Commission established two action plans for 2017-18 and 2019-21 to gather the data. This task for the state property was completed in October 2020. Regarding LSG Saz, Sokuluk Department of the MoF is currently updating the Property Register of LSG Saz. Work is in progress to ensure transparency in the management of municipal property.

12.1. Financial asset monitoring

Performance level and evidence for scoring:

The LSG Saz keep a record of its financial assets and liabilities covering bank deposits. They monitor the respective liabilities as well and both assets and liabilities are reflected in the budget execution reports.

Table 12.1: Financial assets of LSG Saz for FY 2019 (all amounts in KGS)

Financial assets	Total year-end	Budget funds	Special funds
1. Foreign currency and deposits	1,078,113	1,058,598	19,515
2. Other receivables	2,031	2,031	0
Total	1,080,144	1,060,629	19,515

Source: MoF LSG Saz

Possible causes of PFM performance identified during the PEFA assessment: Still not clear if assets are registered at market value and if information on the performance of portfolio of financial assets is published annually.

Dimension score – C

12.2. Nonfinancial asset monitoring

Performance level and evidence for scoring:

There is a chief specialist in municipal property responsible for the effective management, including keeping a register and accounting of property transferred or disposed, organizing tenders for sale or lease, municipal markets, parking lots and use of municipal property. It consists of nine facilities, including schools, kindergartens, club, health care centre, stadium, mosque and the local government building.

There are registers of non-financial assets covering leased agrarian land, motor vehicles, and municipal premises belonging to Saz. The evidence provided is not unified non-financial assets register but rather separate records of assets by category. Evidence of asset registers were provided on land and premises. The asset register of municipal premises provides data on location, asset identification number and size but no details on usage, depreciation and age.

The total volume of land of LSG Saz is 6344.0 hectares, of which the volume of land of the State Farmland Fund (in Russian language abbreviated to ФПЦ, it covers agricultural land excluding pastures that is owned by the state) is 340.0 hectares.

Complete information on all lands, buildings and other assets belonging to LSG Saz is not officially published and available to the public. Some of the non-financial asset information is available on notice boards on site. It is not

known if the nonfinancial asset records are part of the annual financial report or if they are published standalone in any manner.

Table 12.2: Non-financial assets of LSG Saz for FY 2019 (all amounts in KGS)

Non-financial assets	Total year-end	Budget funds	Special funds
Funds	15,954,707	15,837,454	117,253
Stock	781,892	667,773	114,119
Total	16,736,599	16,505,227	231,372

Source: LSG Saz

Possible causes of PFM performance identified during the PEFA assessment: There is no specific legal requirement how to keep the asset register and what details it should cover. Regarding the ongoing reforms of developing an electronic “Unified State Property Register of the Kyrgyz Republic”, it is completed and available on <https://fgi.gov.kg/state-property>. However, the register covers only state property and not municipal. The evidence provided shows data as maintained before the launch of the current reform.

Dimension score – C

12.3. Transparency of asset disposal

Performance level and evidence for scoring:

The sale or lease of assets is regulated by the Law "On municipal ownership of property" dated March 15, 2002 N 37, article 29 of the Land Code of the Kyrgyz Republic, as well as by other three legal acts. The procedure and rules for the transfer or disposal of non-financial assets are established. It appears that only partial information about transfers and disposals is included in the budget documents.

The LSG Saz does not publish tenders and auction for sale or for lease of assets. Such are only posted on the notice board in the government building. Information about buyers or tenants is not published, either. Such details are considered by law as trade secret. Information on sale and acquisitions only is included in annual budget reports.

Table 12.3. Table of transfer and disposal of assets for FY 2019

Category	Sub-category	Value year-end	Comments
Main Stock	Buildings and infrastructure	KGS 13,689,191	At the beginning of the year, the initial cost of fixed assets is KGS 10,329,916 an increase in fixed assets is associated with the overhaul of the boiler house of a secondary school.
	Machine and Equipment	KGS 6,345,044	At the beginning of the year, the initial cost of this sub-category was KGS 5,129,564. The increase is due to a grant.
	Other	KGS 8,868,847	At the beginning of the year, the initial cost is KGS 802,616 (garden plants and textbooks), the increase is due to the receipt of textbooks from the regional educational institution to the secondary school 66231
Reserve stock		KGS 781,892	At the beginning of the year, stocks are KGS 566,138, KGS 1,776,253 were purchased, KGS 1,560,499 were written off
Valuables	-	-	-
Other assets	Land	6344 ha	Arable land - 1550 hectares (irrigated - 1355, rained - 150); pastures 4,202 hectares, hayfields - 416 hectares; deposits - 221 ha
	Minerals	-	-

Category	Sub-category	Value year-end	Comments
	Other natural resources	-	-

Source: LSG Saz

Information on assets disposal is covered in budget documentation under section 3 “Assets and Liabilities” and in Appendix 1 to the balance sheet. Information on newly acquired assets and revenue from sale exist and they appear in the annual budget report.

Dimension score - C

Possible causes of PFM performance identified during the PEFA assessment: The procedures and rules for transfer and disposal of assets are established in the legislation.

PI-13. Debt management

What does PI-13 measure? This indicator assesses the management of domestic and foreign debt and guarantees. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements. It contains three dimensions and uses the M2 (AV) method for aggregating scores.

Indicator/Dimension	Score
PI-13. Debt management	N/a
13.1. Recording and reporting of debt and guarantees	N/a
13.2. Approval of debt and guarantees	N/a
13.3. Debt management strategy	N/a

General description of the system in place in Kyrgyz Republic:

Articles 65, 66 and 67 of the Budget Code of the Kyrgyz Republic stipulate that local governments have the right to borrow by issuing municipal securities on their behalf, as well as receiving budget loans. The issue of municipal securities is carried out in order to implement priority investment projects targeted in the local development plans. This aims at ensuring a balanced budget and to repayment of existing municipal debt.

The local self-government is responsible to issue the municipal securities once decision is made by the local parliament in the manner prescribed by the KR Government. The specific type and volume of the municipal securities are determined by the local kenesh (Parliament). Generally, the local governments are prohibited from borrowing if the debt obligations exceed 20 percent of the annual income of the respective local government. Such income would be excluding any funds raised from loans and intergovernmental transfers.

The LSG Saz have not borrowed, issued debt obligations or loan guarantees in the period 2017-2019. In this regard, this indicator cannot be applied.

Recent or ongoing reform activities: Not reported

13.1. Recording and reporting of debt and guarantees

Performance level and evidence for scoring: N/a

Possible causes of PFM performance identified during the PEFA assessment: N/a

13.2. Approval of debt and guarantees

Performance level and evidence for scoring: N/a

Possible causes of PFM performance identified during the PEFA assessment: N/a

13.3. Debt management strategy

Performance level and evidence for scoring: N/a

Possible causes of PFM performance identified during the PEFA assessment: N/a

PILLAR FOUR: Policy based fiscal strategy and budgeting

What does Pillar IV measure? The fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections.

Overall performance: key strengths and weaknesses

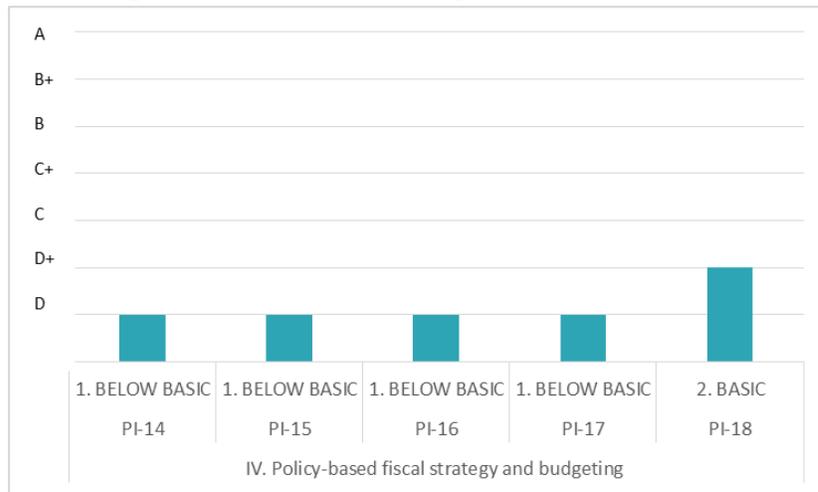
Macro-economic and fiscal forecasting is not performed at the level of LSG Saz. The Budget Code stipulates adoption by local Keneshes of the Program of socio-economic development of territories and control over their implementation. Saz Aiyl Okmotu adopted the "Action Plan for the Implementation of the Program for the Development of Local Self-Government of the Kyrgyz Republic for 2018-2023" In addition, the Saz Aiyl Aimak approved the "Strategic Program No.1 of the Saz Aiyl Aimak for 2018-2019-2020." The Social and Economic Development Plan (SED) of the Saz Ayil Okmotu for 2019 was also developed. However, the SED does not include estimates of GDP growth, inflation and other forecasts for the main macroeconomic indicators, which are the responsibility of the National Government. In addition, in the explanatory note to the draft budget (for one year), which is submitted to the Ayil Kenesh as part of the budget documentation, the forecasts on main macroeconomic indicators are not presented.

The fiscal forecast prepared by Saz Ayil Aimak forecasts revenue for three years while expenditures for one year only. According to the existing practice of LSGs, macroeconomic scenarios are not developed at the local level, including for the Saz Ayil Aimak. The LSG does not prepare an estimate of fiscal implications and revenue and expenditure policies for three years or one fiscal year. The Annual Budget of the Saz Ayil Okmotu is generated for the period of three years on revenues, and for the period of one year on expenditures with a break down to economic and functional classifications. Institutions of LSG Saz do not develop Medium-term strategies for budget expenditures.

The budget preparation process is found to be very weak where no budget calendar is adopted by LSG Saz. Budget circular is also not prepared, lacking clear guidance to budgetary units. The date of submission of draft budgets for 2017 and 2018 is not presented for the assessment.

The legislature approves procedures to be used for reviewing draft budget are approved before budget hearings and are followed. However, the procedures include internal organizational arrangements such as specialized review committees, technical support, and negotiation procedures. Budgets are approved within one after the start of the fiscal year. Figure 2.4 below shows the aggregate score per indicator for this pillar.

Figure 2.4: Pillar 4-Summary of PEFA scores



PI-14. Macroeconomic and fiscal forecasting

What does PI-14 measure? This indicator measures the ability of the government to develop robust macro-economic and fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It also assesses the government's capacity to estimate the fiscal impact of potential changes in economic circumstances. It contains three dimensions and uses **M2(AV)** for aggregating dimension scores.

Coverage: Dimension 14.1: the whole economy. Dimensions 14.2 and 14.3: CG.

Time period: Last three completed fiscal years.

Indicator/Dimension	Score
PI-14. Macroeconomic and fiscal forecasting	D
14.1. Macroeconomic forecasts	NA
14.2. Fiscal forecasts	D
14.3. Macro fiscal sensitivity analysis	D

General description of the system in place in LSG Saz: The KR MoF, in accordance with the Law of the Kyrgyz Republic "On state forecasting of socio-economic development of the Kyrgyz Republic" dated by February 20, 2009 No. 61 and the Procedure for developing a forecast of socio-economic development (SED) of the Kyrgyz Republic dated by May 17, 2018 No. 239, on the basis of the forecast data of the sectoral ministries and departments, develops annually a draft Medium-term forecast of the KR SED for the medium-term period, reflecting main macroeconomic parameters (GDP, inflation, etc.).

The Draft Statement of the GKR "On Medium-Term Forecast of Socio-Economic Development of the Kyrgyz Republic" undergoes an official procedure of coordination with the interested state bodies and the agreed draft forecast after this is to be submitted to the KR Government Office for consideration and approval.

A forecast on the exchange rate of US dollar is developed by the interdepartmental working group on macroeconomic policy of the Kyrgyz Republic, created by the Statement of the KR Government dated by April 4, 2011 N 94-r.

The forecasts of the socio-economic development of the Kyrgyz Republic for the medium term, prepared in 2016-2019, respectively, are posted on the official website of the KR Ministry of Justice (<http://minjust.gov.kg>) in the section "NLA database" (Normative legal acts):

- Statement of the KR Government dated by July 14, 2016 No. 395 "On the Forecast of socio-economic development of the Kyrgyz Republic for 2017 and 2018-2019";
- Statement of the KR Government dated by June 13, 2017 No. 368 "On the Medium-term forecast of socio-economic development of the Kyrgyz Republic for 2018-2020";
- Statement of the KR Government dated by August 23, 2018 No. 393 "On the Medium-term forecast of socio-economic development of the Kyrgyz Republic for 2019-2021";
- Statement of the KR Government dated by September 10, 2019 No. 465 "On the Medium-term forecast of socio-economic development of the Kyrgyz Republic for 2020-2022".

The KR Ministry of Economy, together with the KR Ministry of Finance, the KR National Bank, the KR National Statistical Committee (interdepartmental working group on macroeconomic policy of the Kyrgyz Republic, established by the Resolution of the KR Government dated by April 4, 2011 N 94-r) develop scenario of

macroeconomic framework with the subsequent choice of at least three macroeconomic scenarios of the baseline scenario and generation on its basis of target parameters for forecasting the socio-economic development of the Kyrgyz Republic for the forecasted three-year period. These scenarios have to undergo a procedure of consideration at the meeting of the Coordinating Council for Macroeconomic and Investment Policy under the Government of the Kyrgyz Republic.

The approved scenario of the Medium-Term Forecast of Socio-Economic Development of the Kyrgyz Republic is the basis for development of the draft Main Directions of Fiscal Policy of the Kyrgyz Republic for the medium-term period and the draft Law of the Kyrgyz Republic on the Republican Budget.

Medium-term forecast indicators for development of regions of the Kyrgyz Republic for 2019-2021 are presented in Appendix 14 to the Statement of the Decree of the Kyrgyz Republic Government dated by August 23, 2018 No. 393 "On the Medium-term forecast of socio-economic development of the Kyrgyz Republic for 2019-2021." This appendix presents the macroeconomic dimensions of development for 2019-2021 in the context of the regions of the republic, such as: Gross regional product, Average monthly wages, subsistence minimum, etc. When developing medium-term programs and strategies for the development of regions, city halls, local governments, these approved macroeconomic development dimensions should be taken as a basis.

The KR MoF annually develops Main Directions of Fiscal Policy (MDFP) of the Kyrgyz Republic for the next 3 years.

The Medium-term forecast of the KR socio-economic development prepared by the KR Ministry of Economy serves as a basis for the development of the draft KR MDFP for the medium-term period and for the development of the draft KR Law on the Republican Budget.

The MDFP gives a holistic view of the resources of the state budget and takes into account macroeconomic development, factors affecting the economy, the results of structural and administrative reforms, resources and commitments of the state.

The parameters of the MDFP are taken as the basis for development of the Republican Budget. As part of the budget documentation of the draft Law on the Republican Budget, - an explanatory note is submitted to the KR Jogorku Kenesh with medium-term forecast of socio-economic development, including quantitative benchmarks and measures of socio-economic policy, medium term policy measures on revenues and expenditures.

Recent or ongoing reform activities: None

14.1. Macroeconomic forecasts

Performance level and evidence for scoring: The Budget Code stipulates adoption by local Keneshes of the Program of socio-economic development of territories and control over their implementation (Articles 78, 80, 88). The Methodological manual "Development and implementation of local budgets of the Kyrgyz Republic", approved by the Decree of the KR MoF dated by October 13, 2018 No.312 (paragraph 3.3. Section 3) regulates the development of the draft local budget on the basis of the program for socio-economic development.

Pursuant to the Statement of the Government of the Kyrgyz Republic "On the Program for the Development of Local Self-Government of the Kyrgyz Republic for 2018-2023" dated by October 31, 2018 No.513 and the Decree of the Sokuluk Raion dated by December 20, 2018 No.478-B, by the Statement of the Head of the Saz Aiyl Okmotu dated by January 28, 2019 No.02-7/14 the "Action Plan for the Implementation of the Program for the Development of

Local Self-Government of the Kyrgyz Republic for 2018-2023" was approved. In addition, the Saz Ayyl Aimak approved the "Strategic Program No.1 of the Saz Ayyl Aimak for 2018-2019-2020."

By the resolution of the 1st session of the XXVII convocation of the Saz Ayyl Kenesh dated by January 18, 2019 No.1/29, the Social and Economic Development Plan (SED) of the Saz Ayyl Okmotu for 2019 was approved, which include activities worth 2,311.3 thousand soms.

Appendix No. 5 of the SED plan for 2019 for the Saz Ayyl Aimak approved objects and activities with sources of funding for a total amount of 5,921.4 thousand soms.

The Sokuluk State Administration approved the "Action Plan for the Development of the Saz Ayyl Okmotu for 2019" indicating the tasks, activities, funding sources, implementation deadlines and responsible executors.

The documents mentioned above are presented in a table, including only expenditures of the Ayyl Okmotu. The data show quantitatively defined goals of expenditures, supported by funding sources, linked to specific terms of indicators. The SED plan of the Saz Ayyl Okmotu for 2019 is not presented in text format.

Strategic documents are the basis for planning the draft budget for the medium term. Documents contain quantitatively defined goals tied to specific terms of indicators, tasks and measures of socio-economic development of Ayyl Okmotu, defining the main dimensions and priorities of fiscal policy for the forthcoming period. However, they contain only forecasts on expenditure of the Local Budget for medium term. The SED does not include estimates of GDP growth, inflation and other forecasts for the main macroeconomic indicators, which are the responsibility of the National Government. In addition, in the explanatory note to the draft budget (for one year), which is submitted to the Ayyl Kenesh as part of the budget documentation, the forecasts on main macroeconomic indicators are not presented. *Hence, the score for the present dimension is NA.*

Possible causes of PFM performance identified during the PEFA assessment: Macroeconomic forecast is not prepared at the level of LSG.

14.2. Fiscal forecast

Performance level and evidence for scoring: The draft budget of the Saz Ayyl Aimak is developed with consideration of revenues for the next budget year and two forecast periods (for three years), and with consideration of expenditures - for one year. In the draft budget, revenues are displayed by type of revenues (tax revenues, non-tax revenues, received official transfers, etc.).

The draft 2019 budget with figures on both expenditures and revenues is presented as an explanatory note submitted together with the budget documentation of the Saz Ayyl Aimak. The document does not contain a mid-term forecast of socio-economic development, which includes forecasts of expenditures, indicating the main changes in expenditures compared to the current year and the reasons for their variation. There is no explanation about variation from the previous forecast. *Hence, the score for the present dimension is D.*

Possible causes of PFM performance identified during the PEFA assessment: The fiscal forecast prepared by Saz Ayyl Aimak forecasts revenue for three years while expenditures for one year only.

14.3. Macrofiscal sensitivity analysis

Performance level and evidence for scoring: In the explanatory note attached to the budget documentation of the draft local budget, there is no descriptive part on various scenarios of budgetary and tax forecasts by analogy with the draft law of the Republican Budget. Hence, the score for the present dimension is D.

Possible causes of PFM performance identified during the PEFA assessment: According to the existing practice of LSGs, macroeconomic scenarios are not developed at the local level, including for the Saz Ayil Aimak.

PI-15. Fiscal strategy

What does PI-15 measure? This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government’s fiscal goals. It contains three dimensions and uses the M2(AV) method for aggregating dimension scores.

Coverage: CG.

Time period: Dimension 15.1: Last three completed fiscal years. Dimensions 15.2 and 15.3: Last completed fiscal year.

Indicator/Dimension	Score
PI-15. Fiscal strategy	D
15.1. Fiscal impact of policy proposals	D
15.2. Fiscal strategy adoption	D
15.3. Reporting on fiscal outcomes	D

General description of the system in place in LSG Saz: The budget documentation submitted to the Jogorku Kenesh of the Kyrgyz Republic by the Ministry of Finance of the Kyrgyz Republic includes an Explanatory Note to the draft republican budget of the Kyrgyz Republic. The estimations in the draft budget are based on the dimensions of the Main Directions of Fiscal Policy of the Kyrgyz Republic, approved by the Government Statement. The Explanatory Note contains a medium-term forecast of socio-economic development, including quantitative benchmarks and measures of socio-economic policy, policy measures in revenues and expenditures for the medium term:

- macroeconomic development prospects in 2019-2021;
- description of the budget revenue;
- description of budget expenditure;
- costs of servicing the KR State Debt;
- information about projects of local budgets;
- information about the MHIF KR;
- information about the KR Social Fund;
- information on general government expenditure (government programs, activities and payments);
- impact of new policy proposals on budget expenditures;
- budget deficit;
- risks of execution of the republican budget of the Kyrgyz Republic for 2019;
- program budgeting

An Explanatory Note as part of the budget documentation of the draft law of the republican budget is submitted to the JK KR for its consideration and published on the official website of the KR MoF. At the same time, the Explanatory Note cover only the Republican Budget, because it is developed for the Draft Law on the Republican Budget. The section of the Explanatory Note on local budgets contains brief information on the system of interbudgetary relations, and on the total values of local budgets, including own revenues of the local budget and the size of equalizing and targeted transfers.

The Ministry of Finance annually prepares a Report on implementation of the State Budget for the previous year and submits it to the KR Parliament. Annually, the Accounts Chamber of the Kyrgyz Republic conducts an audit of budget execution and submits a conclusion on the results of budget execution to the KR Parliament. The report includes an Explanatory Note containing analytical information on the economic situation and the main directions of fiscal policy, objective and subjective variations in budget execution (in terms of budget revenue and expenditure). The section on the macroeconomic situation describes the implementation of the medium-term forecast of socio-economic development. In addition, the report includes a report on the execution of the Local Budget in a tabular format, which provides general performance indicators by type of budgets: cities of the Republican Budget, cities of Oblast subordination, cities of Raion subordination and Ayil Okmotu.

Recent or ongoing reform activities: None

15.1. Fiscal impact of policy proposals

Performance level and evidence for scoring: The explanatory note of the draft budget of the Saz Ayil Okmotu contains only quantitative data by functions of expenditures. There is no description of policy measures regarding budget revenues and expenditures, and their assessment for medium term period. In addition, in this explanatory note there is not any explanation of how the draft budget correlates with the goals of the local community according to the social and economic development plan of Ayil Okmotu, indicating main changes in revenues and expenditures in comparison with the current financial year and the reasons for their variations. Therefore, it is not possible to assess the fiscal implications of the proposed policy measures on budget revenues and expenditures over the medium-term period. *Hence, the score for the present dimension is D.*

Possible causes of PFM performance identified during the PEFA assessment: The LSG does not prepare an estimate of fiscal implications and revenue and expenditure policies for three years or one fiscal year.

15.2. Fiscal strategy adoption

Performance level and evidence for scoring: The Government and LSG bodies pursue a unified fiscal policy. The KR Budget Code regulates the relationship between the Republican and local budgets. The KR Tax Code defines general legal norms for local taxes.

The adoption by local Keneshes of the Program of socio-economic development of territories and control over their implementation are provided for in the Budget Code (Articles 78, 80, 88). In addition, development of the Draft Local Budget on the basis of the program of socio-economic development is regulated by the Methodological manual "Development and Implementation of KR Local Budgets", approved by the Decree KR MoF dated by October 13, 2018 No.312 (paragraph 3.3. Section 3).

In order to implement the KR Government Statement "On the Program for Development of KR LSG for 2018-2023" dated by October 31, 2018 No.513 and the Decree of the Sokuluk Raion dated by December 20, 2018 No.478-B, - the Head of Saz Ayil Okmotu issued a Decree by January 28, 2019 No.02-7/14 to approve the "Action Plan for Implementation of the Program on the Development of Local Self-Government of the Kyrgyz Republic for 2018-2023" (Appendix No. 1). In addition, the Saz Aiyl Kenesh approved the "Strategic Program No.1 of the Saz Aiyl Aimak for 2018-2019-2020."

By the Statement of the 1st session of the XXVII convocation of the Saz Ayil Kenesh dated by January 18, 2019 No.1/29, the Social and Economic Development Plan (SED) of the Saz Ayil Okmotu for 2019 was approved, which include activities worth 2,311.3 thousand soms.

By Appendix No.5, Saz Ayil Aimak SED plan for 2019 was approved by enterprises and activities with funding sources for a total amount of 5921.4 thousand soms, including 2311.3 thousand soms from the Local Budget, and 1130.3 thousand soms as equalizing grants, and 2489.8 thousand soms from the Republican Budget.

The Sokuluk Public Administration Body approved the "Action Plan for the Development of the Saz Aiyl Okmotu for 2019", excluding funds for municipal servicing utilities and catering for children in the amount of 4422.1 thousand soms, indicating tasks, activities, funding sources, implementation deadlines and responsible executors in the following areas:

1. Agriculture by means of private investors;
2. Improvement of infrastructure: 4 projects by means of the local budget in the amount of 580.0 thousand soms;
3. Social environment: 2 projects by means of the local budget in the amount of 270.0 thousand soms;
4. Education: 4 projects by means of the local budget in the amount of 3242.1 thousand soms;
5. Culture and sports: 2 projects by mean of the local budget in the amount of 200.0 thousand soms;
6. Healthcare: project funded by the local budget in the amount of 100.0 thousand soms;
7. Ministry of Emergency Situations: 1 project by means of the local budget in the amount of 30.0 thousand soms.

The documents mentioned above are presented in a table, including only expenditures of Ayil Okmotu, they contain quantitatively defined goals of expenditures, supported by funding sources, linked with specific periods of indicators for one forthcoming year. The SED plan of the Saz Ayil Okmotu for 2019 is not presented in text format.

In addition, the documents on implementation of the SED plan were presented (not reviewed and not approved by the Ayil Kenesh):

- Implementation of the SED plan for the Saz Ayil Okmotu for 12 months of 2019 as part of the implementation plan of the Decree of the President of the Kyrgyz Republic "On declaring 2019 as the Year for Regional Development and Digitalization of the Country" dated by January 11, 2019 No. 1 (in table);
- Information on the results of the implementation of the plan for the SED Saz Ayil Okmotu for 2019 (in text).

Hence, the score for the present dimension is D.

Possible causes of PFM performance identified during the PEFA assessment: The fiscal strategy adopted by LSG Saz does include quantitative fiscal objectives but not qualitative objectives.

15.3. Reporting on fiscal outcomes

Performance level and evidence for scoring: Saz Ayil Okmotu did not prepare a report on the implementation of the Plan for Socio-Economic Development of Ayil Okmotu as part of the annual report, which includes the implementation of fiscal strategy and explanations of reasons for variation from the approved goals and objectives for the medium-term period.

The provided Information on the results of the implementation of the Saz Ayil Okmotu SED plan for 2019 was not considered and approved in the stipulated order by the Ayil Kenesh. *Hence, the score for the present dimension is D.*

Possible causes of PFM performance identified during the PEFA assessment: A report on the implementation of the Strategic Plan for the Development has not been prepared together with the Annual Budget.

PI-16. Medium-term perspective in expenditure budgeting

What does PI-16 measure? This indicator examines the extent to which expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings. It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans. It contains four dimensions and uses the **M2 (AV)** method for aggregating dimension scores.

Coverage: BCG.

Time period: Dimensions 16.1, 16.2 and 16.3: Last budget submitted to the Legislature. Dimension 16.4: Last budget approved by the Legislature

Indicator/Dimension	Score
PI-16. Medium-term perspective in expenditure	D
16.1. Medium-term expenditure estimates	D
16.2. Medium-term expenditure ceilings	D
16.3. Alignment of strategic plans and medium-term budgets	D
16.4. Consistency of budgets with previous year's estimates	D

General description of the system in place in Saz: The KR MoF develops the draft Republican Budget (draft budget) for the next budget year and the forecast period. All budget administrators are involved in the process of forming the draft budget for the revenue and expenditure side of the budget. Chief Budgetary Units (CBU) and Budgetary Units (BU) must submit draft budgets (budget applications) to the Ministry of Finance with the breakdown by departmental, functional and economical classifications. In addition, they also present draft budgets with program classifications. The Ministry of Finance in the process of reviewing budget applications of the CBU and/or the BU:

- Check compliance of the amounts of expenditures included in the budget requests with the forecasted dimensions of the Main Directions of Fiscal Policy (MDFP) and their validity;

- Check correctness of the developed Payroll Fund and application of norms and prices for estimation of material and monetary expenditures;
- Assess need in expenditures, check for presence of justified estimations to budgetary requests;
- Clarify applications for budget allocations, make amendments to them, if necessary, based on the results of consideration.

After reviewing and clarifying the assessment of the expenses of the CBU, the Ministry of Finance develop a Draft Law of the Kyrgyz Republic on the Republican Budget of the Kyrgyz Republic for three years and submits it to the Government of the Kyrgyz Republic and the KR Parliament for its further consideration and approval. According to current practice, when changes are made to the approved budget, one budget year is adjusted, but the figures for the two forecast years remain unchanged.

The territorial bodies of the KR MoF and the financial and economic divisions of local self-government bodies consider the submitted draft expenditures (applications) for the coming year in the presence of the heads of the relevant institutions of the cities of Republican, Oblast and Raion subordination, and the executive bodies of local self-government, through their financial and economic departments, consider the draft expenditures of Ayil Aimaks.

At the same time, they are obliged: to ensure full compliance of the production indicators of the draft estimates with the macroeconomic indicators for the planned year, not to allow the adoption of cost estimates in the draft, not confirmed by calculations and justifications, and others.

Upon completion of consideration of draft expenditures (applications) for the coming year and on the basis of interbudgetary transfers planned for the Republican Budget, as well as revenues of local budgets, the territorial bodies of the KR MoF and executive bodies of local self-government:

- determine the amount of allocations related to the corresponding budget and make appropriate adjustments to them, if necessary;
- determine the size of funding according to the estimates of institutions;
- consolidate requests for expenses for each section, paragraphs and articles of economic classification;
- compile forecast indicators across the network, staff and quotas for budgetary institutions in accordance with the budget classification;
- compile draft budgets of special funds.

In accordance with Article 81 of the Budget Code, the KR MoF, in accordance with the Statement of the KR Government dated by January 30, 2020, 22-r, circulated to the ministries and departments the draft (preliminary) control figures for estimating draft expenditures by April 27, 2020. By May 10, 2020, there were working meetings held to resolve differences in opinions involving representatives of ministries and departments.

To implement the provisions of the KR Government Statement, mentioned above, the Ministry of Finance sent draft (preliminary) target figures at the start of the annual budget preparation cycle to ensure that expenditures outside the budget year are aligned with the government's fiscal policy and budgetary objectives.

By May 20, 2020, a draft Main Directions of Fiscal Policy (MDFP) was prepared and submitted, including general control figures for the expenditures of ministries and departments for consideration by the KR Government Council on Fiscal and Investment Policy.

Draft local budgets for the next budget year and the forecast period are developed in accordance with the procedure and terms established by the relevant local Keneshes, in compliance with the requirements of the Budget Code (Article 81, 95), taking into account the calendar plan for the development of the draft Republican Budget approved by the Government.

Recent or ongoing reform activities: None

16.1. Medium-term expenditure estimates

Performance level and evidence for scoring: The Draft Budget of the Saz Ayil Okmotu is generated for the period of two years on revenues, and for the period of one year – on expenditures for their facilities and enterprises with a break down to economic and functional classifications - thus violating principles of balance, unity, completeness and others of the Budget Code (Article 6). Budgeting revenues for two years, and expenditure for one year - does not meet objectives for preparing mid-term estimates of strengthening fiscal discipline and improving the predictability of budget allocations. Accordingly, it is not possible to estimate the costs of institutions in the medium term. *Hence, the score for the present dimension is D.*

Possible causes of PFM performance identified during the PEFA assessment: The Annual Budget of the Saz Ayil Okmotu is generated for the period of three years on revenues, and for the period of one year on expenditures with a break down to economic and functional classifications.

16.2. Medium-term expenditure ceilings

Performance level and evidence for scoring: Aggregate and ministry-level expenditure ceilings for the budget year and the two following fiscal years are not prepared by Saz Ayil Okmotu. *Hence, the score for the present dimension is D.*

Possible causes of PFM performance identified during the PEFA assessment: Aggregate expenditure ceilings for the budget year and the two following fiscal years are not prepared.

16.3. Alignment of strategic plans and medium-term budgets

Performance level and evidence for scoring: At present, Medium-term strategic plans are developed in ministries and departments of the Republican Budget only, not at the level of subnational governments. The medium-term budgets are not aligned with these strategic plans. *Hence, the score for the present dimension is D.*

Possible causes of PFM performance identified during the PEFA assessment: Institutions of LSG Saz do not develop Medium-term strategies for budget expenditures.

16.4. Consistency of budgets with previous year's estimates

Performance level and evidence for scoring: The budget of the Saz Ayil Okmotu, in violation of the principles of balance, unity, completeness, etc. of the Budget Code (Article 6) is developed regarding revenues for the period of two years, while by expenditure - for one year. Therefore, it is not possible to compare variations in expenditure budgets between the second year of the latest medium-term budget and the first year of the current medium-term budget at the level of institutions. *Hence, the score for the present dimension is D.*

Possible causes of PFM performance identified during the PEFA assessment: The budget on revenues of the LSG Saz is developed for the period of three years, while for expenditures - for one year. Therefore, the budget document does not provide explanation on changes to expenditure estimates.

PI-17. Budget preparation process

What does PI-17 measure? This indicator measures the effectiveness of participation by relevant stakeholders in the budget preparation process, including political leadership, and whether that participation is orderly and timely. It contains three dimensions and uses the **M2 (AV)** method for aggregating dimension scores.

Coverage: BCG.

Time period: Dimension 17.1 and 17.2: Last budget submitted to the Legislature. Dimension 17.3: Last three completed fiscal years.

Indicator/Dimension	Score
PI-17. Budget preparation process	D
17.1. Budget calendar	D
17.2. Guidance on budget preparation	D
17.3. Budget submission to the legislature	D

General description of the system in place in LSG Saz: In accordance with the Article 91 of the Budget Code, the draft Republican Budget of the Kyrgyz Republic is generated in accordance with the procedure and calendar plan approved by the Government. The calendar plan is approved annually by the Statement of the Kyrgyz Republic Government in accordance with the Article 81 of the Budget Code for the corresponding period no later than February 1 of the year preceding the following budget year. In accordance with this Statement, the Decree of the KR MoF approves the calendar for developing a draft budget of the Kyrgyz Republic in order to regulate budget planning, timely and quality preparation of the draft Main Directions of the Fiscal Policy of the Kyrgyz Republic, as well as the draft Law of the Kyrgyz Republic "On the Republican Budget of the Kyrgyz Republic".

In accordance with the Article 95 of the Budget Code, drafts of local budgets for the following/next budget year and the forecast period are developed in accordance with the procedure and terms established by the relevant local Keneshes, in compliance with the requirements of the Budget Code, taking into account the calendar plan to formulate a draft republican budget approved by the Government.

Therefore, in accordance with the Article 81 of the Budget Code, it is necessary to approve the budget calendar with the corresponding local Keneshes to formulate draft local budgets, taking into account the approved calendar plan to formulate draft Republican Budget.

In this connection, the KR MoF annually inform territorial bodies with a budget calendar, approved by the Decree of the Minister, in order to inform about deadlines in generating local budgets.

The Sokuluk department of the KR MoF, during formulation of the draft budget for 2020, on the basis of the KR MoF Decree sent letters to the Heads of Ayil Aimaks on submission of draft local budgets as soon as possible (without specifying exact deadlines) on preparation of the draft budgets for 2019-2021 years; this letter was dated by June 11, 2019. At the same time, a calendar plan was not presented for timely preparation and submission of

drafts of local budgets of Ayil Aymaks for consolidation of the draft local budget of the Sokuluk Raion of the Chui Oblast.

Regulatory legal acts on the KR Budget regulate the procedure for preparing draft Republican and Local Budgets: The procedure for "Developing the Draft Republican Budget and Introducing Amendments to the KR Republican Budget", approved by the Statement of the KR Government dated by November 1, 2017 No. 723, Methodological guidance "Formulation and Execution of KR Local Budgets", approved by the Decree of KR MoF dated by October 13, 2018, No. 312-P.

Recent or ongoing reform activities: None

17.1. Budget calendar

Performance level and evidence for scoring: The norm of the Budget Code (Article 95) “On formulation of draft local budgets in accordance with the procedure and terms established by the relevant local Keneshes, taking into account the calendar plan to formulate the draft republican budget approved by the Government” is not followed by the Saz Ayil Okmotu. *Hence, the score for this dimension is D.*

Possible causes of PFM performance identified during the PEFA assessment: No Budget Calendar was developed by the Ayil Okmotu.

17.2. Guidance on budget preparation

Performance level and evidence for scoring: The Saz Ayil Okmotu had not prepared circulars for budgetary units (letters and other documents) containing clear instructions for preparing a budget. *Hence, the score for the present dimension is D.*

Possible causes of PFM performance identified during the PEFA assessment: Budget guidance or circular for budgetary units were not prepared.

17.3. Budget submission to the legislature

Performance level and evidence for scoring: As shown in table 17.1 below, the budget was submitted to the legislature after the start of the fiscal year. *Hence, the score for the present dimension is D.*

Table 17.1 Date of submission of budget to the legislature

Fiscal year	Date of submission
2020	January 10, 2020
2019	January 11, 2020
2018	January 8, 2018

Possible causes of PFM performance identified during the PEFA assessment: Budget was submitted to the legislature after the start of the year.

PI-18. Legislative scrutiny of budgets

What does PI-18 measure? This indicator assesses the nature and extent of legislative scrutiny of the annual budget. It considers the extent to which the legislature scrutinizes, debates, and approves the annual budget, including the extent to which the legislature's procedures for scrutiny are well established and adhered to. The indicator also assesses the existence of rules for in-year amendments to the budget without ex-ante approval by the legislature. The indicator contains four dimensions and uses the **M1 (WL)** method for aggregating dimension scores.

Coverage: BCG.

Time period: Dimension 18.1, 18.2 and 18.4: Last completed fiscal year. Dimension 18.3: Last three completed fiscal years.

Indicator/Dimension	Score
PI-18. Legislative scrutiny of budgets	D+
18.1. Scope of budget scrutiny	C
18.2. Legislative procedures for budget scrutiny	D
18.3. Timing of budget approval	C
18.4. Rules for budget adjustments by the executive	A

General description of the system in place in LSG Saz: The procedure for the consideration and approval of local budgets is provided for in the Budget Code (Article 102) and the Methodological Guide "Formulation and Execution of KR Local Budgets" (section 3).

Recent or ongoing reform activities: None.

18.1. Scope of budget scrutiny

Performance level and evidence for scoring: In the process of developing the draft budget, the Sokuluk department of the KR MoF disseminated a letter to all the Heads of Ayil Aimaks dated by November 22, 2018 regarding standards for deductions to local budgets from national revenues for 2019. The table of 1 sheet on revenues for the years 2019-2021 is attached to the letter.

The apparatus of the Saz Ayil Okmotu sent a letter to the Chairman of the Saz Ayil Kenesh dated by January 11, 2019, No.02-10/1 on consideration of the budget execution in terms of revenues and expenditures by the end of 2018, the approval of the budget of the Saz Ayil Okmotu for 2019, revenue forecast for 2021-2022, approval and distribution of the surplus revenues over expenditures as of January 1, 2019.

In addition, a letter was sent to the Head of the Sokuluk Department of the KR MoF dated by January 11, 2019 No.02-10/2 on the meeting of the next session of the Saz Ayil Kenesh on issues of budget execution by results of the year 2018 and approval of the budget for 2019-2022.

The budget documentation includes:

- Statement of the 1st session of the XXVII convocation of the Saz Ayil Kenesh "On Approval of the 2019 Budget of Saz Ayil Okmotu of Saz Ayil Aimak" dated by January 18, 2019 No.1/26, where following indicators were approved:
 - revenue as 6001,3 thousand soms;
 - expenditure as 6000,3 thousand soms;
 - 70111 executive bodies – as 3570,0 thousand soms;
 - 70629 municipal services – as 400,0 thousand soms;
 - 70813 sport events – as 200,0 thousand soms;
 - 70821 library – as 137,3 thousand soms;
 - 70823 club – as 150,0 thousand soms;
 - 70911 kindergarten – as 246,0 thousand soms;
 - 70921 secondary school – as 798,0 thousand soms;
 - 71092 social provision – as 270,0 thousand soms.
- Explanatory Note to the 2019 draft budget
- Appendices:
 - Draft revenue of local budget for 2019 (Appendix 1);
 - Draft revenue of local budget for 2019-2020 (Appendix 2);
 - List of the revenue items in local budget for 2019 (Appendix №3);
 - Excession of revenues over expenditures by 1001,6 thousand soms (free balance) as per the date of January 1, 2019 (Appendix 4);
 - Detailed budget of Saz Ayil Okmotu for 2019.

Minutes of the 1st session of the XXVII convocation of the Saz Ayil Kenesh dated by January 18, 2019 No.1/26 according the Agenda consist of 8 issues, of which 1-st issue is: consideration and approval of revenue and expenditure of the Saz Ayil Okmotu 2019 budget, 7-th issue is: approval of the Plan for socio-economic development of the Saz Ayil Okmotu.

For FY 2019, the resolution of the Saz Ayil Okmotu dated by January 18, 2019 No.1/26 includes only general parameters on revenue and expenditure, and total expenses by sections of functional classification. There is no description of other budget indicators.

The explanatory note has only numerical data for the sections of functional classification. At the same time, there are inconsistencies with the data of adopted Resolution, for example: amounts under sections 70111, 70821 are not identical to the amounts specified in the Resolution. There are no such sections as 70429-pasture committee in the amount of 230.0 thousand soms and 70629-kindergarten in the amount of 693.0 thousand soms in the Resolution.

Despite the fact that the Aiyl Kenesh approves the Strategic Plan for the Development of the Ayil Aimak, the explanatory note does not describe medium-term fiscal policy and budget for medium-term period. In addition, it does not contain an explanation of how the draft budget correlates with the goals of the local community according to plan for development of the Ayil Aimak, indicating the main changes in revenues and expenditures in comparison with the current financial year and reasons for their variation:

- Appendices on revenues are compiled in detail by economic classification

- Appendices on expenditures are compiled by institutions and by functional and economic classification.

Letters sent to the Ayil Kenesh and Sokuluk Department of the KR MoF are incorrect, since revenues are generated for two years (Appendix 2), and on the agenda of the Ayil Kenesh the issue of implementation of budget on revenues and expenditures by the results of the year 2018 was not included.

In addition, in violation of the principles of the budgetary system of the Kyrgyz Republic (balance, unity, completeness, etc.), the budget of the Saz Ayil Okmotu is generated covering revenues of two years, and on expenses – of one year. *Hence, the score for the present dimension is C.*

Possible causes of PFM performance identified during the PEFA assessment: The legislature's review covers details of expenditure and revenue. However, it does not cover fiscal policies and aggregates for the coming year.

18.2. Legislative procedures for budget scrutiny

Performance level and evidence for scoring: In accordance with the Budget Code (Article 102), drafts of local budgets are to be considered and approved in the following order:

1. Drafts of local budgets are initially considered by budget commissions of local Keneshes. The Budget Commission – is a permanent commission of the LSG, and it ensure timely and quality formulation of a draft budget as well as proposals for clarifying and executing a budget. Budget commissions:
 - a. Make hearings of information presented by heads, LSG structural units, municipal enterprises and institutions, consider proposals regarding changes in revenues and expenditures of the local budget;
 - b. Submit conclusions and recommendations on draft local budgets for consideration by local Keneshes.
2. When the budget commissions make a decision to increase budget expenditures or reduce its revenues, specific sources of funding for additional expenditures must be established.
3. Local Keneshes consider drafts of local budgets for the next budget year and the forecasted period and conclusions made by budget commissions and approve local budgets no later than one month after the approval of the Republican Budget, with the following parameters: revenues, expenditures, the amount of equalizing grants allocated from the Republican Budget.
4. Approved local budgets are submitted to the authorized state body within 14 calendar days after adoption.

In accordance with the Budget Code (Articles 78, 79, 127), during the budget process, it is necessary to organize and conduct Public Budget Hearings (PBH). The procedure for considering the budget is also provided in the Methodological guidance "Formulation and Execution of KR Local Budgets". In addition, the procedures for consideration and approval of local budgets are established in Regulations of the Ayil Kenesh of the LSG Saz.

Saz Ayil Okmotu, in violation of the established norms, do not observe the legislative procedures for considering the budget. For example, the Ayil Kenesh Budget Commission, which ensures timely and quality formulation of the draft budget, did not prepare and did not submit a conclusion and recommendations on the draft local budget. The Minutes of the session of the AK (Parliament) on the approval of the budget for 2019 was presented.

In addition, the Ayil Okmotu did not make Public Budget Hearings (PBH). The main purpose of the PBH within the formulation of local budget is to ensure the participation of citizens in the budget process, including the study and consideration of public opinion during formulation of the budget, strengthening public control over the funds of the local budget. Consequently, the Ayil Kenesh of Saz Ayil Okmotu considers and approves the draft local budget without taking into account:

- 1) Conclusions (recommendations) of the Budget Commission,
- 2) Proposals, comments and recommendations of Public Budget Hearings on the draft budget for making decisions taking into account the interests of the population.

Hence, the score for the present dimension is D.

Possible causes of PFM performance identified during the PEFA assessment: Legislature approves procedures to be used for reviewing draft budget are approved before budget hearings and are followed. However, the procedures include internal organizational arrangements such as specialized review committees, technical support, and negotiation procedures.

18.3. Timing of budget approval

Performance level and evidence for scoring: In accordance with the Budget Code (Article 102), drafts of local budgets are approved in the following order:

- Ayil Okmotu (mayor's office), after agreeing with the local Kenesh of the initial draft of the local budget, sends it to the KR MoF. In accordance with the KR Budget Code, drafts of local budgets, developed by the executive bodies of local self-governments and agreed with local Keneshes, are to be submitted to the KR MoF no later than September 1 of the year preceding the next budget year.
- After the approval of the Republican Budget, the KR MoF, within 10 days, sends to the local self-government bodies drafts of specified amounts and standards of deductions from national revenues, amounts of interbudgetary transfers. After receiving the updated figures for the local budget, the Ayil Okmotu (mayor's office) clarifies the initial draft of the local budget and submits it to the local Kenesh for approval. The revised drafts of local budgets are submitted for consideration and approval by local Keneshes no later than November 1 of the year preceding the next budget year.

Local budgets are approved no later than one month after the approval of the Republican Budget. Approved local budgets are to be submitted to the KR MoF within 14 calendar days after their approval.

Table 18.3 shows the date of approval for the budget of the last three approved budgets. The legislature has approved the annual budget within one month of the start of the year in two of the last three fiscal years. Hence, the score for the present dimension is C.

Table 18.3 The Parliament’s approval of the budget for the past three approved budgets.

Approved budget	Date of approval by the Parliament
2017	15 February 2017

2018	10 January 2018
2019	18 January 2019

Source: Statement of the Ayil Kenesh of the Saz Ayil Aimak

Possible causes of PFM performance identified during the PEFA assessment: The LSG does not comply with the Budget Code which requires budgets to be approved before the start of the fiscal year.

18.4. Rules for budget adjustments by the executive

Performance level and evidence for scoring: Rules for revising a budget by the executive authorities are regulated by the Budget Code:

- General conditions for amending budgets (Article 15): the normative legal act on the budget during the budget year can be amended no more than two times: the first - before June 1, the second - before November 1 of the current budget year;
- Redistribution of funds from the Republican and Local Budgets in the process of their execution (Article 109): the total value of redistributed funds throughout a financial year should not exceed 5 percent of the total expenditures for each main budget unit (unit, recipient) of budget funds separately.
- The executive body of the LSG submits the order of the head of the LSG to the Sokuluk department of the Ministry of Finance of the Kyrgyz Republic, which makes the appropriate changes to the automated treasury system.
- In case of exceeding the established limit (5%), the executive body of LSG submits to the Sokuluk department of the Ministry of Finance of the Kyrgyz Republic a regulatory legal act on amendments to the local budget, which was approved by the local kenesh (decision of the local kenesh /parliament)

Saz Ayil Okmotu amended following documents two times in accordance with the regulations in 2019:

- Resolution of the 2-session of the XXVII convocation of the Saz Ayil Kenesh "On Introducing Amendments to the Appendix No.4 on Excess of Revenues Over Expenditures as of January 1, 2019 (free balance), on Movement of Funds" dated by April 26, 2019 No. 2/33;
- Resolution of the 3-session of the XXVII convocation of the Saz Ayil Kenesh "On Introducing Amendments to Appendix No.4 on Excess of Revenues over Expenditures as of January 1, 2019 (free balance), on Movement of Funds" dated by September 2, 2019 No.3/39.

The Statement of the Saz Ayil Okmotu "On Introducing Amendments to Appendix No.4 on Excess of Revenues over Expenditures as of January 1, 2019 (free balance) dated by September 2, No. 02-7/70 – was adopted. The amount of adjustments to the approved budget is less than 5 percent of the total expenditures for each institution separately. *Hence, the score for the present dimension is A.*

Possible causes of PFM performance identified during the PEFA assessment: Clear rules exist for in-year budget adjustments by the executive. The rules set strict limits on the extent and nature of amendments and are adhered to in *all* instances.

PILLAR FIVE: Predictability and control in budget execution

What does Pillar V measure? The budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended.

Overall performance: key strengths and weaknesses

The assessment of the revenue administration and procurement functions refer to services, which are not part of the LSG of Saz. They are either performed at regional or national level. The process of predicting and controlling the budget execution has both strengths and weakness. The assessment of revenue administration indicates that the function is rather developed at regional and national level and very few, if any is resultant from PFM organization in LSG Saz. As long as accessibility of information is concerned, the tax administration is smooth and clear; the public is well informed about tax legislation and there are various media employed to reach the taxpayer. This is all evident from the website of the State Tax Service. Nevertheless, the revenue administration service is shared between the regional office of the State Tax Service in Sokuluk and the non-tax revenue collection the SNG Saz. (PI-19). A weak point to note is the practice of presenting revenue arrears only for the region and not broken down to local governments. This shortcoming is indicative of a weakness in the system settings or the way the process of revenue monitoring is organised. The daily inflow of revenue collection into Central Treasury facilitates the reconciliation of accounts is in real time.

An area that needs development is the fact that there is no cash planning in the local government (PI-21), however this is compensated by a rigorous budget spending discipline with no adjustments to the budget made in the last FY.

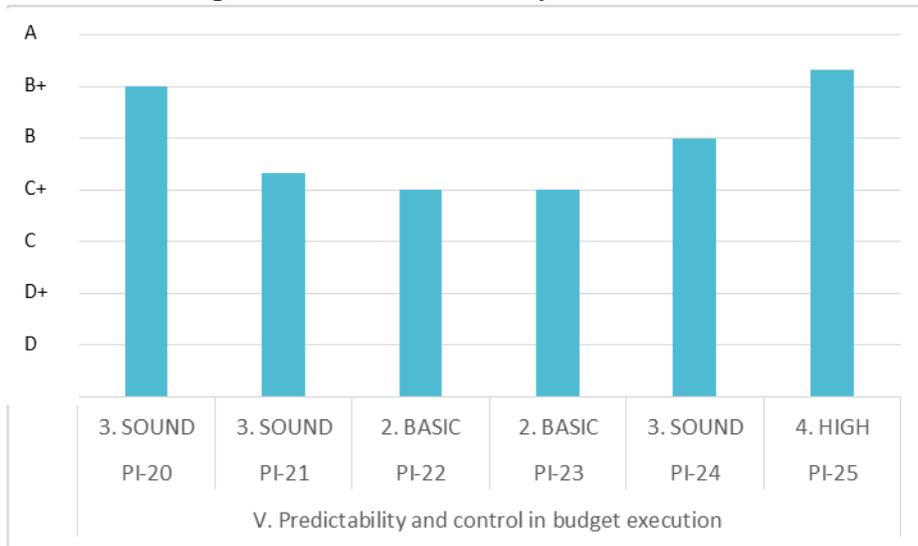
The expenditure arrears are monitored by stock and composition which contributes to fiscal discipline and budget reliability (PI-22).

The sound internal control system benefits also from the organization of payroll and personnel records (PI-23), which are updated in time for salary payment. The payroll audit is carried out once in three years.

Procurement practice (PI-24) shows both strengths and weaknesses. The key strength is the high volume of services contracted through competitive tenders (70%). All procurement information is publicly available. Another strength to note is that all procurement information including complaints mechanism is accessible to the public. However, this is the achievement of the processes set on national level rather than on local government.

The assessment of PI-25 shows the next strength in the PFM system. The internal control for non-salary payment is strong ensuring clear responsibilities; segregation of duties; expenditure commitment controls and strict application of payment rules and procedures. This setting contributes to sound internal control system assuring that transactions are performed as intended. The resources are used only when the authority has been verified. The overall effect in the PFM system is that fiscal discipline is maintained at all levels. Figure 2.5 shows the scores per indicator for this pillar.

Figure 2.5: Pillar 5-Summary of PEFA scores



PI-19. Revenue administration

What does PI-19 measure? This indicator covers the administration of all types of tax and non-tax revenue for central government. It assesses the procedures used to collect and monitor central government revenues. It contains four dimensions and uses **M2 (AV)** method for aggregating dimension scores.

Indicator/Dimension	Score
PI-19. Revenue administration	N/a
19.1. Rights and obligations for revenue measures	N/a
19.2. Revenue risk management	N/a
19.3. Revenue audit and investigation	N/a
19.4. Revenue arrears monitoring	N/a

General description of the system in place in Kyrgyz Republic:

The main legal document is the Tax Code of October 17, 2008 N 230. The Tax Code defines the basis on which the various tax liabilities are calculated. The Code clearly sets out the rights and obligations of taxpayers and tax agents, including information on the procedures for appealing against decisions of tax authorities, actions and inaction of their officials.

On non-tax payments, the main legal document is the Code of the Kyrgyz Republic on Non-Tax Payments, which was enacted by the Law of the Kyrgyz Republic of August 10, 2018 N 89 on January 1, 2019. The STS monitors and checks the correct collection and safety of institutions and organizations of funds received in payment of the state duty and other non-tax payments, checks local authorities (ayil okmotu, local keneshes, etc.) regarding compliance with the established requirements when accepting from the population of funds on account of taxes, insurance premiums and other payments.

The tax appeal procedures against decisions of tax authorities are provisioned in Chapter 20, Section VI (Articles 146-152) of the Tax Code of the Kyrgyz Republic.

There is a regional office of the State Tax Service only in Sokuluk region which is a higher territorial and administrative division covering both Saz and Saz districts and their LSGs. The information relevant to PI-19.2, 19.3 and 19.4 exists only for the regional office of STS in Sokuluk and it is not breakable to LSGs.

There are no territorial offices of the STS in LSG Saz. There is only one tax inspector within the administrative staff of the local government, with responsibility to collect tax, pay off arrears on local taxes and fees. The tax inspector is on the staff list and paid from the local budget.

Recent or ongoing reform activities: During the time of assessment, the structure of the Government of the Kyrgyz Republic has been changed in compliance to a resolution of the Government of February 2021, No. 38. According to the new structure, the Ministry of Economy, State Tax Service, State Customs Service and seven other institutions became part of the new Ministry of Economy and Finance.

19.1. Rights and obligations for revenue measures

Performance level and evidence for scoring: There are two institutions responsible for tax matters. Tax policy and tax legislation is handled by the Tax Policy Department of the Ministry of Economy of the Kyrgyz Republic, whereas tax administration is the competence of the State Tax Service under the Government of the Kyrgyz Republic and its territorial offices (STS). There is a territorial office of STS in Sokuluk region covering LSG Saz. There is no tax administration service on the level of LSG Saz apart from one employee involved in non-tax revenue collection. . The STS in Sokuluk provide the taxpayers with access to all applicable laws and regulations in their websites, as well as in the centralized legal information database of the Kyrgyz Republic, which is administered by the Ministry of Justice. The revenue administration service uses various channel to reach to the taxpayer with information on rights and obligations, rates and benefits.

Table: 19.1 Breakdown of total revenue of LSG Saz for FY 2017-2019 (all amounts in KGS)

	FY 2017	Share	FY 2018	Share	FY 2019	Share	Average
Tax revenue	1,577.80	29%	1,793.7	28%	1,980.5	27%	28%
Non-tax revenue	1,151.60	21%	1,122.9	17%	1,262.4	17%	19%
Transfers	2,682.90	50%	3,556.8	55%	4,159.4	56%	54%
Total revenue	5,412.3		6,473.4		7,402.3		

Source: author's calculation based on PI-3 data

The average percentage of collected revenue by STS in Sokuluk for the period of assessment is 28%, the non-tax revenue, collected by LSG Saz from rents, fees and penalties, 19% and the majority of revenue, average 54%, is from government transfers.

Table: 19.1.1 Breakdown of total local revenue of LSG Saz for FY 2017-2019 (all amounts in KGS)

	FY 2017	Share	FY 2018	Share	FY 2019	Share	Average
Tax revenue	1,577.80	58%	1,793.7	61%	1,980.5	61%	60%
Non-tax revenue	1,151.60	42%	1,122.9	39%	1,262.4	39%	40%
Total local revenue	2,729.4		2,916.6		3,242.9		

Source: author's calculation based on PI-3 data

The local tax revenue collected by STS is average 60% for the three years of assessment and LSG Saz collects the remaining 40%. Thus, STS is the entity collecting the majority of revenue.

In addition, the regional STS provides information on tax legislation in information stands and brochures, through television and radio, seminars and meeting for taxpayers. Comprehensive information on tax obligations and redress process is published on the tax website (sti.gov.kg).

The revenue administration service is shared between the regional office of the State Tax Service in Sokuluk and the non-tax revenue collection the SNG Saz. SNG Saz collect only non-tax revenue (local fees, penalties, etc.) and the regional office of the State Tax Service in Sokuluk collect the tax revenue. Based on the guidance in the Supplementary Guidance for Subnational Governments (page 43), this PI is considered non-applicable.

Possible causes of PFM performance identified during the PEFA assessment: The tax collecting revenue service generates average 60% of income for LSG Saz due to administrative and territorial organization of LSG in the country. There is no tax administration service in LSG Saz. Due to the organization of revenue administration and the revenue capacity at LSG Saz, **it is considered that this dimension is not applicable.**

19.2. Revenue risk management

Performance level and evidence for scoring:

The legislation stipulates revenue collection procedures, depending on the categories of taxpayers (large, medium, small). According to the Tax Code of the Kyrgyz Republic (Article 153, paragraphs 44 and 45), payment to the budget will be made on the categories and size of the volume of production. Small- and medium-sized taxpayer, with KGS 8000 and 30,000 of turnover, respectively, pay their due tax quarterly, whereas the large taxpayers, with more than KGS 30,000 turnover, pay tax monthly or according to provisions the Tax Code. In FY 2019, 21 large taxpayers paid KGS 537,156.7.

There are 15,991 taxpayers registered in the office of the State Tax Service in Sokuluk District, of which 2128 legal entities, 13,857 individuals. In 2019, the STS in Sokuluk region collected tax and other payments 102% above the plan, the growth rate compared to 2018 was 115.7%. Monthly receipts increased from KGS 2,100 to 5,000.

There is no tax administration service in LSG Saz. Information on risk management for State Tax Service office in Sokuluk region was not provided. **The dimension is not applicable to LSG Saz** and for the function of the regional tax structure the information is not sufficient to score.

Possible causes of PFM performance identified during the PEFA assessment: STS obviously use a structured and systematic approach to assessing risks of non-compliance for at least large payers, however no details on risk management were provided.

19.3. Revenue audit and investigation

Performance level and evidence for scoring:

Section IV of the Tax Code stipulates the provisions on tax control, risk management and tax audit. The specific types of tax control cover: i). tax inspection, ii). taxpayer registration, iii). tax monitoring and iv). tax audit.

The office of the Tax Service in Sokuluk region conducts both planned and ad hoc audits. Audit are performed both on-site and as a desktop review. The rate of completed audits in 2019 is 74%. They resulted in additional tax charges of KGS 11,794. In addition, 95 desk audits were carried out in FY 2019. As a result, additional taxes were charged in the amount of KGS 31,772.

Article 102 of the Tax Code of the Kyrgyz Republic specifies the period and terms of the on-site audits. Usually, a planned audit covers a period of no more than 3 previous calendar. The duration of planned audits should not exceed 30 calendars.

An action plan is prepared annually for measures to comply with tax legislation. The STS perform the following tasks: i). control over compliance with the tax legislation of the Kyrgyz Republic; ii). assistance to the taxpayer regarding tax obligation. In order to fulfill the approved plan, the STS in Sokuluk district in FY 2019 launched several events for improvement of tax collection and more specifically to collect tax arrears by different types of tax (profit tax, sales tax, VAT, income tax) and in the context of taxpayers to reduce tax debt.

Compliance Improvement Plan or similar was not provided.

The above information is relevant to Sokuluk STS and it is not applicable to LSG Saz.

Possible causes of PFM performance identified during the PEFA assessment: There is a good practice of carrying out planned and ad hoc audits that appear to contribute to higher tax legislation compliance. However, there is no information if compliance improvement plan or a similar document exists.

19.4. Revenue arrears monitoring

Performance level and evidence for scoring:

The LSG Saz belongs to the region of Sokuluk. The tax related data of Saz is managed by the staff of STS in Sokuluk. The data is stored in database in a way that does not allow to break it down to taxpayers by district and hence separate the revenue arrears. The local government staff dedicated to tax issues are more focused to assist in collecting property tax, property rent and fees from municipal paid services. They do not deal with revenue administration.

Dimension score – N/a

Possible causes of PFM performance identified during the PEFA assessment: There is no specific data on revenue arrears of LSG Saz. The information is collected by the regional STS for the entire region and is not breakable to local governments. In any event, LSG Saz is not involved in revenue arrears monitoring.

PI-20. Accounting for revenue

This indicator assesses procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling tax revenue accounts. It covers both tax and nontax revenues collected by the central government. It contains three dimensions and uses **M1 (WL)** for aggregating dimension scores.

Indicator/Dimension	Score
PI-20. Accounting for revenue	B+
20.1. Information on revenue collections	B
20.2. Transfer of revenue collections	A
20.3. Revenue accounts reconciliation	A

General description of the system in place in Kyrgyz Republic:

Central Treasury based on the “IS: Treasury (Kazna). Budget “receives on daily and monthly basis, as well as on an accrual basis, the revenue collected from all STS offices. This information on a daily and monthly basis is submitted to the relevant departments of the Central Treasury, departments of the Ministry of Finance, the department of the Ministry of Finance in Sokoluk district, and LSG (Aiyl okmotu) Saz.

A report “On the execution of state budget revenue” is prepared monthly basis on a cumulative basis reflecting the revenue collected in all levels of budget in the country as a whole, and in the context of regions and local governments. Another report is drawn up on a daily and monthly basis, as well. It covers the collected customs and duties. It is relevant only for the national government level. There is no customs service in LSG Saz or Sokoluk region.

PI-20 covers procedures for recording, reporting and reconciling tax and non-tax revenue collection, revenues include subnational revenues that are mostly collected on behalf of the subnational government by a higher-level revenue authority (STS).

Recent or ongoing reform activities: Not reported

20.1. Information on revenue collections

Performance level and evidence for scoring: SNG Saz collects only non-tax revenue (administrative fees and penalties – 17%). The only central agency collecting revenue is the regional office of STS in Sokuluk (this is regional office of the national institution on State Tax Service. Data of planned and actual revenue by months is received. Information on revenue is collected daily. Revenue collection reports were provided for all months of FY 2019 and the first six months of 2020, as well as a daily revenue report. Daily information is received by revenue type. This information is disaggregated by income type and consolidated in a report. Hence, the score for this dimension is B.

Possible causes of PFM performance identified during the PEFA assessment: The organization of process and the information system used in the territorial offices of the tax service allows information on collected revenue to be available on daily basis.

20.2. Transfer of revenue collections

Performance level and evidence for scoring: The treasury electronic system known as “IS: Treasury (Kazna). Budget “is where all revenue collection transfers flow in on daily basis, except for the funds of Social Contribution. Revenue collections are transferred directly into the Treasury Single Account controlled by the Treasury and their regional offices. Hence, the score for this dimension is A.

Possible causes of PFM performance identified during the PEFA assessment: The organization of the process on revenue administration and the functionality of the Treasury information system permit daily transfers of all revenue into the Single Treasury Account.

20.3. Revenue accounts reconciliation

Performance level and evidence for scoring: There are monthly reconciliations between Treasury records and those of the regional office of the State Tax Services. Individual taxpayers’ accounts are updated as revenue is received.

The following reconciliations take place as regulated by legal framework: i) reconciliation of tax and non-tax payments to the State Budget between the Central Treasury of the Ministry of Finance of the Kyrgyz Republic and the State Tax Service; ii). reconciliation of the receipt of fines for violation of traffic rules in the Republican Budget between the Central Treasury of the Ministry of Finance of the Kyrgyz Republic and the Main Directorate for Road Safety; iii) reconciliation of the receipt of repayment of budgetary loans and foreign loans received from economic entities to the Republican Budget between the Central Treasury of the Ministry of Finance of the Kyrgyz Republic and the State Agency for the Management of Budgetary Loans under the Ministry of Finance of the Kyrgyz Republic; iv). reconciliation of funds received from compensation for damage caused to the state in criminal cases on economic and official crimes budget to the republican budget between the Central Treasury of the Ministry of Finance of the Kyrgyz Republic and law enforcement agencies. Hence, the score for this dimension is A.

Possible causes of PFM performance identified during the PEFA assessment: The organization of the revenue administration processes at STS and the real-time connection to Central Treasury facilitates the reconciliation of accounts allowing revenue arrears tracking.

PI-21. Predictability of in-year resource allocation

What does PI-21 measure? This indicator assesses the extent to which the central MoF is able to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery. It contains four dimensions and uses the **M2 (AV)** method for aggregating dimension scores.

Indicator/Dimension	Score
PI-21. Predictability of in-year resource allocation	A
21.1. Consolidation of cash balances	N/a
21.2. Cash forecasting and monitoring	N/a
21.3. Information on commitment ceilings	N/a
21.4. Significance of in-year budget adjustments	A

General description of the system in place in Kyrgyz Republic:

In accordance with Article 105 of the Budget Code, there is a Treasury Single Account was created with the National Bank of the Kyrgyz Republic, which is a centralized account for consolidation of all government owned bank accounts. It stored the funds of the budgetary system of the Kyrgyz and traces all operations of the budget bodies on cash execution. The TSA procedure is regulated and approved by a resolution of the Government of the Kyrgyz Republic dated July 24, 2017 No. 444. The procedure establishes the management procedures for the authorized state body represented by the Ministry of Finance (Central Treasury) for forecasting and executing the budget with funds for the TSA and general rules for cash services for the execution of budgets of the budgetary system of the Kyrgyz Republic.

All cash operations related to the budget execution are carried out by the Central Treasury and its territorial offices applying the procedures on cash receipts to the budget and the distribution of income received within the budgetary system of the Kyrgyz Republic. Treasury territorial offices do not manage the TSA but rather participate in the cash service of budget execution.

The current practice shows that cash planning takes place only at the level of the Republican Budget and the budgets of cities of republican and regional significance.

The relevant resolution of the Government of the Kyrgyz Republic is known as "On approval of the Regulation on the procedure for the formation and maintenance of the cash plan of the republican budget of the Kyrgyz Republic" dated October 2, 2017 No. 632.

Recent or ongoing reform activities: The recent development on this matter is the Government Decree of December 17, 2020 No. 618 amending the above-mentioned resolution. Thus, from 2021 the cash plans will be also prepared by the Ministry of Finance or the local self-government bodies.

21.1. Consolidation of cash balances

Performance level and evidence for scoring: N/a

Possible causes of PFM performance identified during the PEFA assessment:

21.2. Cash forecasting and monitoring

Performance level and evidence for scoring:

In accordance with Article 108 of the Budget Code of the Kyrgyz Republic, the Resolution of the Kyrgyz Republic approved the Regulation "On the procedure for the formation and maintenance of the cash plan of the republican budget of the Kyrgyz Republic" dated October 2, 2017 No. 632, cash forecasting and monitoring is carried out by the Central Treasury. The cash plan is approved by the Deputy Minister of Finance, who is also a Director of the Central Treasury, in agreement with the Minister of Finance of the Kyrgyz Republic.

N/a

Possible causes of PFM performance identified during the PEFA assessment:

21.3. Information on commitment ceilings

Performance level and evidence for scoring: The budget execution is carried out by the managers of budget entities in the TSA by item of expenditure (types of payments). They can make cash expenses within the approved cash plan and the limits of budgetary obligations allocated for the current period and taking into account the registered and unfulfilled budgetary obligations.

The current practice is that budget allocations are assigned the budget entities by the Central Treasury on a monthly basis during the financial year in accordance with the cash plan. For the purpose of an even and fair distribution of the resources of the Republican Budget, a unified cash planning formula is applied. If there are temporarily free funds of the Republican Budget, the cash plan can be adjusted within the limits of the amounts provided by the budget for the current year.

The approved cash plan can be amended. The cash plan of the Republican budget, with any additions or amendments, is posted on the official website of the Ministry of Finance.

Since cash plan is not made, the budget allocations in the LSG Saz, are distributed quarterly throughout the year.

N/a

Possible causes of PFM performance identified during the PEFA assessment:

21.4. Significance of in-year budget adjustments

Performance level and evidence for scoring:

According to Article 115 of the Budget Code of the Kyrgyz Republic, amendments to approved budget during the budget year can be made no more than two times: the first - before 1st June, the second - before 1st November of the current budget year. This is the rule of the Budget Code applicable to all levels of governments in the country unless they have a local rule. According to the provided information from LSG Saz, no such specific rule exists which would overrule the Budget Code. No in-year adjustments took place to the budget allocation during the last financial year of assessment (2019). Hence, the score for this dimension is A.

Possible causes of PFM performance identified during the PEFA assessment: The practice of strict application of Budget Code on all levels of government generally results in strong internal control and fiscal discipline.

Dimension score - A

PI-22. Expenditure arrears

What does PI-22 measure? This indicator measures the extent to which there is a stock of arrears, and the extent to which a systemic problem in this regard is being addressed and brought under control. It contains two dimensions and uses the M1 (WL) method for aggregating dimension scores.”

Indicator/Dimension	Score
PI-22. Expenditure arrears	B
22.1. Stock of expenditure arrears	A
22.2. Expenditure arrears monitoring	C

General description of the system in place in Kyrgyz Republic:

Expenditure arrears is any payment overdue more than 30 days exception are the public procurement contracts where payment may follow a different arrangement.

Recent or ongoing reform activities: Not reported

22.1. Stock of expenditure arrears

Performance level and evidence for scoring:

A report, on payables of the budget organisations of Saz for the three years of assessment, was provided. It shows that the stock of arrears is negligible less than 1 % in all last three years. The report on arrears provided for the three years covers payroll and payment to utilities.

Table 22.1: Stock of Arrears and Total Budget Expenditures for Fiscal Years (2017-2019) amount in KRS ‘000

	FY 2017	FY 2018	FY 2019
Stock of Arrears	0.70	3.10	2.20
Share	0.01%	0.05%	0.03%
Total Budget Expenditure	5,042.90	6,057.20	7,368.20

Source: Ministry of Finance LSG Saz

Possible causes of PFM performance identified during the PEFA assessment: Strict control on payables.

Dimension score – A

22.2. Expenditure arrears monitoring

Performance level and evidence for scoring:

The expenditure arrears are covered in the annual financial statements of the budget institutions of SNG Saz under payables. In the annual balance sheet of the institutions, accounts payable are indicated by the corresponding items of debt (balance sheet liability). There are no overdue payables as of January 1, 2020 in LSG Saz. Payables are usually repaid within the month following the reporting month. The debt report is displayed in the institution's annual balance sheet and in the annual budget execution report of LSG Saz in Appendix 2 "Information on receivables and payables by all items". This Appendix as at year-end 2019 has been provided as evidence. The format of this report envisages only data on stock and composition of expenditure arrears and it does not appear to cover age.

The head of the budgetary institution ensures compliance with the limits of budgetary obligations and bears personal responsibility for the state of accounts payable and receivable and the formation of overdue debts.

The accountant and employees of the financial department of LSG are responsible for the preparation of financial statements and balance sheets. Reports are provided for 6 months, 9 months and 12 months of the year. The reports are submitted to the Sokuluk department of the Ministry of Finance. A report on overdue payables is drawn up by January 10 of the following year. The score for this dimension is C

Possible causes of PFM performance identified during the PEFA assessment: LSG Saz control expenditure arrears by monitoring data on stock and composition generated annually at the end of each fiscal year.

Dimension score – C

PI-23. Payroll controls

What does PI-23 measure? This indicator is concerned with the payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. Wages for casual labor and discretionary allowances that do not form part of the payroll system are included in the assessment of non-salary internal controls, PI-25. This indicator contains four dimensions and uses the M1 (WL) method for aggregating dimension scores.”

Indicator/Dimension	Score
PI-23. Payroll controls	C+
23.1. Integration of payroll and personnel records	B
23.2. Management of payroll changes	A
23.3. Internal control of payroll	C
23.4. Payroll audit	B

General description of the system in place in Kyrgyz Republic:

The regulatory framework for the management of payroll is defined in a variety of Acts, Decrees and Regulations. These are the Act of 15 June 2011 No.45 "On the limit of staffing and conditions of remuneration of state and municipal employees of the Kyrgyz Republic" and the Decree of the President of the Kyrgyz Republic of January 31, 2017 No.17 "On the approval of the Register of State and Municipal Posts of the Kyrgyz Republic". In

accordance with the above-mentioned regulations, each public body approves a full-time structure within an approved list of staff positions. In accordance with the staffing schedule, a salary fund is planned and the annual budget of the state body is approved. Each public body is responsible for ensuring that its payroll is accurate and within its approved Salary Fund.

Recent or ongoing reform activities: not reported

23.1. Integration of payroll and personnel records

Performance level and evidence for scoring:

A number of functions of public and municipal service policy and monitoring functions are carried out by the State Personnel Service of the Kyrgyz Republic. It reports directly to the President of the Republic and it is the authorized body for determining and managing the policy in the field of state and municipal service.

LSG is responsible for the design, operation and maintenance of its payroll and personnel records. The calculation of the payroll is directly related to the approved staffing table, the personnel database. LSG Saz keeps full documentation of all changes made to personnel records during the month. The State Personnel Service, the Accounts Chamber, and the Prosecutor's Office devote considerable attention to monitoring the wage fund. The Prosecutor's Office and the State Personnel Service confirmed that no evidence of significant errors was found in operations related to the wage fund in LSG Saz.

The personnel database and payroll system are manually controlled and monthly reconciled to ensure that changes made in the personnel data are immediately reflected in the payroll system. There are no automatic (without human intervention) links between personnel records and the payroll as required in the second edition of the PEFA Assessment Field guide (issued December 2018). Data consistency and monthly reconciliation is ensured also by the confirmation of the Accounts Chamber.

Possible causes of PFM performance identified during the PEFA assessment: Strict application of legal framework and local government rules and procedures.

Dimension score – B

23.2. Management of payroll changes

Performance level and evidence for scoring: The necessary changes to personnel register and payroll are made on a monthly basis, prior to next month's payroll. Changes are made promptly (at least once a month). Attendance is monitored and recorded, by means of timesheets, which is maintained by specially authorized official. The head of the respective budget organization approves these sheets and submits them to the accounting by the end of each month. Data is updated every month in time for salary payment. There were no changes of payroll in FY 2019, so there are no retroactive adjustments. Retroactive adjustments appear in 2020 because of staff rotation.

Possible causes of PFM performance identified during the PEFA assessment: There were no changes to the payroll in FY 2019.

Dimension score – A

23.3. Internal control of payroll

Performance level and evidence for scoring: According to the regulatory legal acts, any changes in the data on personnel and the payroll are made based on the decision (order) of the head of the state body. The personnel management and payroll services do not have the right independently to make changes in staffing and wages without a corresponding decision (order) of the head of the state body. If necessary, an internal audit is performed by decision of the head of a state body. To ensure the integrity and relevance of data, a clearly documented control is maintained. The head of the Finance and Economic Department and the head of the Aiyl Okmotu are responsible for making changes in the data on personnel and payroll. In accordance with the legal acts, any changes in the data on personnel and payroll are made on the basis of an order issued by the head of the Aiyl Okmotu and in accordance with a decision of the local parliament. Access to the timesheets and payroll sheets are available to the head of the Financial and Economic Department and the Chief Accountant. Samples of signatures of the head of the Finance and Economic Department and the head of the Aiyl Okmotu are provided to the bank. Only documents with signatures of these persons are accepted.

The access to the payroll database which is an excel sheet is restricted by individual password, the changes cannot be traced as the format does not allow such functionality. The automated system for managing human personnel and payroll has not yet been implemented in LSG Saz and excel is not tracked when changes are made.

Possible causes of PFM performance identified during the PEFA assessment: There is sufficient control ensuring integrity of payroll data.

Dimension score – C

23.4. Payroll audit

Performance level and evidence for scoring: Over the past three years, there is one payroll audit performed by the State Personnel Service and the Accounts Chamber. The audit covers (i) documentation check, to ensure that everyone on the payroll is appropriately documented and authorized to receive a salary, and (ii) a physical check that the payment recipients exist. The Accounts Chamber carried out only salary audit. It reviewed the legality of bonuses and remuneration paid to staff and addressed payroll issues, although these checks were not specifically focused on payroll. All budget organisations with audit function regularly conduct payroll audits.

Over the past three years, various salary checks have been carried out by the State Personnel Service and the Prosecutor's Office. The audit was also carried out by the Accounts Chamber, although the audit was not carried out as part of thematic audits only on wages. The Prosecutor's Office reviewed the legality of bonuses and benefits paid to staff and also addressed payroll issues, although these checks were not specifically focused on payroll accounting.

Dimension score - B

Possible causes of PFM performance identified during the PEFA assessment: There is payroll audit once in three fiscal years.

PI-24. Procurement

What does PI-24 measure? This indicator examines key aspects of procurement management. It focuses on transparency of arrangements, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements. It contains four dimensions and uses the **M2 (AV)** method for aggregating dimension scores.

Indicator/Dimension	Score
PI-24. Procurement	B
24.1. Procurement monitoring	D
24.2. Procurement methods	B
24.3. Public access to procurement information	A
24.4. Procurement complaints management	A

General description of the system in place in Kyrgyz Republic:

The Law of the Kyrgyz Republic "On Public Procurement" dated April 3, 2015 № 72, provides the legal framework for all public procurement transactions. The purpose of the Law is to ensure the economic and efficient use of public funds in the implementation of public procurement. Public procurement is based on the principles: i). publicity, openness, legality and impartiality; ii). competition between suppliers (contractors) in the procurement process; iii). equal and fair conditions for suppliers (contractors) in the implementation of public procurement.

At the time when the Law on Public Procurement was adopted in Kyrgyzstan in 2015, all public procurement switched to the electronic public procurement system and all stages of public procurement are carried out through the web portal zakupki.gov.kg, which is publicly accessible not only for economic participants, but also for the public. The public procurement web portal is integrated with the information system of the Central Treasury of the Ministry of Finance of the Kyrgyz Republic and the regional offices. Control over the contract payment and expenditure of public procurements is through the Treasury information system.

The Department of Public Procurement at the Ministry of Finance of KR is an authorized state body (by force of Ordinance dated 3 February 2014, No. 68), responsible to draft laws and regulations, keep a register and compile statistics, assist public bodies in law enforcement in the procurement of goods, works, services (Article 9).

Public procurement is performed by using the following methods: i). single-stage bidding; ii). two-stage bidding; iii). simplified acquisition; iv). reverse auction; v). direct contracting.

Recent or ongoing reform activities: not reported

24.1. Procurement monitoring

Performance level and evidence for scoring: There is a register provided for the period 2017-2019 of all public procurement activity. The register covers very few details of the procurement transaction. The following information items are covered: i). category (goods, services, works); ii). contract amount in KGS; iii). contract status and iv). procurement description. There is no information on who has been awarded the contract. The table 24.1 below shows the procurement data by type for the three years of assessment.

Table 24.1: Procurement data (in KGS)

	FY 2017		FY 2018		FY 2019	
Goods	-	-	15	1455	11	1592
Work			3	2256	3	132
Services	-	-	3	90	2	2891
Total number of tenders/Total value	-	-	21	3801 KGS	16	4615 KGS

Source: LSG Saz

The monitoring of public procurement is carried out by the head of the LSG, the head of Financial and Economic Department of the local Ministry of Economy and the specialist in public procurement of the LSG. The consolidated report on public procurement is prepared by the public procurement specialist of the LSG. According to the Law on Public Procurement, public procurement specialist should possess certificate of completing a course on public procurement.

Access to the public procurement portal is available to the head of LSG, the head of the Financial and Economic Department and the public procurement specialist.

In accordance with paragraph 6 of Article 10 of the Law of the Kyrgyz Republic "On Public Procurement", the head of the LSG, the procurement specialist and members of the LSG tender commission are personally liable for violations of the Law.

In case of a complaint about the results of the evaluation of bids, the complaints are considered by the Independent Commission on Public Procurement. All information on public procurement is available on the public procurement portal. LSG Saz do not publish separately elsewhere.

Public procurement data of LSG Saz are subject to external audit by the Accounts Chamber of the Kyrgyz Republic. In addition, the Department of Public Procurement under the Ministry of Economy and Finance, is responsible to monitor and control the public procurement over all procuring organizations, including ministries.

The score for this dimension is D.

Possible causes of PFM performance identified during the PEFA assessment: There is no sufficient information in the records of procurement contracts, information on contact award is not covered.

Dimension score – D

24.2 Procurement methods

Performance level and evidence for scoring: The data on procurement methods has been provided for FY 2019. The evidence of the volume of tenders procured through competitive method for FY 2019 shows that 71% of the tenders were procured by competitive methods and 29% were procured as direct contract awards.

Table 24.2 Projects procured through National Tender by method for FY 2019

	<i>Method of Procurement</i>	<i>FY 2019</i>	<i>Share</i>
1	Direct contract award	1,346	29.17%
2	single-stage bidding	2,699	58.48%
3	two-stage bidding		
4	Simplified	570	12.35%
5	Reverse auction		
Competitive procurement methods (2+3+4+5)			70.83%
	TOTAL	4,615	

Source: LSG Saz

Possible causes of PFM performance identified during the PEFA assessment: The total value of contracts awarded through competitive methods is more than 70% and less than 30% by direct award.

Dimension score - B.

24.3. Public access to procurement information

Performance level and evidence for scoring: The assessment of this dimension has been made considering the specific local cultural environment. Public procurement information is available on the public procurement portal (zakupki.gov.kg). Each of the main requirements of procurement information from government agencies contains complete and reliable information about all transactions related to procurement, and their disclosure to the public is made in a timely manner.

The procurement information is published on a national government media. It is easily accessible to local business, civil societies and individuals. All the required public procurement information is accessible to the public online through the website. www.zakupki.gov.kg. The website is up to date and covers all key information including procurement plans, tender opportunities, contract awards and the results of procurement complaints.

Element/ Requirements	Met (Yes/No)	Evidence used/ Comments
Legal and regulatory framework for procurement.	Yes	zakupki.gov.kg
Government procurement plans	Yes	zakupki.gov.kg
Bidding opportunities	Yes	zakupki.gov.kg
Contract awards (purpose, contractor and value)	Yes	zakupki.gov.kg

Element/ Requirements	Met (Yes/No)	Evidence used/ Comments
Data on resolution of procurement complaints	Yes	zakupki.gov.kg
Annual procurement statistics	Yes	zakupki.gov.kg

Dimension score - A.

24.4. Procurement complaints management

Performance level and evidence for scoring: The appeal review system offers access to an appeal mechanism as part of the control system, in addition to the general court system. There are procedures for complaints resolution and fees are not charged. There is an effective and independent administrative complaint resolution mechanism. The table below provides the details for each satisfied criterion.

Element/ Requirements	Met (Yes/No)	Evidence Used/ Comments
<i>Procurement complaints/appeal body</i>		
1. Is not involved in any capacity in procurement transactions or in the process leading to contract award decisions.	Yes	In accordance with Article 49 of the Law on Public Procurement, there is an inter-agency commission dealing with complaints, which consists of representatives of ministries, government committees, departments and the public, as well as certified public procurement professionals. The composition of the above-mentioned Commission was approved by the order of the Government of September 6, 2019, No.329. The Commission has a total membership of 15, formed of 3 groups of 5 persons representing procurement specialists, lawyers and the public respectively.
2. Does not charge fees that prohibit access by concerned parties.	Yes	Complaints, protests or appeals are filed electronically through a web portal without any requirement to pay a fee.
3. Follows processes for submission and resolution of complaints that are clearly defined and publicly available.	Yes	The complaints procedures are clearly defined in the Law on Public Procurement and readily available through the electronic portal.
4. Exercises the authority to suspend the procurement process.	Yes	Article 48 in the Law on Public Procurement enables the Public Procurement Authority to suspend the tender for 10 days.
5. Issues decisions within the timeframe specified in the rules/regulations	Yes	Decisions are made in writing within seven working days after review and the ongoing status of a pending complaint can be viewed online.
6. Issues decisions that are binding on every party (without precluding subsequent access to an external higher authority).	Yes	Article 49 stipulates that the decision ‘on the complaint shall be final, unless it is challenged in a judicial procedure in accordance with this Article’.

Possible causes of PFM performance identified during the PEFA assessment:

Dimension score - A.

PI-25. Internal controls on non-salary expenditure

What does PI-25 measure? This indicator measures the effectiveness of general internal controls for non - salary expenditures. Specific expenditure controls on public service salaries are considered in PI-23. It contains three dimensions and uses the M2 (AV) method for aggregating dimension scores.

Indicator/Dimension	Score
PI-25. Internal controls on non-salary expenditure	A
25.1. Segregation of duties	A
25.2. Effectiveness of expenditure commitment controls	A
25.3. Compliance with payment rules and procedures	B

General description of the system in place in Kyrgyz Republic:

Within the framework of the State budget, the Central treasury ensures the organization of the execution of the republican and local budgets. It also makes payments for the expenditures of the republican and local budgets within the allocated funds.

Accounting and control of cash budget execution are carried out in an automated system in real time. The system provides for the exchange of data between all participants in the budget process, including the National Bank, using electronic forms of documents and electronic digital signatures.

The integrity of the treasury system is protected by access to a limited number of authorized persons for specific purposes. The system registers and tracks all entries and changes.

The heads of territorial divisions are responsible for the reliability and monitoring the data generated in the automated system.

Recent or ongoing reform activities: Not reported

25.1. Segregation of duties

Performance level and evidence for scoring:

Duties are segregated throughout the local administration. There are different persons for signing, for recording, for approval. This rule runs across the entire public administration. This is how public procurement work is organised as well, with different levels of data entry and payment approval. The segregation of duties is prescribed in the

Budget Code, article 105 and 106, as well as in Government Regulation No. 444 of 24 July, 2017, with payment procedures determined by Ministry of Finance Order No. 131-p of September 28, 2017.

The Central Treasury ensures the organization of the execution of the republican and local budgets. Payments are made within the balance of funds of the corresponding budget in the Single Treasury Account. Accounting and control of cash budget execution are carried out in an automated system in real time. The automated system provides for the exchange of data between participants in the budget process, including the National Bank, using electronic forms of documents and electronic digital signatures. Expenditure transactions at each stage of the budgetary process require submission and approval of electronic documents.

The integrity of the treasury electronic system is protected by providing access to a limited number of persons with specific rights of administration. The system allows tracking all entries and operations made. The heads of the territorial offices are responsible for the reliability of the data generated in the automated system, as well as for their timely and proper maintenance, in accordance with their responsibilities.

The expenditure transactions are authorised with recording and accounting undertaken by the Treasury. For expenditure transactions at each stage of the budget process, there are prescribed responsibilities for filling out the electronic documents. Upon completion of the checks, the documents are initialized, this is assigned to a certain person or group of persons having the rights to sign with an electronic digital signature

In accordance with the Budget Code, almost all budget operations take place through the Single Treasury Account that is managed by the Ministry of Finance. Treasury procedures ensure segregation of functions.

Possible causes of PFM performance identified during the PEFA assessment: There is clear segregation of duties due to the organisation of the budget execution process. This contributes to sound internal control system. Functions are separated and performed by different individuals.

Dimension score - A

25.2 Effectiveness of expenditure commitment controls

Performance level and evidence for scoring:

The expenditure commitment control as a system of expenditure monitoring is a procedure stipulated generally in the Budget Code of the Kyrgyz Republic and more specifically in the ‘Instruction on the procedures of the authorized state body for forecasting and budget execution for accounting and reporting’, dated August 16, 2017 No. 488 and the Regulation “On the procedure for organizing the issuance and settlement of the payment card“ approved by the order of the Ministry of Finance of the Kyrgyz Republic of September 28, 2017.

All income and expenditure transactions on budget execution are recorded in the ledgers of the Treasury; they are carried out and controlled in the automated system “IS: Treasury (Kazna). Budget “using the treasury procedures for compliance with estimated commitment, registered budgetary obligations, tender purchases and services, etc. The analytical part of the Treasury ledgers contains the details of the financial transaction: the date of the transaction,

the name, number and date of the payment, description of the transaction. The synthetic part includes debit, credit, balance and offsetting account. The records in the Treasury information system "IS: Treasury (Kazna). Budget") are made on the basis of primary accounting documents: application for cash expense, payment order, bank statement, inter-treasury and intra-treasury orders. Expenditure transactions of recipients of budget funds on treasury personal accounts (budget, special, deposit) are carried out on the basis of an application for cash expense, where several amounts of cash expenses may be indicated for various codes of items (elements) of this treasury personal account of this recipient of budget funds. When a request for cash expenditure is withdrawn, the system automatically restores the amounts of unfulfilled budget obligations (taking into account time constraints on cash expenditures) to their original amount for the application.

When the budget obligations are registered in the Treasury system, any withdrawal requests are automatically filtered through the various approved budget commitments and payments are made only if such budget allocations were preliminarily approved and registered in the Treasury system. There are annual reports on budget execution from the Treasury territorial offices that, in addition, confirmed all electronic payment requests with digital signatures of the responsible employees of territorial offices. When making payments in cash, control is carried out in accordance with the Regulation "On the procedure for organizing the issuance and settlement of the "Recipient of budgetary funds payment card approved by the order of the Ministry of Finance of the Kyrgyz Republic dated September 28, 2017. Payment obligations remain within the limits of the annual budget allocations.

Possible causes of PFM performance identified during the PEFA assessment: Budget planning and clear treasury procedures embedded in the automated system "IS: Treasury (Kazna). Budget" permits compliance with estimated commitment. The controls in place limit the commitments to the estimated availability of cash through the approved budget allocations.

Dimension score - A.

25.3. Compliance with payment rules and procedures

Performance level and evidence for scoring:

The automated information system of the Treasury is a database that serves as a reliable source for all types of reporting. It is the only source of data for financial control over budget entities in the Kyrgyz Republic. In addition, the Accounts Chamber of the Kyrgyz Republic annually audit the execution of the republican budget of the Kyrgyz Republic. Also, the Internal Audit Department of the Ministry of Finance of the Kyrgyz Republic in accordance with the Strategic Audit Plan conducts an internal audit in the territorial offices of the Ministry of Finance of the Kyrgyz Republic. The last internal audit of Sokuluk department (covering Saz and Saz) was in 2017. According to the results of the Audit Report on the Management, Operating and Financial System for 2017, the violations were of a methodological nature in terms of accounting and documentation in the HR department. There were no financial violations. Accordingly, in Sokuluk office the payments are made in accordance with standard payment procedures. Payment orders must be accompanied by supporting documentation demonstrating compliance with procurement and legislation. The system allows automatic check that the payment orders are within cash allocation. The exceptions to the rules are made with proper approval and justification only with the approval at highest level in MoF. There are no specific regulations in place for exceptions; these are considered on a case by case principle. There were no exceptions observed during the period under review.

Possible causes of PFM performance identified during the PEFA assessment: The organisation of treasury functions and the strict application of payment control rules contribute to compliance and less exceptions.

Dimension score - B

PI-26. Internal audit

What does PI-26 measure? This indicator assesses the standards and procedures applied in internal audit. It contains four dimensions and uses the **M1 (WL)** method for aggregating dimension score.

Indicator/Dimension	Score of current PEFA
PI-26. Internal audit	N/a
26.1. Coverage of internal audit	N/a
26.2. Nature of audits and standards applied	N/a
26.3. Implementation of internal audits and reporting	N/a
26.4. Response to internal audits	N/a

General description of the system in place in Kyrgyz Republic:

The Ministry of Finance of the Kyrgyz Republic is an authorized state body for internal audit. The Internal Audit Department was established in 2014 in accordance with an order dated 22 September 2014 No. 326.

The Decree of the Government "On the creation of internal audit services in state bodies and institutions of the Kyrgyz Republic" dated 13 March 2009 No. 177 approved the list of institutions and local self-government bodies with internal audit function. Presently, there are 30 internal audit departments, of which: 26 ministries, 2 state committees and 2 LSG, including: Bishkek City and Osh City.

The information and data provided for this PI is relevant for Sokuluk region of which LSG Saz and LSG Saz are part of. There is no internal audit function in LSG Saz. The Ministry of Finance at national level performs the internal audit in the region of Sokuluk.

Recent or ongoing reform activities: Not reported

26.1. Coverage of internal audit

Performance level and evidence for scoring: N/a

Possible causes of PFM performance identified during the PEFA assessment:

26.2. Nature of audits and standards applied

Performance level and evidence for scoring: N/a

Possible causes of PFM performance identified during the PEFA assessment:

26.3. Implementation of internal audits and reporting

Performance level and evidence for scoring: N/a

Possible causes of PFM performance identified during the PEFA assessment:

26.4. Response to internal audits

Performance level and evidence for scoring: N/a

Possible causes of PFM performance identified during the PEFA assessment:

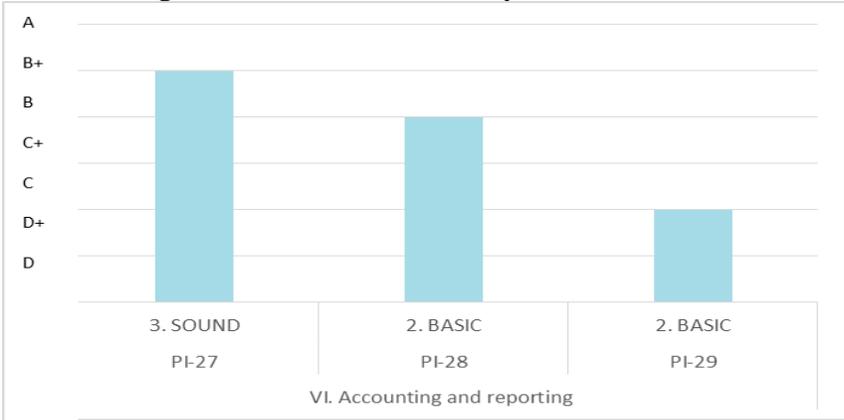
PILLAR SIX: Accounting and reporting

What does Pillar VI measure? Accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.

Overall performance: key strengths and weaknesses

The pillar contributes to strengthen the aggregate fiscal discipline in general. The Treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and the processes in place support the integrity of financial data. There is reliable reporting of financial information. Constant checking and verification of the accounting records is ensured. The practices are well established, and the overall financial data integrity is sound (PI-27). Another good practice is that the database in the automated treasury system allows full coverage of budget execution data and comparison with the originally approved budget. The in-year budget reports provide comprehensiveness, timely and accurate information on budget execution. They are consistent with the budget plans and allow monitoring of budget performance (PI-28). The overall good performance in accounting and reporting is undermined by the incomplete annual financial statements (PI-28) containing information on revenue and expenditure and tangible assets. Cash planning is not a practice in the local self-governments but cash balances are provided as part of the annual financial report. This may impair the accountability and transparency in the PFM system. Figure 2.6 below shows the scores per indicator for this pillar.

Figure 2.6: Pillar VI-Summary of PEFA scores



PI-27. Financial data integrity

What does PI-27 measure? This indicator assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data. It contains four dimensions and uses the **M2 (AV)** method for aggregating dimension scores.

Indicator/Dimension	Score
PI-27. Financial data integrity	B
27.1. Bank account reconciliation	C
27.2. Suspense accounts	A
27.3. Advance accounts	B
27.4. Financial data integrity processes	N/a

General description of the system in place in Kyrgyz Republic:

The Single Treasury Account is a centralized account of the Ministry of Finance of the Kyrgyz Republic with the National Bank operating since 2017 in accordance with the Budget Code. The TSA keeps all budget funds where the state bodies can operate within their authority.

Recent or ongoing reform activities: Not reported

27.1. Bank account reconciliation

Performance level and evidence for scoring:

Cash execution of the budget is carried out by the Ministry of Finance and its territorial departments through the information system "IS: Treasury (Kazna). Budget". On a daily basis the Treasury Information System carries out automatic identification of operations that are reflected in the General Ledger. The entries made at the TSA are based on the electronic bank statement of the National Bank and electronic payment documents for which there is daily automatically reconciliation. In addition, the National Bank provides daily statements on funds transfer in all accounts with the purpose to reconcile the accounting data of the Central Treasury. In addition, reconciliation, between the National Bank and the Central Treasury, takes place is also carried out quarterly within a month time to confirm the balance of the reconciled accounts on paper by signature and seal. All accounts of the LSG are reconciled at the time of assessment.

There are three types of accounts categorized according to the source of funds that are maintained by the Treasury - budget, special and deposit accounts. The only account of LSG Saz is one settlement account for salaries of Sokuluk FAO "RSK Bank" BIK 129011 p / s 1290115000021796.

Possible causes of PFM performance identified during the PEFA assessment: The well-developed procedures and the information system of Treasury allows regular and quarterly constant bank accounts reconciliation.
Dimension score - C

27.2 Suspense accounts

Performance level and evidence for scoring:

The suspense account is an interim account referred to as 'Direct income – unclear'. It is a foreign currency account and it is used by the Central Treasury while the recipient of received funds is being identified. The funds are with the National Bank "Multicurrency account" (in US dollars, euros, Russian roubles, Kazakhstan tenge) intended for receipt of foreign currency funds to budgetary institutions. There are no other suspense accounts.

Notifications of received foreign currency funds are sent daily to the territorial departments of the Ministry of Finance. While payment details of the specific recipient are being clarified, the funds are classified as "unclear".

Territorial offices within 3 working days from the date of receipt of the notification are supposed to specify the necessary details of the recipient and send them to the Central Treasury. Once the recipient is identified, the Central Treasury transfers the funds from the account "Direct income - unclear" to the account of the recipient. The suspense accounts are reconciled within one month. Suspense accounts are also cleared by the end of the year.

Possible causes of PFM performance identified during the PEFA assessment: Clear and constantly applied procedures and well-established practice on clearing suspense accounts.

Dimension score - A

27.3. Advance accounts

Performance level and evidence for scoring:

Budgetary institutions account and report advance accounts in accordance with the Regulation on accounting and financial reporting in the public administration sector, approved by order of the Ministry of Finance of the Kyrgyz Republic of December 25, 2018 No. 137-P.

The issuance of funds against the report (accounts receivable of employees) is made to employees of a budgetary institution. Advance payments to staff are recorded as settlement accounts and monitored. The accountable person is obliged to submit advance reports to the accounting service no later than three working days. Advances for business trips can be done manually using petty cash. All advance accounts are cleared shortly after evidence has been provided. Reports are generated monthly.

Travel allowances are provided for authorized mission days and expensed. It is reconciled and signed off monthly and reported as an annex to the monthly budget execution report.

Advance payments under public procurement should not exceed 10 percent of the total amount of the contract. They are usually secured with guarantees and are administered within the procurement rules. The bank guarantee remains in effect until the advance payment is paid in full. Purchase of public procurement services related to emergency situations require advance payments of more than 10 percent of the contract amount, in accordance with the legislation on public procurement related to national security, defense and protection of state secrets.

Reconciliation of advance accounts takes place quarterly, within two months from the end of each quarter. All advance accounts are cleared in a timely way. According to the information on accounts receivable and payable by LSG Saz, there are no outstanding balances on advance account at the end of the year.

Possible causes of PFM performance identified during the PEFA assessment: The regulation on the accounting and financial reporting in the public administration sector, which is approved by the central Ministry of Finance and is supposed to be identical for the entire public administration in Kyrgyzstan.

Dimension score - A.

27.4. Financial data integrity processes

Performance level and evidence for scoring:

The data integrity control process is carried out by the Central Treasury at national level. This dimension is not applicable Saz cannot make changes in the financial data that is kept by the regional Treasury office in the region of Sokuluk.

Dimension score – N/a

Possible causes of PFM performance identified during the PEFA assessment:

PI-28. In-year budget reports

What does PI-28 measure?

This indicator assesses the comprehensiveness, accuracy and timelines so information on budget execution. In-year budget reports must be consistent with budget coverage and classifications to allow monitoring of budget performance and, if necessary, timely use of corrective measures. This indicator contains three dimensions and uses the **MI (WL)** method for aggregating dimension scores

Indicator/Dimension	Score
PI-28. In-year budget reports	C+
28.1. Coverage and comparability of reports	A
28.2. Timing of in-year budget reports	A
28.3. Accuracy of in-year budget reports	C

General description of the system in place in Kyrgyz Republic:

Instruction on forecasting and budget execution on accounting and reporting dated August 16, 2017 No. 488 specifies the types of in-year budget performance reports. They are periodic (monthly and quarterly), and annual reports. The instruction establishes standard accounting procedures and regulates the preparation, consolidation and submission of the in-year reports which are in line with the requirements of international standards for government finance statistics.

Recent or ongoing reform activities: Not reported

28.1. Coverage and comparability of reports

Performance level and evidence for scoring:

The LSG of Saz (ayil aimak), draws up the following reports: i) summary reports of the General Ledger for the reporting month and from the beginning of the year; ii) report on execution of the local budget (Appendix 8); iii) report on execution of special funds of budgetary institutions (Appendix 9). Periodic reports of territorial subdivisions on local budget are generated in the automated treasury system. The only source for compiling treasury reports are the data of the Treasury Book of Accounts.

The database in the automated treasury system allows full coverage of budget execution data and their comparison with the approved budget data (originally budgeted) for all budget classification items. Thus, the in-year budget execution reports cover revenue and expenditure, assets and liabilities. The reports are consistent with the budget classification of the revenue and expenditures of the budget allowing direct comparison of performance with the budget plan. The reports are drawn up in accordance with the budget classification (2001 Government Finance Statistics) ensuring standard forms of budget statistics. There is an explanatory note (as a separate narrative document) to the annual in-year budget execution reports with commentary on budget execution.

In-year budget performance reports are produced quarterly and they cover revenue and expenditure, assets and liabilities and cash flow. The database in the automated treasury system allows full coverage of budget execution data and comparison with the originally approved budget.

Possible causes of PFM performance identified during the PEFA assessment: Owing to the automated treasury system, there is comparability between budget execution and the originally approved budget.

Dimension score - A

28.2. Timing of in-year budget reports

Performance level and evidence for scoring:

The order of the Ministry of Finance of the Kyrgyz Republic "On the preparation of periodic reports on execution of the state budget for 2019" dated January 23, 2019 No. 12-P approves the schedule for the submission of in-year periodic reports by the territorial departments of the Ministry of Finance of the Kyrgyz Republic. The schedule for submission of reports is as follows:

Report	Time of submission	Date of actual submission
Monthly	Within two weeks from the end of each	By 10 th in the following
6-month report	Four weeks from the end of each quarter	24 th July 2019
9-month report	Four weeks from the end of each quarter	23 October 2019

Source: Ministry of Finance

Possible causes of PFM performance identified during the PEFA assessment: The automated treasury system allows receipt of data in real time regardless of the timing of the budget execution report.

Dimension score - A

28.3. Accuracy of in-year budget reports

Performance level and evidence for scoring:

The reports of territorial subdivisions on the execution of the local budget are generated in the automated treasury system. The Treasury Book of Accounts is the only source for compiling treasury reports. As such, there are no material concerns regarding data accuracy. Analysis of budget execution is provided with the annual report and the data is consistent with the approved estimate. Expenditure is presented only at payment stage.

Possible causes of PFM performance identified during the PEFA assessment: The use of the treasury automated system allows for accuracy of data.

Dimension score - C.

PI-29. Annual financial reports

What does PI-29 measure? This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the PFM system. It contains three dimensions and uses the **M1 (WL)** method for aggregating dimension scores.

Indicator/Dimension	Score
PI-29. Annual financial reports	D+
29.1. Completeness of annual financial reports	D
29.2. Submission of reports for external audit	B
29.3. Accounting standards	C

General description of the system in place in Kyrgyz Republic:

Instruction No. 488 on procedures for forecasting and execution of the budget dated August 16, 2017 specifies the procedure for drawing up periodic, annual reports on budget execution. The reports are compiled in accordance with the budget classification developed in accordance with the 2001 Government Finance Statistics ensuring the unified forms of budget statistics. The budget-reporting period is the calendar year from January 1 to December 31 inclusive.

Recent or ongoing reform activities: Not reported

29.1. Completeness of annual financial reports

Performance level and evidence for scoring:

LSG Saz (ayil aimak) prepare monthly, quarterly and annual budget reports in accordance with the prescribed forms. Based on all LSGs report, the territorial subdivisions draw up consolidated reports on budget execution and submit them to the Central Treasury.

The periodic and annual reports of the territorial subdivisions can be also generated in the automated treasury system, and the data of the Treasury Book of Accounts. LSG Saz provided the annual budget execution report for FY 2019. It contains information on revenue and expenditure and tangible assets only. It is not clear if cash balances are also provided as part of this report submission.

Possible causes of PFM performance identified during the PEFA assessment: The database in the automated treasury system allows full coverage of budget execution data and their comparison with the approved budget data.

Dimension score - D

29.2. Submission of reports for external audit

Performance level and evidence for scoring:

In accordance with Article 22 of the Budget Code, the Ministry of Finance of the Kyrgyz Republic submits the annual budget execution report of the republican no later than May 1 of the year following the reporting year.

The order of the Ministry of Finance of the Kyrgyz Republic "On drawing up a report on the results of the execution of the state budget of the Kyrgyz Republic for 2019" dated November 27, 2019 No. 128-P, provides a schedule for submission of financial reports. Accordingly, the budget execution report of the central government is submitted to the Accounts Chamber for external audit within 3 months after the end of the financial year.

LSG Saz submits the financial reports only to the Central Treasury and not directly to external audit.

In accordance with the requirements of the Budget Code of the Kyrgyz Republic, an audit of the execution of local budgets is carried out once every two years. Annual financial statements of budgetary institutions of LSG Krupskaya are not submitted directly to the Accounts Chamber. Reports are submitted to the regional Sokuluk Department of the Ministry of Finance (Treasury Department). The financial reports for 2017-2019 by LSG Saz were submitted to the regional treasury department in Sokuluk until January 14 of the year following the reporting year. Sokuluk department of the MoF submitted a consolidated report of 19 LSGs to the Central Treasury of the MoF in accordance with the approved schedule of the Ministry of Finance, that is until February, 7th of the year following the reporting year. The financial statements of LSG Krupskaya were then submitted by Central Treasury to Accounts Chamber on 22 June 2018.

Dimension score - B

Possible causes of PFM performance identified during the PEFA assessment: The hierarchical organization and management of the local self-government ensure that the financial reports are submitted to the Central Treasury and not directly to Accounts Chamber.

29.3. Accounting standards

Performance level and evidence for scoring:

This dimension is on settings and procedures defined at national level.

There is a uniform procedure for accounting records and preparing financial statements for budgetary institutions. It is approved by order of the Ministry of Finance of the Kyrgyz Republic No. 137-P dated December 25, 2018. The accounting standards used in the preparation of all financial statements comply with national law. The standards used in preparing the annual financial statements are disclosed.

Currently, work is underway on the implementation of International Public Sector Accounting Standards (IPSAS) on an accrual basis in the general government sector. The Regulation on the Organization of Accounting in Budgetary institutions, approved by the Kyrgyz Government's decree of May 16, 2011 No. 224, introduced the concept of IPSAS, a new chart of accounts and new forms of financial reporting. As part of the reform of the accounting system with the introduction of IPSAS, the following regulations have been developed and approved:

-
A single chart of accounts and guidance on its application by the public administration sector:

- Public Administration Accounting Policy setting accounting principles and rules for financial reporting;
- The public administration reporting provision setting out the way financial statements are generated;
- The regulation on accounting and financial reporting in the public administration sector setting the requirements for the organization and management of accounting, the system of internal control, as well as the accounting documentation of the public administration sector.

Possible causes of PFM performance identified during the PEFA assessment: The accounting procedures are defined at national level and applied in all local governments in the country.

Dimension score - C

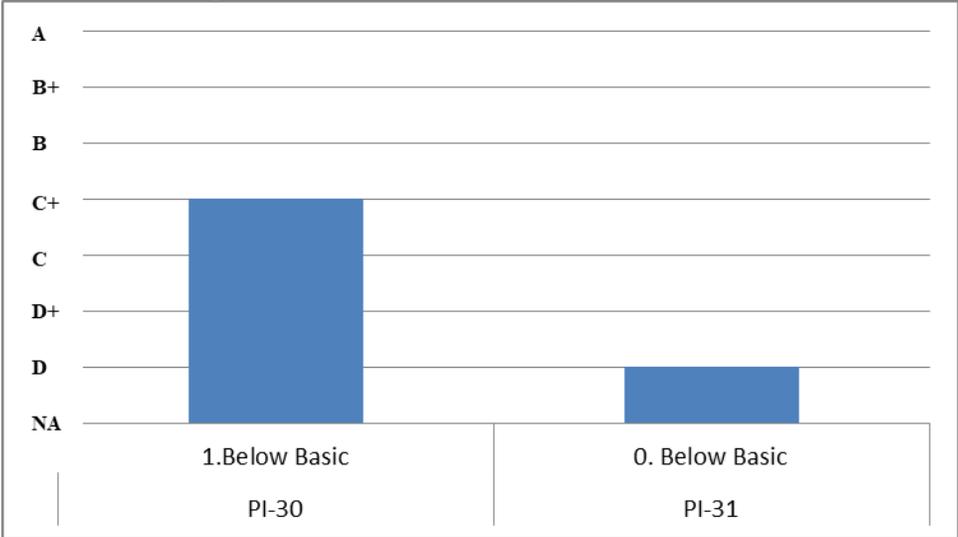
PILLAR SEVEN: External scrutiny and audit

What does Pillar VII measure? Public finances are independently reviewed and there is external follow-up on the implementation of recommendations for improvement by the executive.

Overall performance: key strengths and weaknesses

There is no dedicated external audit function at the subnational level of the local self-government of Saz. The national level Account Chamber performs the external audit of the consolidated budget performance report of Sokuluk region and summary report of the audit of the budget of Saz for the period from January 1, 2016 to December 31, 2017 was provided. Follow-up on external audit recommendation is found to be strong (PI-30). Since the Budget Code of the Kyrgyz Republic requires the audit of local governments to be conducted every two years and the audit of LSG Saz for January 1, 2016 to December 31, 2017 were submitted to the Ayil Kenesh on November 5, 2018, but this was not scrutinized by the Ayil Kenesh. Hence, there were no hearings on audit reports and the legislature didn't provide recommendations to the executive (PI-31). Figure 2.7 below shows the scores per indicator for this pillar.

Figure 2.7: Pillar VII-Summary of PEFA scores



PI-30. External audit

What does PI-30 measure? This indicator examines the characteristics of external audit. It contains four dimensions and uses the **M1(WL)** method for aggregating dimension scores.

Coverage: CG.

Time period: Dimensions 30.1 and 30.4: Last three completed fiscal years. Dimension 30.2: Last three completed fiscal years. Dimension 30.3: Last three completed fiscal years.

Indicator/Dimension	Score
PI-30. External audit	C+
30.1. Audit coverage and standards	C
30.2. Submission of audit reports to the legislature	B
30.3. External audit follow-up	A
30.4. Supreme Audit Institution independence	B

General description of the system in place in Kyrgyz Republic:

There is no external audit function at the subnational level of the local self-government of Saz. The national level Account Chamber performs the external audit of the consolidated budget performance report of Sokuluk region.

Summary report of the audit of the budget of Saz for the period from January 1, 2016 to December 31, 2017 was provided. The Law on Accounts Chamber prescribes that the audited budget entity should receive recommendations, which the auditor should follow up. The audit report covers the violations and errors, the audit recommendations and proposals how and what should be rectified and deadline for implementation. The Accounts Chamber follows up on the implementation of audit recommendations.

The external audit performed by the national level Accounts Chamber covers the budget performance of Sokuluk region.

Recent or ongoing reform activities: Not reported

30.1. Audit coverage and standards

Performance level and evidence for scoring:

In accordance with the Law "On the Accounts Chamber of the Kyrgyz Republic", the Accounts Chamber of the Kyrgyz Republic is the supreme body of state financial and economic control in the republic. It independently solves all issues related to its jurisdiction.

The Accounts Chamber acts as an external auditor of the Government auditing the effectiveness of its activities, including the effectiveness of internal audit. The Accounts Chamber determine its own audit standards. Constitutionally, the Chamber is run by a Council of 9 members, 3 each being nominated by the political majority, the minority/Opposition and the Office of the President.

The Chamber is a member of the International Organization of Supreme Audit Institutions (INTOSAI) as well as of the regional SAI groups covering Asia and the Eurasian Economic Union.

In accordance with Article 124 of the Budget Code of the Kyrgyz Republic, the external audit of the execution of local budgets is carried out by the Accounts Chamber once every two years.

There are territorial offices of the Accounts Chamber of the Kyrgyz Republic in Bishkek, Chui and Talas regions, they conduct audits applying the international standards of supreme audit institutions. The external audit of the preparation and execution of local budgets of LSGs of the Sokuluk region for the period from January 1, 2016 to December 31, 2017 was carried out in 2018. for the period from January 1, 2018 to December 31, 2019 was held in 2020. This audit covered 19 LSGs including LSG Saz.

The audits were carried out for compliance of the reporting with the requirements of the legislation and financial statements, compliance by the object of the audit with the legislation regulating its activities. That is, the audit was conducted using elements of financial audit and compliance audit (mixed audit). Audit work for the periods 2016-2017 and 2018-2019 were performed using national auditing standards with increasing compliance with international auditing standards.

The audit for 2018-2019 was carried out in 2020 and at the time of the assessment, the results of the audit of Sokuluk region had not yet been approved by the Council of the Accounts Chamber. Only the audit report of LSG Saz for 2016-2017, carried out in 2018, was provided. It was published on the website of the Accounts Chamber. This audit report of the local budget of LSG Saz covers 100% of the approved budget expenditure and revenue. The audit report provides highlights on significant weaknesses such as shortcomings in the internal control system, payment of remuneration (bonuses) without a source of funding, excess of the limit for the consumption of fuels and lubricants, the need to take measures to receive income from the lease of land payment, taking measures to reduce accounts receivable and payable. There is no analysis of material issues and control risks.

Dimension score: C.

Possible causes of PFM performance identified during the PEFA assessment: All revenue and expenditure is audited using national audit standards with an increasing amount of compliance with international audit standards with audit findings focused on relevant significant weaknesses.

30.2. Submission of audit reports to the legislature

Performance level and evidence for scoring:

In accordance with the Law "On the Accounts Chamber of the Kyrgyz Republic" and the regulations of the Accounts Chamber of the Kyrgyz Republic, draft audit reports are considered at meetings of the Council of the Accounts Chamber, approved by the Council of the Accounts Chamber.

According to Article 103 of the Rules of Procedure of the Jogorku Kenesh of the Kyrgyz Republic, the Accounts Chamber shall submit to the Jogorku Kenesh a report with the results of the audit of the execution of the republican budget for the previous year before September 1 of this year.

According to the territorial divisions of the Accounts Chamber of the Kyrgyz Republic in Bishkek, Chui and Talas regions, the draft report on the preparation and execution of local budgets of the Sokuluk region, including LSG Krupskaya, for the period from January 1, 2016 to December 31, 2017, was considered at a meeting of the Accounts Chamber in 2018.

The materials of the report on the preparation and execution of the local budget of LSG Krupskaya for the period from January 1, 2016 to December 31, 2017 were sent to the Jogorku Kenesh of the Kyrgyz Republic "Report on the audit of the execution of the republican budget for 2017".

In accordance with the Law "On the Accounts Chamber of the Kyrgyz Republic" and the regulations of the Accounts Chamber of the Kyrgyz Republic, draft reports are considered at meetings of the Council of the Accounts Chamber, approved by the Council of the Accounts Chamber.

According to Article 103 of the Rules of Procedure of the Jogorku Kenesh of the Kyrgyz Republic, the Accounts Chamber shall submit to the Jogorku Kenesh a report with the results of the audit of the execution of the republican budget for the previous year before September 1 of this year.

According to the territorial divisions of the Accounts Chamber of the Kyrgyz Republic in Bishkek, Chui and Talas regions, the draft report on the preparation and execution of local budgets of the Sokuluk region, including LSG Saz, for the period from January 1, 2016 to December 31, 2017, was considered at a meeting of the Accounts Chamber in 2018.

The audit report on the preparation and execution of the local budget of LSG Saz for the period from January 1, 2016 to December 31, 2017 was sent to the legislature (Jogorku Kenesh) on November 5, 2018 with numbers 01-4/108 и 01-5/353

Dimension score – B

Possible causes of PFM performance identified during the PEFA assessment: The audited report of the local budget of LSG Krupskaya for the period from January 1, 2016 to December 31, 2017 was sent by the Accounts Chamber to LSG Saz on November 5, 2018, that is, 4.5 months from the receipt of the unaudited financial reports.

30.3. External audit follow-up

Performance level and evidence for scoring:

Draft audit finding and recommendations are submitted to the Council for consideration and approval along with the audit report. The recommendations of the Accounts Chamber comprise of: (i) violations identified as a result of the audit; (ii) proposals for eliminating these violations, as well as proposals for improving the organizational and operational activities; (iii) deadlines for taking measures to eliminate violations, submitting a response (within a month).

The Accounts Chamber monitors the implementation of the audit recommendations. The Council periodically considers the issue of the implementation of the recommendations and orders of the Accounts Chamber and decides on measures in relation to officials, organizations that do not comply with the order of the Accounts Chamber.

Having considered the report on the preparation and execution of local budgets of the Sokuluk region for the period from January 1, 2016 to December 31, 2017, by the decision of the Council of the Accounts Chamber, instructions were sent to the Sokuluk regional state administration of the Chui region, to the heads of LSG, including LSG Saz, to the heads of budgetary institutions to eliminate the identified financial violations and shortcomings.

According to representatives of LSG Saz, the results of the audit were considered by the head of Ayil Okmotu (government) at the general meeting. LSG Saz provided in writing the measures taken to implement the audit

recommendations. They contain measures and timing of actions to eliminate the findings of the external audit (2018-2020) and measures to reduce rental arrears in particular.

Dimension score: A

Possible causes of PFM performance identified during the PEFA assessment: There is evidence of external audit follow-up. The audited executive undertakes measures to act upon and implement the audit findings and recommendations in timely manner.

30.4. Supreme Audit Institution independence

Performance level and evidence for scoring:

Article 107 of the 2010 Constitution provides that the Accounts Chamber shall conduct the audit of execution of national and local budgets, off-budgetary funds as well as use of public and municipal property.

Constitutionally, the Chamber is run by a Council of 9 members, 3 each being nominated by the political majority, the minority/Opposition and the Office of the President. It is understood that this may change in 2021 to a system whereby candidates will be proposed by Parliament. Such a change would enhance the independence of the Chamber from the Executive.

The Accounts Chamber plan and perform their audit work independently from the Government. The Chairman is appointed and dismissed by the President of the Republic. The Chamber of accounts is accountable to the President of the Kyrgyz Republic and the Parliament. The independence of the Chamber is provided for by the Constitution of the Kyrgyz Republic and the law "On the Accounts Chamber of the Kyrgyz Republic". The Constitution establishes the procedure for the appointment and dismissal of the chairman and members of the Council. The Accounts Chamber draws up an annual plan of audit work independently, taking into account proposals made by the President of the Kyrgyz Republic and the Parliament.

The 2017 Budget Code provides for the financial independence of the Accounts Chamber. The Accounts Chamber annually forms its draft budget for funding of its activities and submits it to the Government for review. The Accounts Chamber, upon receipt of Government's recommendations, submits the draft budget to the Budget and Finance committee of Parliament for its inclusion into the republican budget. In case of any objections of the Government relating to the draft budget of the Accounts Chamber, the committee reviews these objections jointly with representatives of Government and the Accounts Chamber. Once agreed the draft budget of the Accounts Chamber is submitted to MoF for its inclusion into the republican budget. The Accounts Chamber has the right to present for Parliament's Budget and Finance committee's review a proposal on additional financing, required for ensuring of the Account Chamber's activities. The annual work-plan of AC is prepared in consultation with the Parliament.

The Budget Code adopted in 2017 provides for the financial independence of the Accounts Chamber. The budget of the territorial subdivision of the Accounts Chamber of the Kyrgyz Republic for Bishkek, Chui and Talas regions is formed separately, but consolidated into the general budget of the Accounts Chamber.

Employees of the Accounts Chamber, in the exercise of their powers, have the right to have unlimited access to primary documents reflecting economic and financial activities, financial registers, balance sheets and accounts and other information necessary for auditing.

Dimension score: B

Possible causes of PFM performance identified during the PEFA assessment: The Chamber of Accounts operated independently from the executive, they plan audits and enjoy unrestricted access to data and information. The CA has substantial independence over its operations and its financing.

PI-31. Legislative scrutiny of audit reports

What does PI-31 measure? This indicator focuses on legislative scrutiny of the audited financial reports of the central government, including institutional units, to the extent that either (a) they are required by law to submit audit reports to the legislature or (b) their parent or controlling unit must answer questions and take action on their behalf. It contains four dimensions and uses the **M2 (AV)** method for aggregating dimension scores.

Coverage: CG.

Time period: Last three completed fiscal years.

Indicator/Dimension	Score
PI-31. Legislative scrutiny of audit reports	D
31.1. Timing of audit report scrutiny	D
31.2. Hearings on audit findings	NA
31.3. Recommendations on audit by legislature	NA
31.4. Transparency of legislative scrutiny of audit reports	NA

General description of the system in place in Saz: According to the requirements of the Budget Code of the Kyrgyz Republic, the audit of the implementation of local budgets is held every two years.

Recent or ongoing reform activities: None.

31.1. Timing of audit report scrutiny

Performance level and evidence for scoring: The report of the Accounts Chamber on the audit of formulation and execution of the Saz LSG Budget for the period from January 1, 2016 to December 31, 2017 was submitted to the Jogorku Kenesh of the Kyrgyz Republic in August 2018 "Audit Report on Execution of the Republican Budget for 2017" and was considered at the meeting of Jogorku Kenesh.

The materials of the report on formulation and execution of the Local Budget of the Saz LSG for the period from January 1, 2016 to December 31, 2017 were sent by the Accounts Chamber to the LSG Saz and the Ayil Kenesh on November 5, 2018. However, the audit reports were not reviewed by the Ayil Kenesh. *Hence, the score for the present dimension is D.*

Possible causes of PFM performance identified during the PEFA assessment: Though the Ayil Kenesh received audit reports, it doesn't review them.

31.2 Hearings on audit findings

Performance level and evidence for scoring: No audit hearings were conducted by the Ayil Kenesh. *Hence, the score for the present dimension is NA.*

Possible causes of PFM performance identified during the PEFA assessment: No audit hearings were conducted by the Ayil Kenesh

31.3. Recommendations on audit by legislature

Performance level and evidence for scoring: Since no audit hearings were conducted by the Ayil Kenesh, the legislature did not provide recommendations on the audit reports. *Hence, the score for the present dimension is NA.*

Possible causes of PFM performance identified during the PEFA assessment: The Ayil Kenesh did not review the audit reports and hence, cannot provide recommendations.

31.4. Transparency of legislative scrutiny of audit reports

Performance level and evidence for scoring: No audit scrutiny was conducted by the Ayil Kenesh. *Hence, the score for the present dimension is NA.*

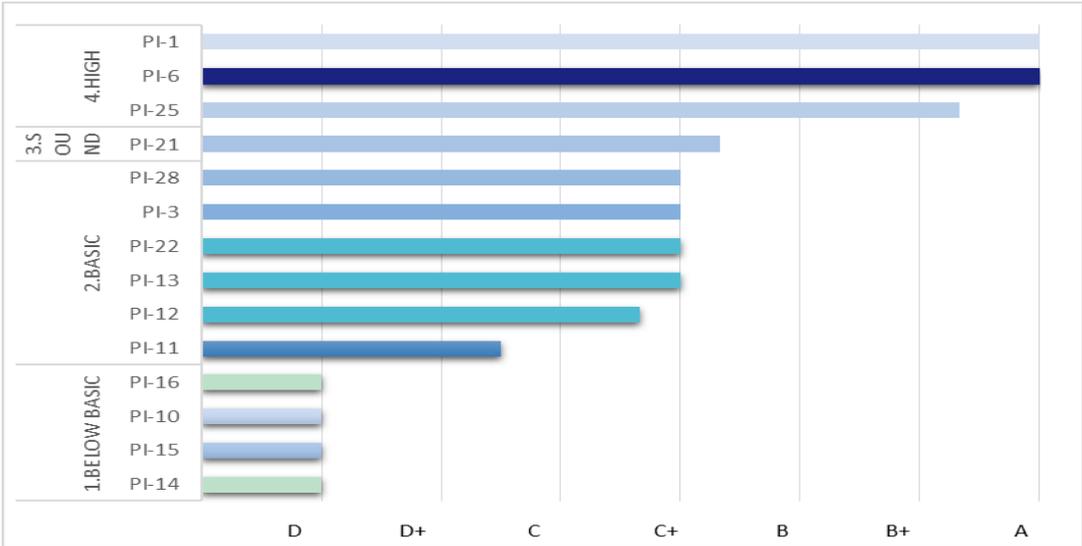
Possible causes of PFM performance identified during the PEFA assessment: No audit scrutiny was conducted by the Ayil Kenesh.

3. Overall analysis of PFM systems

3.1 PFM strengths and weaknesses

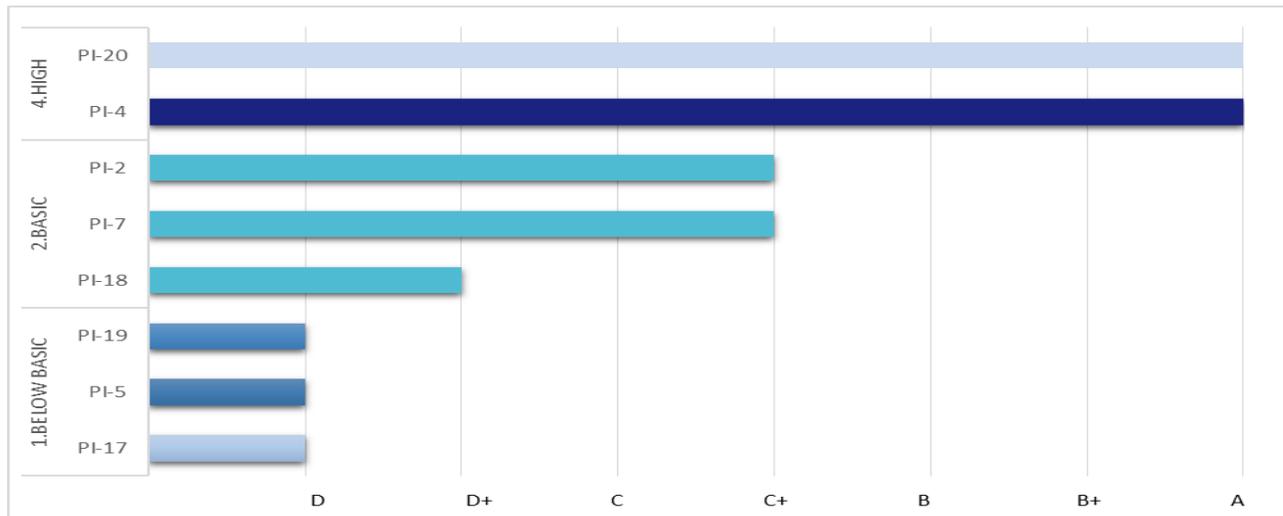
The reliability of aggregate fiscal discipline is demonstrated by the fact that 100% of the planned equalizing transfers are received from the central government. Earmarked grants are also received 100% except in 2018. Both revenue and expenditure budget are also credible at the aggregate level. However, this is negatively impacted by the unreliability of revenue and expenditure budget at the composition level. The classification on the budget classification is good and allows transparency. The central government has a complete picture of revenue and expenditures across every category, where there is no unreported revenue or expenditure. Clear rules exist for in-year budget amendments by the executive and are adhered to. There is no data on revenue arrears. The tax related data of Saz is managed by the staff of STS in Sokuluk where the data is stored in database in a way that does not allow breaking it down to taxpayers by district and hence separate the revenue arrears. The legislature grants local governments the right to borrow by issuing municipal securities on their behalf, as well as receiving budget loans. However, The LSG Saz have not borrowed, issued debt obligations or loan guarantees in the period 2017-2019. Macro-economic and fiscal forecasting at LSG Saz lack basic elements. Figure 3.1 below shows the scores the indicators related with aggregate fiscal discipline.

Figure 3.1: Aggregate fiscal discipline



The strategic allocation of resources is negatively affected by the significant level of budget reallocations at both the revenue and expenditure levels. Frequent budget reallocations override government original policy intentions, leading to poor resource allocation which affects efficient service delivery, going forward. The continuous budget reallocations also raise questions about budget credibility as well as the delivery of government services based on its original policy intent. Selection of major investment projects is not based on predetermined economic selection criteria, leading to inefficient allocation of scarce resources. Medium-term strategic planning is an area found to weak, negatively impacting the strategic allocation of resources. Figure 3.2 below shows the scores the indicators related with strategic allocation of resources.

Figure 3.2: Strategic allocation of resources

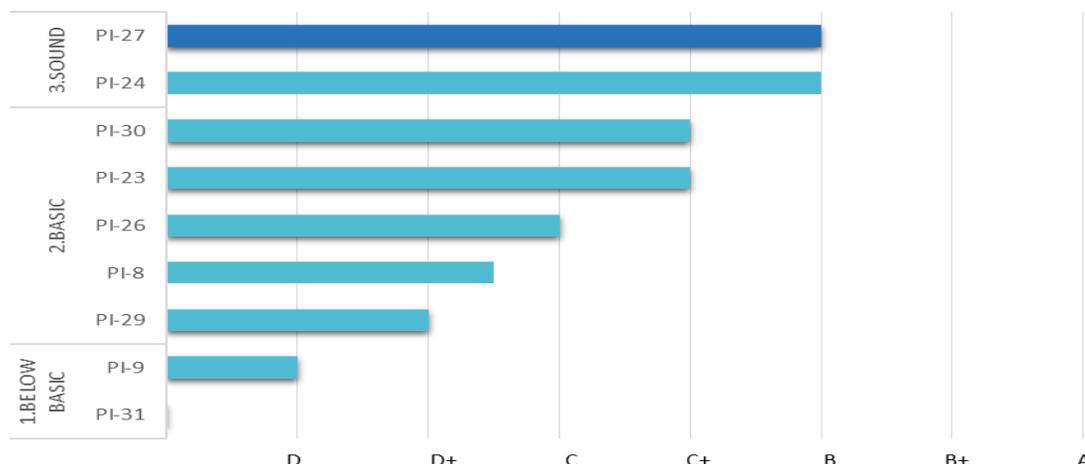


The continuous reallocation of approved budget both at the functional and economic levels defeats the purpose of original government policy. This means that planned service delivery activities will no longer receive the necessary funding, thereby impacting negatively on the quality of primary service delivery. Cash forecasting and monitoring is done at the level of Central Treasury only as required by the legislature.

Public access to fiscal information and transparency of public finances is found to be very weak. Most of the fiscal information is not made available to the public and performance information for service delivery is not published. These include policies or programs of ministries or a framework of performance indicators relating to the outputs or outcomes of ministries, negatively affecting service delivery.

Tax administration of primarily the responsibility of the State Tax Service in Sokuluk where it provides the taxpayers with access to all applicable laws and regulations in their websites, as well as in the centralized legal information database of the Kyrgyz Republic, which is administered by the Ministry of Justice. It also provides information using additional Medias. Main weaknesses identified in the transparency of public finances are related with performance information for service delivery, where information is not published on the outputs, outcomes or activities of most ministries and in-kind allocations are not reflected in the records. Another weak area is procurement monitoring, where there is no sufficient data. A strong point to note is the public access to procurement information, where all the required public procurement information is accessible to the public online through the website. Generally, the internal control non-salary expenditures are found to good, though data was lacking to assess some of the dimension on payroll control. There is no internal audit function in LSG Saz. The Ministry of Finance at national level performs the internal audit in the region of Sokuluk. There is also no external audit function at the subnational level of the local self-government of Saz. The national level Account Chamber performs the external audit of the consolidated budget performance report of Sokuluk region. The external audit reports relating to the LSG Saz were not reviewed by the legislature it has deprived the parliament from overseeing whether public resources are properly spent as planned. Figure 3.3 below shows the scores the indicators related with efficient service delivery.

Figure 3.3: Efficient service delivery



3.2 Effectiveness of the internal control framework

Based on the available information provided by the LSG Saz, the internal control practice in place is fairly sound to contribute to the achievement of the control objectives. In principle the strict observance of regulation and law are characteristic feature in the PFM area of the country in general. In particular, Articles 105 and 106 of the Budget Code "On the procedure of functioning of the Single Treasury Account" contribute for organizing and settlement of payments. The following is an overview of the internal control activities collected from the preceding sections of the report. It builds on the description of the design of internal controls and the individual assessment of specific control activities as covered by the performance indicators.

Risk Assessment

Even if the risks are rather well covered by preliminary control activities permeating the entire system of public finance in the country, there is no evidence of a formalised risk assessment mechanism in the LSG Saz. Still, decisions appear to be driven by risk factors that are predicted and managed in good time. Risks assessment status at different stages of PFM system are analysed as follows:

Pillar 1: Budget reliability: high expenditure and revenue outturn increases the credibility of the budget. Budget composition amendments creating potential for lack of short-term fiscal sustainability.

Pillar 2: Transparency of public finances: There are not many inherent risks as there is no lower government level and there are not off-budget revenue and expenditure. Nevertheless, the risk of misuse of funds and poor service delivery to the public exists due to the poor practice of publishing information and enabling public scrutiny of government policies, programmes and their implementation.

Pillar 3: Management of assets and liabilities: The Budget Code does not contain requirements concerning monitoring and reporting of contingent liabilities and other fiscal risks (PI-10). There is little guarantee of value for money without well established and transparent economic analysis of investment proposals (PI-11), costing of investment and written procedures for monitoring the performance of public investments. There is a risk of losing or rather not benefiting from the non-financial assets when they are not disclosed to the public. (PI-12).

Pillar 4: Policy-based fiscal strategy and budgeting: Lack of medium-term perspective in budgeting expenditure and limited visibility of fiscal forecasts and sensitivity analysis in budgeting creates the risk of having budgets that are prone to amendments by various internal and external factors (PI-14). The poor practice of medium-term perspective

in expenditure budgeting and budget preparation process contributes to the overall risk of having unrealistic plan in mobilising the government resources.

Pillar 5: Predictability and control in budget execution: The revenue administration practice applies risk management for the basic compliance risks but with the expansion of the economic life and the transition to market economy; the risks will become numerous and the system is to be prepared to predict and mitigate them. The personnel database is linked to the payroll software thus reducing the risk of errors and possibly of retroactive adjustment. There is segregation of duties between salary and non-salary expenditures. Non-salary expenditures are electronically monitored keeping risk of errors and non-compliance low.

Control Activities

Control activities in PFM appears to be very well developed and applied. The unified Treasury operated software system "IS KAZNA Budget" contributes for all expenditure operations to be carried out and controlled through the software. Control of payment rules for all budget performance operations enhances transparency and accountability.

Information and Communication

Generally, the PFM information such as the approved budgets, the in-year budget execution reports, and the annual budget execution report are partially available to the public. There is little information on whether public participation forums or events are held in relation to the budget formulation. There is clear and comprehensive information on revenue collection and administration with regard to the right of obligation of the public (PI-19). With the launch of the electronic public procurement system in 2015, the information on procurement tenders, plans, statistics and appeals is accessible to the public.

Monitoring

Monitoring in Committee of Sponsoring Organizations (COSO) terms means the process of assessing the quality of internal control performance over time. Performance monitoring in the PFM system is not developed, yet (PI-11). The main tools of monitoring PFM ensure that the in-year quarterly reports and the budget execution reports are consistently prepared. The internal control framework of the PFM system as described having in place comprehensive, extensive and reliably applied control activities is efficient to ensure against key irregularities and errors.

The internal control environment exists, and it is regulated and complied with by the application of the current internal audit functions deploying resources from the national government.

ANNEXES

Annex 1: Performance indicator summary

		Current assessment		
Pillar	Indicator/Dimension	Score	Description of requirements met	
HGL	Transfers from a higher-level government	B+		
HGL -1	HLG -1. Outturn of transfers from higher-level government	A	There was no difference between the originally planned and the actual total (and targeted) transfers in each of the last three years 2017-2019.	
HGL-2	HLG-2...Earmarked grants outturn	B	Only in two FY 2017 and 2019 the original budget estimate and the actual earmarked transfers were 100%.	
HGL-3	HLG-3 Timeliness of transfers from higher-level	A	All transfers are actually disbursed each month being evenly distributed across the year	
Budget Reliability	PI-1	Aggregate expenditure outturn	A	The aggregate expenditure outturn is reliable in which the outturn deviated less than 5% in FY 2017 and FY 2018. However, this was not maintained in FY 2019, in which the outrun was more that the budget by 10%.
	PI-2	Expenditure composition outturn	C+	
		(i) Expenditure composition outturn by function	C	The expenditure composition outturn by function was 11.9%, 11.2% and 10.8% in 2017, 2018 and 2019.
		(ii) Expenditure composition outturn by economic type	C	The expenditure composition outturn by economic type was 21%, 13% and 3% in 2017, 2018 and 2019.
		(iii) Expenditure from contingency reserves.	A	There was no expenditure charged to contingency reserve in the last three completed fiscal years.
	PI-3	Revenue outturn	B	
		(i) Aggregate revenue outturn	A	Actual revenue outturn was in excess of budget between 97% and 106% of budgeted revenue in at least two of the last three years.
		(ii) Revenue composition outturn	D	The composition variance in all the three years was more than 15% in the last three completed fiscal years.
Transparency of Public Finances	PI-4	Budget Classification	B	The budget preparation, its execution, accounting and reporting of the local budget is undertaken by classification corresponding to the GFS/COFOG standards.
	PI-5	Budget Documentation	D	The last budget submitted to the legislature was for FY 2020 and the requirements are met for 2 basic elements out of 4 and 1 additional element out of 8.
	PI-6	Central government operations outside financial reports	A	
		(i) Expenditure outside financial reports	A	There are no expenditures outside financial report.
		(ii) Revenue outside financial reports	A	There are no revenues outside financial reports.

		(iii) Financial reports of extra-budgetary units	NA	There are no extrabudgetary units in LSG Sz.	
	PI-7	Transfers to subnational governments	NA		
		(i) System for allocating transfers	NA	There are no subnational governments in LSG Sz.	
		(ii) Timeliness of information on transfers	NA	There are no subnational governments in LSG Sz.	
	PI-8	Performance information for service delivery	D+		
		(i) Performance plans for service delivery	D	Information is not published annually on the activities to be performed under the policies or programs of ministries or a framework of performance indicators relating to the outputs or outcomes of ministries is not in place.	
		(ii) Performance achieved for service delivery	D	Budgetary institutions prepare annual reports on their activities and performances achieved, but they are not published.	
		(iii) Resources received by service delivery units	A	Information on resources received by frontline service delivery units is collected and recorded for all budgetary institutions, disaggregated by source of funds. A report compiling the information is prepared annually.	
		(iv) Performance evaluation for service delivery	D	LSG Sz does not have the practice of assessing the effectiveness or efficiency of the provision of services.	
	PI-9	Public access to information	D	The government makes available to the public one basic element only, and none of the additional elements in accordance with the specified timeframe.	
	Management of assets and liabilities	PI-10	Fiscal risk reporting	D	
			(i) Monitoring of public corporations	N/a	There are no public corporations in LSG Sz.
			(ii) Monitoring of sub-national government (SNG)	N/a	There is no lower level of government
(iii) Contingent liabilities and other fiscal risks			D	There is no information on contingent liabilities and other fiscal risks in the financial reports of SNG Sz.	
PI-11		Public investment management	D+		
		(i) Economic analysis of investment proposals	D	There are no established economic analysis and selection criteria for capital investment projects in LSG Sz.	
		(ii) Investment project selection	C	There are no approved economic selection criteria for capital investment projects.	
		(iii) Investment project costing	C	Costing information is partially included in the budget documentation – for the next year, only.	
		(iv) Investment project monitoring	C	Public investment projects are monitored in terms of cost and physical progress. The achieved progress and output are not published.	
PI-12		Public asset management	C+		
		(i) Financial asset monitoring	C	There is no information if financial assets are published annually	
		(ii) Nonfinancial asset monitoring	C	Information on assets is not officially published and available to the public.	
		(iii) Transparency of asset disposal	C	The assets disposal information is covered in budget documentation	

	PI-13	Debt management	N/a	
		(i) Recording and reporting of debt and guarantees	N/a	LSG Saz have not borrowed, issued debt obligations or loan guarantees in the period 2017-2019.
		(ii) Approval of debt and guarantees	N/a	LSG Saz have not borrowed, issued debt obligations or loan guarantees in the period 2017-2019.
		(iii) Debt management strategy	N/a	LSG Saz have not borrowed, issued debt obligations or loan guarantees in the period 2017-2019.
Policy-based fiscal strategy and budgeting	PI-14	Macroeconomic and fiscal forecasting	D	
		(i) Macroeconomic forecasts	NA	Macroeconomic forecast is not prepared at the level of LSG.
		(ii) Fiscal forecasts	D	The fiscal forecast prepared by Saz Ayil Aimak forecasts revenue for three years while expenditures for one year only.
		(iii) Macro-fiscal sensitivity analysis	D	According to the existing practice of LSGs, macroeconomic scenarios are not developed at the local level, including for the Saz Ayil Aimak.
	PI-15	Fiscal strategy	D	
		(i) Fiscal impact of policy proposals	D	The LSG does not prepare an estimate of fiscal implications and revenue and expenditure policies for three years or one fiscal year.
		(ii) Fiscal strategy adoption	D	The fiscal strategy adopted by LSG Saz does include quantitative fiscal objectives but not qualitative objectives.
		(iii) Reporting on fiscal outcomes	D	A report on the implementation of the Strategic Plan for the Development has not been prepared together with the Annual Budget.
	PI-16	Medium term perspective in expenditure budgeting	D	
		(i) Medium-term expenditure estimates	D	The Annual Budget of the Saz Ayil Okmotu is generated for the period of three years on revenues, and for the period of one year on expenditures with a break down to economic and functional classifications.
		(ii) Medium-term expenditure ceilings	D	Aggregate expenditure ceilings for the budget year and the two following fiscal years are not prepared.
		(iii) Alignment of strategic plans and medium-term budgets	D	Institutions of LSG Saz do not develop Medium-term strategies for budget expenditures.
		(iv) Consistency of budgets with previous year estimates	D	The budget on revenues of the LSG Saz is developed for the period of three years, while for expenditures - for one year. Therefore, the budget document does not provide explanation on changes to expenditure estimates.
	PI-17	Budget preparation process	D	
		(i) Budget calendar	D	No Budget Calendar was developed by the Ayil Okmotu.
		(ii) Guidance on budget preparation	D	Budget guidance or circular for budgetary units were not prepared.
		(iii) Budget submission to the legislature	D	Budget was submitted to the legislature after the start of the year.
	PI-18	Legislative scrutiny of budgets	D+	

		(i) Scope of budget scrutiny	C	The legislature's review covers details of expenditure and revenue. However, it does not cover fiscal policies and aggregates for the coming year.
		(ii) Legislative procedures for budget scrutiny	D	Legislature approves procedures to be used for reviewing draft budget are approved before budget hearings and are followed. However, the procedures include internal organizational arrangements such as specialized review committees, technical support, and negotiation procedures.
		(iii) Timing of budget approval	C	The legislature has approved the annual budget within one month of the start of the year in two of the last three fiscal years.
		(iv) Rules for budget adjustments by the executive	A	Clear rules exist for in-year budget adjustments by the executive. The rules set strict limits on the extent and nature of amendments and are adhered to in all instances.
Predictability and control in budget execution	PI-19	Revenue administration	N/a	
		(i) Rights and obligations for revenue measures	N/a	There is no territorial office of the State Tax Service in LSG Saz
		(ii) Revenue risk management	N/a	There is no territorial office of the State Tax Service in LSG Saz
		(iii) Revenue audit and investigation	N/a	There is no territorial office of the State Tax Service in LSG Saz
		(iv) Revenue arrears monitoring	N/a	There is no territorial office of the State Tax Service in LSG Saz
	PI-20	Accounting for revenues	B+	
		(i) Information on revenue collections	B	Information on revenue collection is disaggregated by type and consolidated in a report.
		(ii) Transfer of revenue collections	A	Revenue collections are transferred directly into the Treasury Single Account controlled by the Treasury and their regional offices.
		(iii) Revenue accounts reconciliation	A	There are monthly reconciliations between Treasury records and those of the regional office of the State Tax Services.
	PI-21	Predictability of in-year resource allocation	A	
		(i) Consolidation of cash balances	N/a	Cash plans are prepared only in the Republican Budget and the budgets of cities of republican and regional significance.
		(ii) Cash forecasting and monitoring	N/a	Cash plans are prepared only in the Republican Budget and the budgets of cities of republican and regional significance.
		(iii) Information on commitment ceilings	N/a	Cash plans are prepared only in the Republican Budget and the budgets of cities of republican and regional significance.
		(iv) Significance of in-year budget adjustments	A	No budget adjustments were made during the last financial year of assessment 2019.
	PI-22	Expenditure arrears	B	
		(i) Stock of expenditure arrears	A	Stock of expenditure arrears is negligible less than 1 % in all last three years.
		(ii) Expenditure arrears monitoring	C	LSG Saz control expenditure arrears by monitoring data on stock and composition generated annually at the end of each fiscal year.
	PI-23	Payroll controls	C+	

		(i) Integration of payroll and personnel records	B	The personnel database and payroll system are manually controlled and monthly reconciled but there are not automatically linked	
		(ii) Management of payroll changes	A	There were no changes to the payroll in FY 2019.	
		(iii) Internal control of payroll	C	There is sufficient control ensuring integrity of payroll data. .	
		(iv) Payroll audit	B	All budget organisations with audit function regularly conduct payroll audits.	
	PI-24	Procurement	B		
		(i) Procurement monitoring	D	There is no information on contract awards	
		(ii) Procurement methods	B	The total value of contracts awarded through competitive methods is more than 70%.	
		(iii) Public access to procurement information	A	All public access criteria are met.	
		(iv) Procurement complaints management	A	All procurement complaints management criteria are met.	
	PI-25	Internal controls on non-salary expenditure	A		
		(i) Segregation of duties	A	Almost all budget operations take place through the Single Treasury Account that is managed by the Ministry of Finance.	
		(ii) Effectiveness of expenditure commitment controls	A	Payment obligations remain within the limits of the annual budget allocations	
		(iii) Compliance with payment rules and procedures	B	There were no financial violations. Payments are made in accordance with standard payment procedures.	
	PI-26	Internal audit effectiveness	N/a		
		(i) Coverage of internal audit	N/a	There is no internal audit function in LSG Saz	
		(ii) Nature of audits and standards applied	N/a	There is no internal audit function in LSG Saz	
		(iii) Implementation of internal audits and reporting	N/a	There is no internal audit function in LSG Saz	
		(iv) Response to internal audits	N/a	There is no internal audit function in LSG Saz	
	Accounting and Reporting	PI-27	Financial data integrity	B	
			(i) Bank account reconciliation	C	Reconciliation, between the National Bank and the Central Treasury, takes place quarterly.
		(ii) Suspense accounts	A	All suspense accounts are cleared in a timely way	
		(iii) Advance accounts	B	Reconciliation of advance accounts takes place at least monthly, within a month from the end of each month.	
		(iv) Financial data integrity processes	N/a	The data integrity control process is carried out by the Central Treasury at national level.	
PI-28		In-year budget reports	C+		

		(i) Coverage and comparability of reports	A	The database in the automated treasury system allows full coverage of budget execution data and comparison with the originally approved budget.
		(ii) Timing of in-year budget reports	A	The automated treasury system allows receipt of data in real time regardless of the timing of the budget execution report.
		(iii) Accuracy of in-year budget reports	C	Expenditure is presented only at payment stage
	PI-29	Annual financial reports	D+	
		(i) Completeness of annual financial reports	D	The annual budget execution report for FY 2019 contains information on revenue, expenditure and tangible assets.
		(ii) Submission of reports for external audit	B	The Account Chamber received the LSG Saz within six months from the year end.
		(iii) Accounting standards	C	Work is underway on the implementation of International Public Sector Accounting Standards (IPSAS) on an accrual basis.
External scrutiny and audit	PI-30	External audit	C+	
		(i) Audit coverage and standards	C	All revenue and expenditure are audited using national audit standards with an increasing amount of compliance with international audit standards with audit findings focused on relevant significant weaknesses.
		(ii) Submission of audit reports to the legislature	B	The audit report was submitted to the local parliament within six months from receipt of the financial report.
		(iii) External audit follow-up	A	There is evidence of external audit follow-up and implementation of audit recommendations.
		(iv) Supreme Audit Institution (SAI) independence	B	The Chamber of Accounts operates independently from the executive, they plan audits and enjoy unrestricted access to data and information. The CA has substantial independence over its operations and its financing.
	PI-31	Legislative scrutiny of audit reports	D	
		(i) Timing of audit report scrutiny	D	No evidence was provided to show audit hearings were conducted by the Ayil Kenesh.
		(ii) Hearings on audit findings	NA	Since no audit hearings were conducted by the Ayil Kenesh, the legislature did not provide recommendations on the audit reports.
		(iii) Recommendations on audit by the legislature	NA	Since no audit hearings were conducted by the Ayil Kenesh, the legislature did not provide recommendations on the audit reports.
		(iv) Transparency of legislative scrutiny of audit reports	NA	No evidence was provided to show that audit scrutiny was conducted by the Ayil Kenesh.

	Total Scored	31
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Annex 2: Summary of observations on the internal control framework

Internal control components and elements	Summary of observations
1. Control environment	
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control constantly throughout the organisation	There is a strong regulatory framework in the government that is stipulated in the key acts: Budget Code; Tax Code; Law on Public Procurement and many procedures on accounting and reporting. There are numerous and various resolutions and Cabinet of Ministers' decrees and ordinances issued to ensure compliance with the laws. The audit reports are submitted to the Parliament for discussion and approval. There is, however, not obvious public participation at hearings.
1.2 Commitment to competence	No information available from the PEFA assessment. However, the general understanding of the assessment team is that staff possess the necessary academic qualification and experience.
1.3 The "tone at the top" (i.e. management's philosophy and operating style)	The overall legal framework provides for the management to ensure proper management and control and accounting for the finances of the government in order to promote efficient and effective use of the budgetary resources. The tone at the top is hierarchical and is rigorously adhered to judging from the strict control procedures and the prompt response to orders made. The internal audit is still in very early stage of its development in order to be indicative of the condition of the internal control system.
1.4 Organisational structure	No information available from the PEFA assessment.
1.5 Human resource policies and practices	The issues related to personal and professional integrity and ethical values are covered in the internal rules of the budget organisations.
2.	
2.1 Risk identification	Risks are covered by preliminary control activities permeating the entire system of public finance, however there is no information on formalised risk assessment mechanism in the area of revenue collection. Risk of investment are not well covered.
2.2 Risk assessment (significance and likelihood)	Several PIs are related to risk assessment: Economic analysis of investment proposals: There is no established and transparent system of economic analysis; Budget adjustments are well prescribed with strict restrictions; Revenue risk management: no information
2.3 Risk evaluation	No information available from the PEFA assessment.
2.4 Risk appetite assessment	No information available from the PEFA assessment.
2.5 Responses to risk (transfer, tolerance, treatment or termination)	No information available from the PEFA assessment.
3.	

3.1 Authorization and approval procedure	Most of these procedures are defined on national level and apply to the local self-governments. The applied accounting manual sets out the systems of authorization, policies, standards, and accounting procedures and reports. The procedures or activities are implemented in order to achieve the control objectives of safeguarding resources, ensuring the accuracy of data and enabling adherence to laws, policies, rules and regulations.
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	Regulations ensure that different individuals authorise commitments, approve contracts and execute payments (PI-21).
3.3 Controls over access to resources and records	Compliance with payment rules and procedures ensures close control through the Treasury system where operations can be reviewed and access can be traced.
3.4 Verifications	Financial data integrity processes. Access to records is restricted by password and changes are recorded and result in audit trail. The Treasury system is used to record and process budget data.
3.5 Reconciliations	There are daily reconciliations between tax collection and Treasury system.
3.6 Reviews of operating performance	Mainly the Treasury controls processes and activities on operational level. The controls are applied mostly as a desk top review by the staff with all budgets related processes being integrated in the software system "IS KAZNA Budget". The internal audit is not developed in the LSG, yet. The national government covers this function.
3.7 Reviews of operations, processes and activities	
3.8 Supervision (assigning, reviewing and approving, guidance and training)	No information available from the PEFA assessment.
4. Information and communication	The government is required to report quarterly and annually to the Parliament. Communication to the public is realised through various channels such as the websites of the key PFM institutions, there is no reporting made available to the public. Public participation in relation to the budget formulation is not ascertained. Clear and comprehensive information on revenue collection and administration exists. Information on procurement tenders, plans, statistics and appeals is extensive.
4. Monitoring	
5.1 Ongoing monitoring	There are no tools for monitoring performance, subsequent planning, and decision-making.
5.2 Evaluations	Performance monitoring in the PFM system is not developed yet There are no specific reports elaborating on consistency of performance-planned outputs and achieved outcomes and explaining any deviation.
5.3 Management responses	The internal control framework of the PFM system as described having in place comprehensive, extensive and reliably applied control activities is generally efficient to ensure against key irregularities and errors.

Annex 3: Sources of information by indicator

Indicator/dimension	Data Sources
HGL - Transfers from a higher level government	
HLG -1. Outturn of transfers from higher-level government	Budget Execution Report for FY 2017, 2018, 2019 by economic classification. Budget Execution Report for FY 2017, 2018, 2019 by functional classification...
HLG-2. Earmarked grants outturn	Excel sheet with amounts of targeted transfers from Republican budget to the local budget of LSG Saz for FY 2017-2019.
HLG-3 Timeliness of transfers from higher-level	Table with time of targeted transfers for FY 2017.
I. Budget reliability	
PI-1. Aggregate expenditure outturn 1.1 Aggregate expenditure outturn	Resolution of the Aiyl Kenesh of LSG SAZ (Parliament) on the budget and annual budget performance reports 2017, 2018 and 2019.
PI-2. Expenditure composition outturn 2.1. Expenditure composition outturn by function	Resolution of the Aiyl Kenesh of LSG Saz (Parliament) on the budget and annual budget performance reports 2017, 2018 and 2019.
2.2. Expenditure composition outturn by economic type	
2.3. Expenditure from contingency reserves	
PI-3. Revenue outturn 3.1 Aggregate revenue outturn 3.2 Revenue composition outturn	Report on the execution of local budgets for 12 months of 2017, 2018, 2019 by economic classification.
II. Transparency of public finances	
PI-4. Budget classification 4.1 Budget classification	Budget book.
PI-5. Budget documentation 5.1 Budget documentation	1. Letter to Aiyl Kenesh on the draft budget for 2020-2022 (the letter is dated by December 30, 2019 No. 02-16/358); 2. Statement of the Ayil Kenesh of LSG Saz dated by January 22, 2020 No. 1/1 "On the approval of the budget for 2020
PI-6. Central government operations outside financial reports 6.1 Expenditure outside financial reports 6.2 Revenue outside financial reports 6.3 Financial reports of extra-budgetary units	Report on the local budgets outturn for 12 months of 2017, 2018, 2019 by functional classification.
PI-7. Transfers to subnational governments 7.1 System for allocating transfers 7.2 Timeliness of information on transfers	Report on the local budgets outturn for 12 months of 2017, 2018, 2019 with the breakdown by functional classification.
PI-8. Performance information for service delivery 8.1 Performance plans for service delivery 8.2 Performance achieved for service delivery 8.3 Resources received by service delivery units 8.4 Performance evaluation for service delivery	1. Instruction on the procedure for the generation, consideration and execution of budgets on a programmatic basis at the local level (Decree of the KR MoF No. 69-P dated by 23.07.2018) 2. GKR Statement dated by December 30, 2017 No. 854 "On Program Budgeting" 3. Procedure for submitting a report on the achievement of performance indicators 4. Procedure for assessing the effectiveness of budget programs 5. Decree of the KR MoF on the preparation of the annual report on the execution of the state budget for 2019

	6. Report on the execution of the estimated budget for special funds of LSG Saz for 2019
PI- 9 Public access to fiscal information	The civil budget of LSG Saz.
9.1 Public access to fiscal information	
III. Management of assets and liabilities	
PI- 10 Fiscal risk reporting	<ol style="list-style-type: none"> 1. Law on Local Self Governance 2. Budget Execution Report for FY 2017, 2018, 2019 by functional classification... 3. Information from MoF Saz
10.1 Monitoring of public corporations	
10.2 Monitoring of sub-national government (SNG)	
10.3 Contingent liabilities and other fiscal risks	
PI- 11: Public investment management	<ol style="list-style-type: none"> 1. Information from the Ministry of Finance on the implementation of incentive grants; 2. Information from the head of economic and financial department of MoF Saz; 3. Regulation on incentive grants; 4. Strategic Development Plan of LSG Saz
11.1 Economic analysis of investment proposals	
11.2 Investment project selection	
11.3 Investment project costing	
11.4 Investment project monitoring	
PI-12: Public asset management	<ol style="list-style-type: none"> 1. Register of machines; 2. Register of buildings and structures; 3. Information on municipal land; 4. Information on use of land for rent as of year-end 2019;
12.1 Financial asset monitoring	
12.2 Nonfinancial asset monitoring	
12.3 Transparency of asset disposal.	
PI-13: Debt management	Information proved from the Head of Financial and Economic Department of LSG Saz
13.1 Recording and reporting of debt and guarantees	
13.2 Approval of debt and guarantees	
13.3 Debt management strategy	
IV. Policy-based fiscal strategy and budgeting	
PI-14: Macroeconomic and fiscal forecasting	<ol style="list-style-type: none"> 1. Plan of socio-economic development of Saz Ayil Okmotu for 2019, approved by the Statement of the Saz Ayil Kenesh dated by January 18, 2019 No.1/29; 2. Appendix No.5 of the Socio-Economic Development Plan for 2019 for the Saz Ayil Aimak dated by January 18, 2019; 3. Action plan for the 2019 Saz Ayil Okmotu development, approved by the Sokuluk state administration (no number and date); 4. Implementation of the Saz Ayil Okmotu SED plan for 12 months of 2019 within the framework of the implementation of the plan for the Decree of the President of the Kyrgyz Republic "On declaring the 2019 as a Year for Regional Development and Digitalization of the Country" dated by January 11, 2019 No.1 (in a tabular format); 5. Decree of the Head of the Saz Ayil Okmotu dated by January 28, 2019 No.02-7/14 on the approval of the "Action Plan for Implementation of the Local Self-Government Development Program of the Kyrgyz Republic for 2018-2023". 6. Explanatory note to the draft budget for 2019.
14.1 Macroeconomic forecasts	
14.2 Fiscal forecasts	
14.3 Macro-fiscal sensitivity analysis	
PI-15 Fiscal strategy	<ol style="list-style-type: none"> 1. Explanatory Note to the 2019 budget; 2. Methodological manual "Development and Implementation of KR
15.1 Fiscal impact of policy proposals	
15.2 Fiscal strategy adoption	

15.3 Reporting on fiscal outcomes	<p>Local Budgets", approved by the Decree of KR MoF dated by October 13, 2018 No. 312.</p> <ol style="list-style-type: none"> 3. Plan of socio-economic development of Saz Ayil Okmotu for 2019, approved by the Resolution of the Saz Ayil Kenesh dated by January 18, 2019 No.1/29; 4. Appendix No.5 socio-economic development plan for 2019 for the Saz Ayil Aimak dated by January 18, 2019; 5. The action plan for the development of the Saz Ayil Okmotu for 2019, approved by the Sokuluk public administration body (without document number and date); 6. Implementation of the plan for the SED of Saz Ayil Okmotu for 12 months of 2019 as part of the implementation plan for the Decree of the President of the Kyrgyz Republic "On declaring 2019 the Year of Regional Development and Digitalization of the Country" dated by January 11, 2019 No. 1 (in a tabular format); 7. Resolution of the Head of the Saz Aiyl Okmotu dated by January 28, 2019 No.02-7/14 on the approval of the "Action Plan for the Implementation of the Local Self-Government Development Program of the Kyrgyz Republic for 2018-2023". 8. Budget Code of the Kyrgyz Republic; 9. Methodological manual "Development and Implementation of Local Budgets of the Kyrgyz Republic", approved by the Decree of the Ministry of Finance of the Kyrgyz Republic dated by October 13, 2018 No. 312.
PI-16 Medium-term perspective in expenditure budgeting 16.1 Medium-term expenditure estimates 16.2 Medium-term expenditure ceilings 16.3 Alignment of strategic plans and medium-term budgets 16.4 Consistency of budgets with previous year's estimates	<ol style="list-style-type: none"> 1. Budget Code of the Kyrgyz Republic; 2. Methodological guidance "Development and Implementation of KR Local Budgets", approved by the Decree of the KR MoF dated by October 13, 2018 No. 312-P; 3. "The Procedure of Developing the Draft Republican Budget and Introducing Amendments to the Republican Budget", approved by the Statement of the KR Government on November 1, 2017 No. 723. 4. Budget Code of the Kyrgyz Republic KP; 5. Statement of the Government of the Kyrgyz Republic dated by January 30, 2020 22-r; 6. Methodological guidance "Development and Implementation of local budgets of the Kyrgyz Republic" approved by the Decree of the KR MoF dated by October 13, 2018 No. 312-P.
PI-17: Budget preparation process 17.1 Budget calendar. 17.2 Guidance on budget preparation 17.3 Budget submission to the legislature	<ol style="list-style-type: none"> 1. Letter of the Sokuluk Department of the KR MoF dated by June 5, 2018 No. 94. 2. Budget Code of the Kyrgyz Republic; 3. The procedure for "Formulating A Draft Republican Budget and Introducing Amendments to The KR Republican Budget", approved by the Statement of the KR Government dated by November 1, 2017 No. 723; 4. Methodological guidance "Formulation and Execution of KR Local Budgets", approved by the Decree of the KR MoF dated by October 13, 2018 No. 312-P. 5. Letter dated by January 11 2019 No. 02-10/1.
PI-18: Legislative scrutiny of budgets 18.1 Scope of budget scrutiny. 18.2 Legislative procedures for budget scrutiny. 18.3 Timing of budget approval.	<ol style="list-style-type: none"> 1. Letter of the Sokuluk department of the KR MoF dated by November 22, 2018 2. Resolution of the 1st session of the XXVII convocation of the Saz Ayil Kenesh "On approving the budget for 2019 of the Saz Ayil Okmotu of

18.4 Rules for budget adjustments by the executive.	<p>the Saz Ayil Aimak" dated by January 18, 2019 No. 1/26;</p> <ol style="list-style-type: none"> 3. Letter of the Saz Ayil Okmotu to the Chairman of the Saz Ayil Kenesh dated by January 11, 2019 No. 02-10/1; 4. Letter of the Saz Ayil Okmotu to the Head of the Sokuluk Department of the KR MoF dated by January 11, 2019 No. 02-10/2; 5. Budget Code of the Kyrgyz Republic; 6. Methodological guidance "Formulation and Execution of KR Local Budgets" approved by the Decree of the KR MoF dated by October 13, 2018 No. 312-P; 7. Minutes of the session of the AK (Parliament) on the approval of the budget for 2019 8. Statement "On approval of the Budget of the Saz Ayil Aimak for 2017, on Approval of Revenue Forecasts for 2018-2019, Approval and Distribution of Excess Revenues Over Expenditures as of January 1, 2017 (free balance)" dated by February 15, 2017 No.14; 9. Statement of the 1st session of the XXVII convocation of the Saz Ayil Kenesh "On the Approval of the Budget of the Saz Ayil Okmotu for 2018, Approval of the Draft Revenues for 2019-2020, the Approval and Distribution of Revenues in Excess of Expenditures (free balance) as of January 1, 2018, on Distribution of Targeted Transfers from the Republican Budget for the Implementation of Delegated Public Authorities" dated by January 10, 2018 No.(no number); 10. Statement of the 1st session of the XXVII convocation of the Saz Ayil Kenesh "On the Approval of the Budget for 2019 of the Saz Ayil Okmotu of the Saz Ayil Aimak" dated by January 18, 2019 No. 1/26. 11. Budget Code of the Kyrgyz Republic; 12. Resolution of the 2-session of the XXVII convocation of the Saz Ayil Kenesh "On Introducing Amendments to the Appendix No.4 on Excess of Revenues Over Expenditures as of January 1, 2019 (free balance), on Movement of Funds" dated by April 26, 2019 No. 2/33; 13. Resolution of the 3-session of the XXVII convocation of the Saz Ayil Kenesh "On Introducing Amendments to Appendix No.4 on Excess of Revenues Over Expenditures as of January 1, 2019 (free balance), on Movement of Funds" dated by September 2, 2019 No.3/39; 14. Statement of the Saz Ayil Okmotu "On Introducing Amendments to Appendix No.4 on Excess of Revenues Over Expenditures as of January 1, 2019 (free balance) dated by September 2, No. 02-7/70.
V. Predictability and control in budget execution	
PI-19 Revenue administration	
19.1 Rights and obligations for revenue measures	1. www. sti.gov.kg (website of State Tax Service);
19.2 Revenue risk management	2. Information from legislation on appealing the decision of tax service bodies;
19.3 Revenue audit and investigation	3. Information from STS Sokuluk
19.4 Revenue arrears monitoring	
PI-20 Accounting for Revenues	Information provided by:
20.1 Information on revenue collections	1. Head of the Sokuluk Department of the Ministry of Finance of the Kyrgyz Republic;
20.2 Transfer of revenue collections	Head of the Treasury Department of the Sokuluk Department of the Ministry of Finance.
20.3 Revenue accounts reconciliation.	
PI-21 Predictability of in-year resource allocation	1. Budget Code of the Kyrgyz Republic;
21.1 Consolidation of cash balances.	2. Procedure for Single Treasury Account, approved by the Decree of the Government of the Kyrgyz Republic dated July 24, 2017 No. 444.
21.2 Cash forecasting and monitoring.	3. Regulation on procedure for formation and maintenance of cash plan, approved by the Government of the Kyrgyz Republic on
21.3 Information on commitment ceilings.	
21.4 Significance of in-year budget adjustments.	

	October 2, 2017 No. 632; Methodological manual "Formation and execution of local budgets of the Kyrgyz Republic" approved by order of the Ministry of Finance of the Kyrgyz Republic on October 13, 2018 No. 312-P.
PI-22 Expenditure arrears	No information provided
22.1 Stock of expenditure arrears.	
22.2 Expenditure arrears monitoring	
PI-23 Payroll controls	1. Information provided from Ministry of Finance of LSG Saz; Staff list
23.1 Integration of payroll and personnel records.	
23.2 Management of payroll changes.	
23.3 Internal control of payroll.	
23.4 Payroll audit.	
PI-24 Procurement	1. http://zakupki.gov.kg/popp/ (public procurement website) 2. Record of tenders for FY 2017-2019 3. Law on Public Procurement; 4. Report on conducted tenders for 2019 provided by the head of Financial and Economic Department of LSG Saz and the head of Public Procurement Department of LSG Saz; 5. Appeal mechanism
24.1 Procurement monitoring.	
24.2 Procurement methods.	
24.3 Public access to procurement information.	
24.4 Procurement complaints management.	
PI-25 Internal controls on non-salary expenditure	1. Budget Code of the Kyrgyz Republic (Articles 105, 106); 2. Procedure for functioning of the Single Treasury Account, approved by the Decree of the Government of the Kyrgyz Republic dated July 24, 2017 No. 444.; 3. Instruction on procedures of authorized state body for forecasting and budget execution for accounting and reporting, approved by the PDKR dated August 16, 2017 No. 488;
25.1 Segregation of duties.	
25.2 Effectiveness of expenditure commitment controls.	
25.3 Compliance with payment rules and procedures.	
PI-26 Internal audit	1. Strategic audit plan of the Ministry of Finance of the Kyrgyz Republic for 2017-2019; 2. Decree of the Government of the Kyrgyz Republic "On internal audit services in state bodies and institutions of the Kyrgyz Republic" dated March 13, 2009 No. 177. 3. Information provided by Chief Auditor at Ministry of Finance of the Kyrgyz Republic
26.1 Coverage of internal audit.	
26.2 Nature of audits and standards applied	
26.3 Implementation of internal audits and reporting.	
26.4 Response to internal audits.	
VI. Accounting and reporting	
PI-27 Financial data integrity	Information provided by:
27.1 Bank account reconciliation.	1. Head of the Sokuluk Department of the Ministry of Finance of the Kyrgyz Republic;
27.2 Suspense accounts.	2. Head of the Treasury Department of the Sokuluk Department of the Ministry of Finance of the Kyrgyz Republic;
27.3 Advance accounts.	Head of the Department of Financial and Budgetary Coordination
27.4 Financial data integrity processes	
PI-28 In-year budget reports	1. Budget Code; 2. Instruction on procedures of the authorized state body for forecasting and budget execution for accounting and reporting, approved by the PDKR dated August 16, 2017 No. 488. 3. State Budget Execution Report published on the website of the
28.1 Coverage and comparability of reports.	
28.2 Timing of in-year budget reports.	
28.3 Accuracy of in-year budget reports	

	<p>Ministry of Finance of the Kyrgyz Republic.</p> <p>4. Monthly reports on the execution of the Saz budget for 2019;</p> <p>5. Order of the Ministry of Finance of the Kyrgyz Republic "On the preparation of periodic reports on the execution of the state budget for 2019" dated January 23, 2019 No. 12-P;</p>
PI-29 Annual financial reports	<p>1. Regulations describing the accounting standards used in the country for the preparation of annual financial statements, approved by Order of the Ministry of Finance dated December 25, 2018 No. 137-P "On Approval of the Regulation on Accounting and Financial Reporting in the Public Administration Sector". Link to the website of the Ministry of Justice: http://cbd.minjust.gov.kg/act/view/ru-ru/200287?cl=r</p> <p>LSG Saz – annual budget reports for FY 2017-2019</p>
29.1 Completeness of annual financial reports.	
29.2 Submission of the reports for external audit.	
29.3 Accounting standards.	
VII. External scrutiny and audit	
PI-30 External audit	<p>Information provided by the Head of the Territorial Subdivisions of the Accounts Chamber of the Kyrgyz Republic for Bishkek, Chui and Talas regions</p> <p>Evidence was not provided.</p> <p>Evidence was not provided.</p>
30.1 Audit coverage and standards.	
30.2 Submission of audit reports to the legislature	
30.3 External audit follow up.	
30.4 Supreme Audit Institution independence.	Evidence was not provided.
PI-31 Legislative scrutiny of audit reports	<p>Evidence was not provided.</p>
31.1 Timing of audit report scrutiny	
31.2 Hearings on audit findings.	
31.3 Recommendations on audit by the legislature.	
31.4 Transparency of legislative scrutiny of audit reports.	

Annex 3A: Related surveys and analytical work

No related surveys and analytical works were reviewed.

Annex 3B: List of people interviewed

Name	Organization	Position	Telephone	Email
Ministry of Finance Kyrgyz Republic				
OmurovaTatygul	MF	Minister's advisor	+996 772513784	t.omurova@mail.ru
Mirlan. Musaev	MF	Head of Department Inter budget management	+996 312 66-35-47	m.musaev@minfin.kg
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Marat Dodonov	MF	Acting head of division Department of reporting and monitoring of local budgets	+996 312 66 40 35	m.dodonov@minfin.kg
BolotKasymov	MF	Head of Division Stimulating and Shares Grants	+996 312 66 18 92	b.kasymov@minfin.kg
Edil Berdybaev	MF	Chief Specialist of the Internal Audit Department	+996 312 62 53 13(2113)	eberdibaev@mail.ru
Altynbek Kudaiberdiev	MF	Head of Division of Capital Investments	+996 312 62 23 15	a.kudaiberdiev@minfin.kg
Department of Public Procurement under the Ministry of Finance of the Kyrgyz Republic				
Nurida Bayzakova	DPP	Manager Department	+996 312 66 1170	n.baizakova@minfin.kg
Mirbek Duysheev	DPP	Deputy Director	+996 312 62 53 13 (2314)	m.duisheev@minfin.kg
Department of the State Tax Service for Sokuluk region				
Almaz Sultanov	STS	Deputy Head of Department	+996 3134 607614 51154	soc1201_gni@sti.gov.kg
OrunbubuDospaeva	STS	Head of Debt Collection Department	+996 3134 607608	soc1201_gni@sti.gov.kg
TynchtykZhusupzhanov	STS	Head of Inspection Department	+996 3134 511777	soc1201_gni@sti.gov.kg
KanybekKachkynbaev	STS	Head of Taxpayer Relations Department	+996 3134 51141	soc1201_gni@sti.gov.k g
AlymbekBalbaev	STS	Head of the sector of the debt collection department	+996 3134 51150	soc1201_gni@sti.gov.kg
Bermet Mambetalieva	STS	Head of the Taxpayers Sector	+996 3134 51191	soc1201_gni@sti.gov.kg
Sokuluk Department of the Ministry of Finance of the Kyrgyz Republic				
TilekAktanov	SD	Head of Department	+996 312 03134 51027	t.aktanov@minfin.kg
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TalantSharshenov	SD	Head of Financial and Budgetary Coordination	+996 312 03134 51024	t.sharshenov@minfin.k g
Saz ayilokmotu				
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Esenaliev Taalaibek	SAO	Chief Specialist of Land Management	+996 312 031314 70184	sazskii2017@mail.ru
Chorobekova Maksat	SAO	Chief Specialist of Social Protection	+996 312 031314 70184	chorobekova1968@mail.ru
Financial and economic department				
Saule Karamurzina	FED	Head of the Financial and Economic Department	+996 312 031314 70184	s_karamurzina@mail.ru
Ainura Baymuratova	FED	Leading Tax Specialist	+996 312 031314 70184	sazskii2017@mail.ru
Kulmayram Osmonkulova	FED	Leading specialist economist-statistician	+996 312 031314 70184	sazskii2017@mail.ru
Territorial subdivision of the Accounts Chamber of the Kyrgyz Republic				
AlmazbekTazhiev	ASH	Head of the territorial division for Bishkek, Chui and Talas regions	+996 312 664299, fax +996 312 623518	esep@esep.kg

Annex 4: Tracking change in performance based on previous versions of PEFA

Not applicable

Annex 5: Calculations for PI-1, PI-2 and PI-3

Calculation Sheet for PI-1, PI-2.1 and PI-2.3 according to the PEFA 2016 Framework.

Figures in all tables of this Annex stated KGS Thousands

Data for year 2017

Administrative or Functional Head	Budget	Actual	Adjusted Budget	Deviation	Absolute deviation	Percent
701 General public services	2,467.2	2,731.8	2,434.9	296.9	296.9	12.2%
702 Defense						
703 Public order and safety						
704 Economic Affairs						
705 Environmental protection						
706 Housing and utilities	370.0	199.0	365.2	-166.2	166.2	45.5%
707 Healthcare						
708 Recreation, culture and religion	375.1	304.8	370.2	-65.4	65.4	17.7%
709 Education	1,707.5	1,617.7	1,685.1	-67.4	67.4	4.0%
710 Social protection	190.0	189.6	187.5	2.1	2.1	1.1%
Allocated expenditure	5,109.8	5,042.9	5,042.9	0.0	598.0	
Interests						
Contingency						
Total Expenditure	5,109.8	5,042.9				
Overall (PI-1) variance						98.7%
Composition (PI-2) variance						11.9 %
Contingency share of budget						0.0%

Source: Approved Budget 2017 and 2018.

Data for year 2018

Administrative or Functional Head	Budget	Actual	Adjusted Budget	Deviation	Absolute deviation	Percent
701 General public services	3,557.8	3,777.9	3,438.8	339.1	339.1	9.9%
702 Defense						
703 Public order and safety						
704 Economic Affairs	76.2		73.7	-73.7	73.7	
705 Environmental protection						
706 Housing and utilities	408.0	356.1	394.4	-38.3	38.3	
707 Healthcare						
708 Recreation, culture and religion	353.8	325.3	342.0	-16.7	16.7	
709 Education	1,601.0	1,349.8	1,547.5	-197.7	197.7	
710 Social protection	270.0	248.1	261.0	-12.9	12.9	
Allocated expenditure	6,266.8	6,057.2	6,057.2	0.0	678.2	
Interests						
Contingency						
Total Expenditure	6,266.8	6,057.2				
Overall (PI-1) variance						96.7%
Composition (PI-2) variance						11.2%
Contingency share of budget						0.0%

Source: Approved Budget 2018 and 2019.

Data for year 2019

Administrative or Functional Head	Budget	Actual	Adjusted Budget	Deviation	Absolute deviation	Percent
701 General public services	3,597.1	4,142.6	3,959.2	183.4	183.4	4.6%
702 Defense						
703 Public order and safety						
704 Economic Affairs	230.0	157.1	253.2	-96.1	96.1	37.9%
705 Environmental protection						
706 Housing and utilities	400.0	313.7	440.3	-126.6	126.6	28.7%
707 Healthcare						
708 Recreation, culture and religion	460.2	357.7	506.5	-148.8	148.8	29.4%
709 Education	1,737.0	2,127.1	1,911.9	215.2	215.2	11.3%
710 Social protection	270.0	270.0	297.2	-27.2	27.2	9.1%
Allocated expenditure	6,694.3	7,368.2	7,368.2	0.0	797.3	
Interests						
Contingency						
Total Expenditure	6,694.3	7,368.2				
Overall (PI-1) variance						110.1%
Composition (PI-2) variance						10.8%
Contingency share of budget						0.0%

Source: Approved Budget 2019 and 2020.

Result Matrix

	for PI-1.1	for PI-2.1	for PI-2.3
Year	Total exp. Outturn	Composition variance	Contingency share
2017	98.7%	11.9%	0%
2018	96.7%	11.2%	
2019	110.1%	10.8%	

Calculation Sheet for Expenditure by Economic Classification Variance PI-2.2

Data for year 2017

Economic head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
21. Compensation of employees	1,766.7	2,139.1	1,743.6	395.5	395.5	22.7%
22. Use of goods and services	2,917.7	2,351.0	2,879.5	-528.5	528.5	18.4%
24. Interest			0.0	0.0	0.0	
25. Subsidies			0.0	0.0	0.0	
26. Grants			0.0	0.0	0.0	
27. Social benefits	100.0	100.0	98.7	1.3	1.3	1.3%
28. Other expenses			0.0	0.0	0.0	
31. Consumption of fixed capital	325.4	452.8	321.1	131.7	131.7	41.0%
Total expenditure	5,109.8	5,042.9	5,042.9	0.0	1,057.0	
Overall variance						
Composition variance						21%

Source: Approved Budget 2017 and 2018.

Data for year 2018

Economic head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
21. Compensation of employees	2,397.4	2,578.5	2,317.2	261.3	261.3	11.3%
22. Use of goods and services	2,981.1	2,484.3	2,881.4	-397.1	397.1	13.8
24. Interest			0.0	0.0	0.0	0.0
25. Subsidies			0.0	0.0	0.0	0.0
26. Grants			0.0	0.0	0.0	0.0
27. Social benefits	270.0	248.1	261.0	-12.9	12.9	4.9%
28. Other expenses			0.0	0.0	0.0	0.0
31. Consumption of fixed capital	618.3	746.3	597.6	148.7	148.7	24.9%
Total expenditure	6,266.8	6,057.2	6,057.2	0.0	819.9	
Overall variance						
Composition variance						13.5%

Source: Approved Budget 2018 and 2019.

Data for year 2019

Economic head	Budget	Actual	Adjusted Budget	Deviation	Absolute Deviation	Percent
21. Compensation of employees	2,509.5	2,731.6	2,762.1	-30.5	30.5	1.1%
22. Use of goods and services	3,398.1	3,685.9	3,740.2	-54.3	54.3	1.5%
24. Interest						
25. Subsidies						
26. Grants						
27. Social benefits	270.0	270.0	297.2	-27.2	27.2	9.1%
28. Other expenses						
31. Consumption of fixed capital	516.7	680.7	568.7	112.0	112.0	19.7%
Total expenditure	6,694.3	7,368.2	7,368.2	0.0	224.0	
Overall variance						
Composition variance						3.0%

Source: Approved Budget 2019 and 2020.

Calculation Sheet for Revenue composition outturn (February 1, 2016) SAZ

Step 1: Enter the three fiscal years used for assessment in table 1.

Step 2: Enter **budget** and **actual** revenue data for each of the three years in tables 2, 3, and 4 respectively.

Step 3: Read the results for each of the three years for each indicator in table 5.

Table 1 - Fiscal years for assessment

Year 1 =	2017
Year 2 =	2018
Year 3 =	2019

Table 1

		Data for year = 2017					
	Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
		Tax revenues					
111	Taxes on income and profits	429.3	504.2	433.0	71.2	71.2	16.4%
113	Taxes on property	880.7	1072.4	888.3	184.1	184.1	20.7%
114	Taxes on goods and services	2	1.2	2.0	-0.8	0.8	40.5%
115	International trade and foreign transactions taxes			0.0	0.0	0.0	#DIV/0!
116	Other taxes and fees			0.0	0.0	0.0	#DIV/0!
		Social contributions					
121	Contributions / deductions for compulsory state social insurance			0.0	0.0	0.0	#DIV/0!
122	Other income of the Social Fund			0.0	0.0	0.0	#DIV/0!
123	Other income of the MHIF			0.0	0.0	0.0	#DIV/0!
		Non-tax income					
141	Property income and interest	690	669.1	696.0	-26.9	26.9	3.9%
142	Income from the sale of goods and the provision of services	704	482.5	710.1	-227.6	227.6	32.1%
143	Fines, penalties, sanctions, confiscations			0.0	0.0	0.0	#DIV/0!
144	Voluntary transfers and grants to public sector units			0.0	0.0	0.0	#DIV/0!
145	Other non-tax income			0.0	0.0	0.0	#DIV/0!
	Sum of rest			0.0	0.0	0.0	#DIV/0!

Total revenue	<u>2706</u>	<u>2729.4</u>	2,729.4	0.0	510.5	
overall variance						100.9%
composition variance						18.7%

Table 3

		Data for year = 2018					
	Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
		Tax revenues					
111	Taxes on income and profits	459.5	571.7	464.9	106.8	106.8	23.0%
113	Taxes on property	886.7	1222	897.0	325.0	325.0	36.2%
114	Taxes on goods and services	2		2.0	-2.0	2.0	100.0%
115	International trade and foreign transactions taxes			0.0	0.0	0.0	#DIV/0!
116	Other taxes and fees			0.0	0.0	0.0	#DIV/0!
		Social contributions					
121	Contributions / deductions for compulsory state social insurance			0.0	0.0	0.0	#DIV/0!
122	Other income of the Social Fund			0.0	0.0	0.0	#DIV/0!
123	Other income of the MHIF			0.0	0.0	0.0	#DIV/0!
		Non-tax income					
141	Property income and interest	830.8	717.6	840.5	-122.9	122.9	14.6%
142	Income from the sale of goods and the provision of services	704	405.3	712.2	-306.9	306.9	43.1%
143	Fines, penalties, sanctions, confiscations			0.0	0.0	0.0	#DIV/0!
144	Voluntary transfers and grants to public sector units			0.0	0.0	0.0	#DIV/0!
145	Other non-tax income			0.0	0.0	0.0	#DIV/0!
	Sum of rest			0.0	0.0	0.0	#DIV/0!
Total revenue		<u>2883</u>	<u>2916.6</u>	2,916.6	0.0	863.6	
overall variance							101.2%
composition variance							29.6%

Table 4

		Data for year = 2019					
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	Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
		Tax revenues					
111	Taxes on income and profits	584	653.4	625.6	27.8	27.8	4.4%
113	Taxes on property	888.1	1324.8	951.3	373.5	373.5	39.3%
114	Taxes on goods and services	2	2.3	2.1	0.2	0.2	7.4%
115	International trade and foreign transactions taxes			0.0	0.0	0.0	#DIV/0!
116	Other taxes and fees			0.0	0.0	0.0	#DIV/0!
		Social contributions					
121	Contributions / deductions for compulsory state social insurance			0.0	0.0	0.0	#DIV/0!
122	Other income of the Social Fund			0.0	0.0	0.0	#DIV/0!
123	Other income of the MHIF			0.0	0.0	0.0	#DIV/0!
		Non-tax income					
141	Property income and interest	859.3	725.8	920.5	-194.7	194.7	21.1%
142	Income from the sale of goods and the provision of services	694	536.6	743.4	-206.8	206.8	27.8%
143	Fines, penalties, sanctions, confiscations			0.0	0.0	0.0	#DIV/0!
144	Voluntary transfers and grants to public sector units			0.0	0.0	0.0	#DIV/0!
145	Other non-tax income			0.0	0.0	0.0	#DIV/0!
	Sum of rest			0.0	0.0	0.0	#DIV/0!
	Total revenue	<u>3027.4</u>	<u>3242.9</u>	3,242.9	0.0	802.9	
	overall variance						107.1%
	composition variance						24.8%

Table 5 - Results Matrix

year	total revenue deviation	composition variance
2017	100.9%	18.7%
2018	101.2%	29.6%
2019	107.1%	24.8%