Kyrgyz Republic

Public Expenditure and Financial Accountability Assessment 2009

Public Financial Management

Performance Report

December 2009

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Glossary

ADB	Asian Development Bank
AGA	Autonomous Government Agency
CDS	Country Development Strategy
COA	Chamber of Accounts
CT	Central Treasury
DFID	Department for International Development
DPDA	Directorate of Public Debt and Assets
EC	European Commission
FEBLSG	[Law of] Financial and Economic Basis of Local Self Governments
GFS	Government Financial Statistics
GoKR	Government of the Kyrgyz Republic
GTAC	Governance Technical Assistance Credit
IFI	International Financial Institutions
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
JCSS	Joint Country Support Strategy
KGS	Kyrgyz Som
KITIS	Kyrgyz Integrated Tax System
MDA	Ministries, Departments and Agencies
MDRI	Multilateral Debt Relief Initiative
MOF	Ministry of Finance
NBK	National Bank of the Kyrgyz Republic
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PI	Performance Indicator
PIP	Public Investment Programme
PIU	Project Implementation Unit
PPL	Public Procurement Law
SCC	State Customs Committee
SCTC	State Committee for Tax and Customs
SECO	Swiss State Secretariat for Economic Affairs
SPA	State Procurement Agency
TIN	Tax Identification Number
USAID	United States Agency for International Development
USD	United States Dollars
VAT	Value Added Tax
WB	World Bank

Fiscal year = Calendar year

Exchange rate (17 Oct. 09): 1 USD = 43.77 KGS

Overview of the indicator set

A. PFM-OUT-TURNS: Credibility of the budget		Score	
		2005	2009
PI-1	Aggregate expenditure out-turn compared to original approved budget	D	C
PI-2	Composition of expenditure out-turn compared to original approved budget	A	C
PI-3	Aggregate revenue out-turn compared to original approved budget	A	A
PI-4	Stock and monitoring of expenditure payment arrears	D	D
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency			
PI-5	Classification of the budget	C	B
PI-6	Comprehensiveness of information included in budget documentation	B	A
PI-7	Extent of unreported government operations	NS	D
PI-8	Transparency of inter-governmental fiscal relations	C+	B
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	D+	C+
PI-10	Public access to key fiscal information	C	C
C. BUDGET CYCLE			
C(i) Policy-Based Budgeting			
PI-11	Orderliness and participation in the annual budget process	B	B
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+	C+
C(ii) Predictability and Control in Budget Execution			
PI-13	Transparency of taxpayer obligations and liabilities	C	C
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	NS	C+
PI-15	Effectiveness in collection of tax payments	B+	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	D	D
PI-17	Recording and management of cash balances, debt and guarantees	B+	B
PI-18	Effectiveness of payroll controls	NS	D+
PI-19	Competition, value for money and controls in procurement	C+	D+
PI-20	Effectiveness of internal controls for non-salary expenditure	D+	D+
PI-21	Effectiveness of internal audit	D	D
C(iii) Accounting, Recording and Reporting			
PI-22	Timeliness and regularity of accounts reconciliation	NS	A
PI-23	Availability of information on resources received by service delivery units	D	D
PI-24	Quality and timeliness of in-year budget reports	C+	C+
PI-25	Quality and timeliness of annual financial statements	D	D+
C(iv) External Scrutiny and Audit			
PI-26	Scope, nature and follow-up of external audit	D	D+
PI-27	Legislative scrutiny of the annual budget law	D+	C+
PI-28	Legislative scrutiny of external audit reports	D	D+
D. DONOR PRACTICES			
D-1	Predictability of Direct Budget Support	C+	NS
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	NS	D+
D-3	Proportion of aid that is managed by use of national procedures	NS	D

Summary assessment

(i) Integrated assessment of PFM performance

Credibility of the budget (PI-1 to PI-4)

Fast economic growth in 2006 and 2007 led to substantial under-estimation of revenues in the original budget, but led to in-year up-ward revisions of expenditures of up to 16.7% in 2007. With the economic slow down in the second half of 2008, the accuracy of the overall annual budget improved. The variance in the composition of expenditure out-turn according the functional classification compared to the original approved budget exceeded 18% in all of the three years and was very largely a direct result of the in-year increases. In 2008, the variance in excess of total deviation was 30.3%.

There is, despite increased revenues, a low predictability of availability of funds apart from protected items in the budget. The main reasons for the re-allocations within the budget are unforeseen events, external shocks and ad hoc political initiatives that require additional funding. The implementation of the annual budget law and thereby the credibility of the budget has not improved compared to the 2005 PEFA assessment. The score for the aggregate revenue out-turn is A, and reflects the very conservative revenue estimates. However, the distribution of additional funds was undertaken in a non-transparent way outside the annual budgeting process. Late distribution of additional budgets resulted in hasty procurement decisions. Overall, fiscal prudence is clearly given priority over predictability of funds.

There is still no systematic process by which the government can comprehensively monitor the level of expenditure arrears. Improvements can only be expected once the planned Treasury Modernization will be implemented, which includes a commitment accounting system.

Comprehensiveness and Transparency (PI-5 to PI-10)

The government has made efforts to further consolidate the budget. Many extra-budgetary funds were brought onto the budget in the past years. The introduction of the new classification system, one of the most visible improvements of recent PFM reform efforts, is potentially a first step towards a consolidated budget. Despite these improvements, fiscal reports of AGAs, PEs, and the Social Fund as well as the large quasi-fiscal deficit originating from the energy sector are still not part of key fiscal reports, thereby making it difficult to determine the overall fiscal position of the Kyrgyz Republic.

With the enactment of the LEBLSG, the division of responsibility between the central government and LSGs has been clarified and the predictability of funds for LSGs have significantly improved. The latter is owing to the provision of direct transfers from the central government to LSGs without passing through Oblast and Rayon administrations. LSGs receive quite reliable estimates of transfers ahead of their budgeting process. However, the calculation of transfers, in particular the equalisation and matching grants, are not done very transparently.

The formula for equalization grants urgently needs revision to reflect the recent changes in the tax code and other deficiencies that became apparent during implementation (e.g. current preference to densely populated LSGs).

Lack of transparency is not only an issue with regard to distribution of grants, but also with the way the budget documentation is presented and most of all with the very poor public access to key fiscal information. It undermines efforts by the Jogorku Kenesh, civil society organisations and other interested parties to closely monitor the budget process. The legitimacy of the budget process is thereby severely weakened.

Policy-based budgeting (PI-11 and -12)

The annual budget process is clearly laid out and generally well respected by the government. The four-week period for preparation of the draft budget provided to MDA is too short leading to delays in submission of the draft budgets to MOF. Of major concern is the very late approval of the annual budget law in the past three years. The annual budget laws of 2007 and 2008 were signed by the President well within the fiscal year. In 2009, the situation improved after the parliamentarian elections where the President consolidated his power in the Jogorku Kenesh.

From the early start of PFM reforms in the Kyrgyz Republic, improvements in policy-based budgeting have been high on the agenda. The reform efforts slowly led to a budget process where policy priorities have had a direct impact on the MTBF but, less clearly, on the annual budget. Also, the debt sustainability analysis is undertaken annually. Despite some progress in the formulation of MTBF, there remain many challenges: the link between the MTBF and the annual budget is still very weak; part of the sector strategies are badly costed; and the linkages between the PIP budget and the Republican budget remain poor.

The impact of a clearly laid out annual budget process and an improved medium term fiscal framework on strategic allocation of resources and efficient service delivery is, however, undermined by the low predictability of funds and frequent ad hoc policy initiatives that are expressed either very late in the budget process or even during implementation of the budget. Frequent in-year revisions and the constant struggle for resources not only make strategic planning obsolete, but also absorb unnecessarily the capacity of the management of MDAs.

Predictability and control in Budget execution (PI-13 to PI-21)

A Tax Code updated in 2006, provided an uncertain legislative base, with regular changes to the taxes, of which there were many. Little effort was made to assist tax payers and the right of appeal was cumbersome and unclear. Each taxpayer has a unique registration number and there is a tax database in use by all the tax offices, but these are not linked to form a single integrated database or linked or other registration systems with consequent risk that some tax payers may be overlooked. Tax payments are made directly into the Treasury with arrangements for the tax authorities to receive details on a daily basis that leads to a monthly reconciliation of cash received and preparation of a report on aggregate arrears. Collection of tax arrears is not particularly effective with less than 50 percent collected.

Revenues in excess of budget and significant rises in revenues – by nearly 80% between 2006-2008 – have not overcome problems in cash planning, which continues to be on a monthly basis. Only certain protected and mandatory items are guaranteed payment. The problem is the unpredictability of revenues that appear to be seasonal and related to the type of tax. Since there have been regular changes of taxes, each with their own seasonality, predicting the timing of receipt has been made more difficult in the absence of a history on which to base it. The majority of changes to budgets above the level of the management of the ministries and agencies take place in the fourth quarter of each year and these have been to increase expenditure; the rules regarding changes need clarifying. Spending bodies efforts tend to be focussed on short-term cash planning. By contrast, public debt is carefully monitored using a specialist software system and loans are only taken by the government on the advice of the Ministry of Finance, the only body authorised to manage public debt and enter into agreements. Although not all accounts are consolidated the full extent of the balances is known.

Apart from the computerised treasury payment system, which is used for all types of expenditure and for recording revenues, most systems are manual and operated in a decentralised system with nearly 5,000 individual budget organisations. This number includes bodies subordinate to main ministries. In such a situation control is inevitably weakened with entire reliance placed upon staff in each budgetary organisation undertaking their functions in accordance with the rules. However, there are concerns about the skill of personnel and payroll staff to correctly calculate salaries based on a number of complex factors. Most staff continue to be paid in cash, which represents an obvious weakness. Few if any audits take place specifically directed at payroll. Procurement is regulated by an adequate law and there is a central Procurement Agency that sets standards and monitors compliance by each procuring organisation. The Agency fails to fulfil its role and staff in procuring organisations are poorly trained. There are financial limits set on contracts that must be subject to open competition, while those of a lower value may use other methods. The practice is to use open competition only for higher value contracts. Non-salary expenditure, outside the procurement process, is subject to the main controls over payment in the treasury system but the internal control framework is weak and outdated with no written rules about the major computer systems. The absence of commitment control, with local bodies being left to maintain manual records of uncertain quality, taken together with the uncertain timing of funding, means there is the likelihood of late payment to some suppliers. There are well-established requirements concerning the maintenance of local manual records with errors of concern but not at a level that is material. There are significant weaknesses in internal audit. Some ministries have a control function, sometimes called internal audit, whose role is to carry out compliance checks of subordinate bodies' accounting records. No attempt is made to identify systemic weaknesses nor are there any standards on planning, evidence, sampling and error evaluation.

Accounting, Recording and Reporting (PI-22 to PI-25)

The computerisation of treasury functions enables regional treasuries to agree expenditure details with the local transit banks daily before submitting details to the central treasury which then agrees the total with the National Bank. Revenue details are also received by regional treasuries which pass information to local tax offices to enable them to update taxpayers' accounts. There are established arrangements for monthly and quarterly reconciliations between budgetary organisations' records and those of the central treasury that lead, each quarter, to reports to the President, Jogorku Kenesh and the Prime Minister. Although the arrangements are cumbersome and probably do not resolve all data errors they are the only possible arrangements in the absence of a fully integrated system. The introduction of a GFS 2001 compliant budget classification in 2007 thas improved the level of information available on a quarterly basis. No reports are made available to line ministries or other bodies. Neither are reports produced on resources received by local delivery units. Annually a cash-based budget execution report, in respect of the previous financial year, is produced by the government for submission to the Jogorku Kenesh by the middle of May. This report is the nearest there is to financial statements, and, though it includes extensive information on revenues and expenditures, in accordance with GFS 2001, it does not include accounting policies. The huge amount of numerical data it does contain is unsupported by any useful summaries or commentary that would assist in their interpretation.

External Scrutiny and Audit (PI-26 to PI-28)

The Chamber of Accounts is responsible for auditing the budget execution report, prepared by the MoF by mid-May, and submitting its findings to the Jogorku Kenesh. No audit opinion is given; instead a report of errors and violations is produced which is laid before the Jogorku Kenesh in September or October following the year of account. The absence of a set of financial statements prepared in accordance with internationally recognised accounting standards represents a limitation on what the Chamber can do. Its audit of revenues and expenditure each year is not complete with only the consolidated statement of the Ministry of Finance audited annually; the policy in relation to other financial statements is not transparent.[In addition to work on the annual budget execution report, the Chamber undertakes audits of budget organisations, but does not separate reporting on its work on the financial statements from compliance and the efficient use of resources. Arrangements by the Jogorku Kenesh for consideration of these reports appear to be determined by the circumstances of each report with no formal set of rules on when officials should attend. There is no evidence of effective follow up by it of the implementation of recommendations it has agreed. The draft budget is submitted to the Jogorku Kenesh by the 1st September each year and legislative scrutiny, led by a specialist committee, appears to follow an established routine and to cover fiscal and aggregate revenues and expenditure, but not the medium term position. The quality of scrutiny is uncertain but it is claimed that items of income omitted by the government have, on occasion, been identified. Changes by the Jogorku Kenesh are reported to be fewer since the greater stability in the political system following the elections in 2007.

Donor assistance (D1 to D3)

The level of direct budget support remained modest and the shortfalls in out-turn compared to the planned direct budget support was only in 2008 significant. The shortfalls are largely caused by delays in fulfilment of conditions for the release of funds by the government. Thanks to strong growth in revenue collection in 2006 and 2007, the impact of the shortfalls in these two years was negligible. The shortfall of about 26% in 2008 might have contributed to the worsening of the situation towards the end of 2008 where the government had to cut expenditures to maintain fiscal discipline. Information on timeliness of actual disbursed amounts could not be obtained by the assessors.

There is still large room for improvement on information flow from donors to the government. Information, if at all, is mainly provided by PIUs where they were established by donors. Other than that, hardly any timely information on planned and actually disbursed amounts is submitted by donors to the government.

Aid funds continue to be managed by applying the respective procedures of donors because the Kyrgyz PFM system does not comply with donors' standards.

(ii) Assessment of the impact of PFM weaknesses

Macro-fiscal discipline

The objective of consolidating the budget deficit in order to maintain the macro-fiscal discipline was given high priority by the Kyrgyz authorities. When growth slowed down in 2008 and the collection of revenues sharply decreased, the government sharply curtailed spending on non-protected items by a 20% cut for the period of the last 5 months of the year 2008. As mentioned above, there is a trade-off between maintaining high fiscal discipline and predictability of funds when MDAs can only be sure to actually receive the budgeted amount maximum a month in advance of spending.

Although the maintenance of fiscal discipline is regarded as essential, the overall monitoring of the fiscal position is hindered by the lack of consolidation of the State Budget with the PIP budget and the Social Fund. Consolidations are only produced for IMF missions, but not for own strategic purposes. Also, financial information from AGAs and PEs is not consolidated. The quasi-fiscal deficit emerging from the energy sector is well-monitored, but remains high. The capital basis of the energy sector is used to subsidy tariffs which leads to a further deterioration of the sector's infrastructure. Worsening energy security may also impact future economic growth.

Substantial progress has been achieved in bringing extra-budgetary funds on budget in the past years. Problems remain with the predictability and reporting of donor funds. Frequent in-year revisions of the budget, low predictability of funds, and a poor control environment have a negative impact on the effective and efficient use of scarce resources, but do not directly impact on fiscal discipline because latter is being closely monitored and given priority.

Strategic allocation of resources

The Kyrgyz Republic has experienced significant increases in revenues; these grew by 80% in the period 2006-8 but with a downturn expected in 2009; inflation ran at 20% in 2007-8. Those additional resources have in part been used to reduce the fiscal deficit but very largely they have been spent. The impact of unpredictability of revenues appears uncertain, but must surely impact on planning of non-protected expenditures. Such significant increases in resources, especially those above the expected increases, create significant opportunities for short- term, non-strategic spending decisions that can be implemented quickly. To ensure that decisions are well-focussed on priority areas requires a strong medium term strategy, including sectoral strategies, and a prioritised Country Development Strategy. Neither of these exists in an adequate form. In the absence of clear priorities, it is difficult to assess the strategic allocation of resources except in terms of consistency and known priorities (economic growth, poverty reduction, education, health). The poor quality of information in the budget submission and the clarity of its presentation inhibit understanding by those responsible for scrutiny and reduces the likelihood of effective challenge. The results of expenditure decisions in terms of sectors and economic classifications show that all sectors have been beneficiaries of growth. However, areas that have done less well are Social Protection (share down from15.48% to 11.36%) and Health (down from 12.63% to 10.5%). The priorities that might have been expected would certainly have included Social Protection and Health. The effectiveness of expenditure is not subject to adequate external audit and later to legislative scrutiny, thus reducing the pressure to spend in accordance with stated policies.

The late decision-making on the budget as well as the late amendments to the budget – most in the last quarter – indicate a lack of strategic planning. Although the original budgets anticipated growth (but these were significantly exceeded in 2006 and 2007 – 9.7% and 16.2% respectively), it appears unlikely that levels of increased expenditure of the magnitude experienced could be properly managed in the timescales involved given the problems in predicting the timing of receipt of revenues and this view is supported by reported problems in managing procurements. Around 25% of the increased revenues have gone into higher salaries and wages which represent a long-term cost commitment. If, as predicted, revenues fall, then the whole burden of cost reductions will fall on non-salary expenditure. To put this into context, a 10% reduction in revenues would require a 14% reduction in non-salary expenditure.

Operational efficiency

Much remains to be done to increase the operational efficiency of Kyrgyz Republic public spending through improvements in the PFM system. As well as strengthening the MTBF to include costed sectoral strategies and clear strategic priorities that can be used to make decisions about the use of additional resources, or cut-backs, the Treasury system needs to be extended to provide a commitment accounting and be accessible to budgetary organisations. The current manual systems of reporting used by most MDAs are inadequate to provide comprehensive information for monitoring and decision making purposes, as well as reducing their ability to assess the effective use of resources. Improving predictability of revenues remains a major issue affecting: the credibility of both medium and annual budgeting; the commitment of budgetary organisations to plan realistically and with clear medium-term goals; and the proper use of procurement. A coherent and comprehensive internal control framework needs to be established that goes beyond simply ensuring the legality of transactions. Current rules are outdated and incomplete and are not keeping pace with developments, for example the introduction of computerised systems. At the same time an effective internal audit function needs to be established throughout the Government, starting with the major areas of expenditure. The Public Procurement Law (PPL) has not yet been translated into sound practices and open competition is not used unless unavoidable. While the PPL is comprehensive independent oversight needs to be improved, and the problems of a lack of well-trained procurement officers, and excessive authority and discretionary powers by the "tender committees" addressed if poor procurement and the possibilities of corruption are to be overcome. IPSAS compatible accounting standards and a simplified presentation of information need to be introduced to make the GFS 2001 compliant information more intelligible. The working methods of the Chamber of Accounts need to keep pace with these accounting and reporting developments and training needs to be provided in modern audit approaches to risk and performance. Legislative scrutiny of performance is not possible in the absence of proper accounts and any adequate review of effectiveness by the Chamber of Accounts.

(iii) Prospects for reform planning and implementation

Progress in PFM reforms has been modest since the first PEFA assessment in 2005. The table in annex 1 that compares the scores in 2005 and 2009 shows measurable progress in few areas. Improvements can be seen in the implementation of the Treasury system, the new budget classification system, partly in the implementation of the LESLSG, and the improvements in the multi-year fiscal forecasts.

The slow pace of reforms is surprising given the enthusiasm that has been put to foster PFM systems both by MOF and donors after the 2005 assessment followed by substantial donor funded TA. Political instability in 2006 and 2007 has undoubtedly contributed to this rather poor result, but further analysis of other reasons for the low impact of reforms needs to be carefully undertaken by all stakeholders in advance of launching the next phase of reform.

Despite the lack of results, GoKR and donors are committed to continue to support PFM reforms. The GoKR has drafted a mid-term vision for PFM reforms with the support of the EC. Donors are setting up a multi-donor trust fund administered by WB on PFM reforms. A positive impact on parts of the PFM system can be expected by the implementation of the delayed treasury modernisation. However, with such technicalities alone, PFM reforms will never fully succeed. A credible budget process, improvements in predictability of funds and the establishment of an effective control environment will require some tough decision that are supported by the highest level in the GoKR.

While the reforms will take more time than anticipated four years ago, there still seem to be many people in the GoKR who would like to see the reforms advance. A good indication of this positive attitude to reforms is given by the self-assessment that was produced by GoKR ahead of the PEFA mission. The level of professional judgement and self-critique in the self-assessment reflect a maturity and realism about what has been achieved as well as recognition of the many remaining challenges. An honest appreciation by key staff is certainly a basis for further reforms, provided that appreciation is shared at the highest levels of government.

1. Introduction[1]

Objective of the PFM-PR

The main purpose of the second PEFA assessment in the Kyrgyz Republic is to provide the Ministry of Finance (MOF) with an objective an up-to-date assessment of the Kyrgyz Republic's PFM system. The MOF expects to achieve two major objectives from the results of the assessment, as follows:

- to check progress of the PFM reforms since 2005
- to support the formulation of a more strategic and programmatic approach to PFM reforms and a further concretion of the PFM Medium Term Vision

The results of the 2009 assessment are an integral part of the on-going PFM reforms in the Kyrgyz Republic.

Process of preparing the PFM-PR

The independent PEFA study team has been composed of Erkeaim Shambetova, Chris Vanderweele and Stefan Bruni. The first mission has been greatly supported by the PFM co-ordinator. The Swiss State Secretariat for Economic Affairs (SECO) and DFID were the main sponsoring partner of the assessment.

The assessment is managed by the Steering Committee which is chaired by the MOF. The Steering Committee, that includes the Permanent Secretary of MOF, Deputy Heads of the Swiss Cooperation and DFID offices, and a WB Senior Economist, will overlook the assessment process. For the daily management of the assessment the Steering Committee appointed a Working Group chaired by the Head of the Budget Department.

The PEFA assessment in the Kyrgyz Republic involves the following steps:

(i) an establishment of a Steering Committee and a Working Group (May 2009)

(ii) a training course on the PEFA methodology (June 2009)

(iii) a period of self-assessment, resulting in written contributions to all PIs by MoF and other stakeholders (June to July, 2009)

(iv) a main mission reviewing the government's self-assessment data in consultation with government counterparts and resulting in this draft performance report (6-18 July, 2009)

(v) a draft report that is shared with the GoKR, donor agencies and the PEFA Secretariat for review (August, 2009)

[1] The introductory section is based on the ToR for this assessment.

(vi) a final mission including a workshop discussing the draft report with government counterparts (October 5-10, 2009)

(vii) a final PFM PMR (end of October, 2009).

(viii) a publication of the final PFM PMR by the GoKR

Compared to the 2005, the assessment is under the clear leadership of MOF and much less driven by donor agencies. Other MDAs were provided information to the assessment. A complete list of government counterparts is attached in annex 2.

Methodology

The PEFA methodology is set out in the Public Finance Management Performance Measurement Framework (available, also in Russian, at www.pefa.org). It is based on 28 indicators covering a country's PFM system, and 3 indicators addressing the interaction of donors with a country's budget process and PFM system. PEFA assessments provide cross-country comparable indications of the effectiveness of PFM systems, and of their improvements over time. They do not provide, however, for an analysis of the causes of existing weaknesses. It should be emphasised that PEFA is an essentially backward-looking process, based on evidence about actual public sector financial management from 2006 to 2008. Recent developments that occurred in 2009 are not taken into account when rating the PIs. However, such developments are part of the narrative that describes the on-going reforms.

With the exception of PI D1, each indicator is scored on a scale from A to D. The bases for these ratings are the minimum requirements set out in the methodology. Many indicators include two or more dimensions, which are "added up" using PEFA-specific methods M1 or M2. For method M1 the weakest link is decisive, i.e. the overall rating is based on the dimension with the lowest score. For M2 an average of the sub-ratings is used to arrive at the score for the overall indicator (see the PEFA Framework, "Scoring Methodology").

The basis of this PEFA report is the self-assessment undertaken by the GoKR. Coordinated by the Working Group of the MoF, the government produced a comprehensive self-assessment, which critically assessed most performance indicators (PI) in accordance with the PEFA methodology, and included ratings of most of the dimensions of the PIs. The self-assessment process was supported by a two-day training course that was conducted by a member of the community of practice of PEFA trainers in Bishkek.

The team of independent consultants reviewed, on the one hand, the score given in the self-assessment and, on the other hand, the evidence provided to support the score. Besides the self-assessment the following sources of information were used to draft the report: (i) official GoKR reports and data, (ii) external evaluations and report, and (iii) interviews with users and providers of PFM information and other stakeholders (government officials, representatives of development organisations, representatives of selected NGOs, and representatives of the private sector). To the extent possible the consultants have sought to triangulate information.

The 2005 PEFA assessment is used as a baseline for the 2009 assessment. The report ensures that (i) changes in PFM performance are clearly identified; (ii) factors that have resulted in a change in scoring are explained for each indicator; and (iii) readers can track all changes in PFM performance from the previous assessment.

The quality of the report is assured by sharing the draft report with the PEFA Secretariat and key stakeholders of the Kyrgyz PFM system with the request for comments. Comments were received from MDAs of the GoKR consolidated by MoF, the PEFA Secretariat, DFID, EC, Swiss Cooperation Office and the World Bank. Additional comments were provided by experts of on-going projects funded by ADB and USAID. IMF, though requested, did not provide any comments to the draft report.

Scope of the assessment

The PEFA assessment focuses primarily on the national level of a country's PFM system. At the national level, it seeks to cover the entire PFM system, including: cross-cutting and overall issues, the revenue side, the budget cycle from planning through execution to control and auditing; and the interaction of development partners with the PFM system.

Table 1: Structure of the public sector

Institutions	**Number of entities**	**% of total public expenditures in 2008***
Central government	3000	85.81
Autonomous government agencies	5	NA
Sub-national governments	5000	27.31

* state budget without public debt servicing and PIP from external sources *Source: Central Treasury*

Table 1 shows the structure of the public sector. The percentage of central and sub-national government expenditures exceeds 100% because both levels of government include the intergovernmental transfers. The five autonomous government agencies (AGA) are: State Property Fund, Social Fund, State Material Reserves Fund, National Bank of the Kyrgyz Republic, and Development Fund. No expenditure data was available for AGAs.

The government remains extensively involved in financial and non-financial sectors such as energy, mining, oil and gas, banking and telecommunication.[2] It owns 80 percent or more of the shares of each of the seven companies in the energy sector, Kyrgyzaltyn (gold mining sector), Kyrgyzneftgas (oil and gas sector), and Kyrgyztelecom (fixed line communication monopoly). In banking, the government owns 100 percent equity in the Savings and Settlements Company.

No country specific issues are being looked at specifically in this report.

[2] IMF (2008): Fiscal ROSC.

2. Country background information

2.1. Description of country economic situation

Economic situation

The Kyrgyz Republic remains one of the poorest countries of the Former Soviet Union (FSU), with GDP per capita of US$713 in 2007[3]. The poverty rate has declined from 43% in 2005 to 35% in 2007, with extreme poverty down from 35% to 7%. Agriculture accounts for around 31% of GDP, while industry accounts for 19 percent; the remaining 50 per cent is made up of services.

Table 2: Social Indicators

	Period		**Same region / income group**	
	90-95	**01-07**	**Eastern Europe and CIS**	**Low-income countries**
Population (in million)	4.6	5.2		
Poverty (% of population)	51.9	35.0		
Income (GNI per capita, USD)	350	600		
Consumer Price Index (2000 = 100)	34	142	159	150
Public expenditure for social sectors:				
Health (% of GDP)	3.7	2.9	4.1	1.5
Education (% of GDP)	6.5	5.7	4.6	

Source: IMF (2008)

The Kyrgyz Republic began market-based reforms in the early 1990s. Together with a benign external environment, these reforms led to an economic recovery during 1996-99, when annual real GDP growth averaged 5.5 percent (faster than most CIS countries, whose average was 3.1 percent). After the Russian financial crisis in 1998, growth slowed to 2.9 percent in 1998-99. The external current account deficit widened to 23 percent of GDP in 1998, exposing the economy's vulnerability to external shocks.

Tighter fiscal management has been a priority in recent years. Fiscal performance has been impressive, with revenues rising sharply**.** With firm fiscal policies and aided by recent strong growth and Paris Club support, the authorities were able to achieve a major improvement in debt indicators. Public debt (largely external) fell to 58 percent of GDP in 2007, from almost 100 percent of GDP in 2004[4].

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[3] IMF (2009): Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility 2008

[4] IMF Sixth Review

Table 3: Public Finance Statistics

	Actual			Prel.	Projected			
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Current revenues as % of GDP	24.0	25.6	28.1	27.5	24.0	25.8	25.6	25.4
Current expenditures as % of GDP	24.2	24.8	26.6	25.1	23.5	23.2	23.3	23.4
Current account surplus (+) or deficit (-) as % of GDP at	-0.2	0.6	1.5	2.4	0.5	2.6	2.3	2.0
Capital expenditure as % of GDP	4.3	4.3	4.8	5.2	6.6	6.9	6.8	6.7
Foreign financing as % of GDP	4.2	2.5	1.4	0.5	1.7	2.1	1.1	0.8
GDP (in million som)	2,460	2,833	3,799	5,059	5,211	5,777	6,220	6,734
GDP in USD million current prices	430	490	610	770	920	1,040	1,120	1,210
Real annual growth rates 1995 prices	-0.2	3.1	8.2	7.6	2.3	4.8	5.1	5.7

Source: IMF (2008)

However, the short-term outlook has deteriorated. As a small, open economy, the Kyrgyz Republic is particularly vulnerable to external shocks, including the fall-out from the global financial market turmoil on its neighbours and the rise in international food and energy prices. But as the Kyrgyz Republic is also a low-income country, these shocks threaten to have a considerable effect on poverty, through the erosion of incomes, transfers (e.g. remittances) and a reduction in employment opportunities[5].

Overall system of government and government reform strategy

The Country Development Strategy, which updates the 2007-10 strategy but does not change the vision and goals, summarizes the strategic development goal for 2009-2011 as ***"improvement of quality of life through improving the quality of economic growth, management and environment".*** The new CDS includes a section specifically listing the challenges and threats faced by the country. The list is extensive, including:

(i) Economic challenges: a small open economy exposed to world economic difficulties with limited reserves to deal with problems that arise; high levels of external debt; high social obligations; worsening trade deficit; loss of industrial capacity; low savings rate; high unemployment leading to labor migration; informal economy around 50% of GDP; weak banking system; a disconnect between declared economic policy and real government activity; and the lowest CIS ranking for the Global Index of Competitiveness;

(ii) Food security: an inefficient agriculture sector which is not competitive on world markets and does not meet domestic needs; and failure of food safety procedures;

5 IMF Sixth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility 2008

(iii) Energy security; no regional agreement on the use of water and power resources; lack of investment in the energy sector; and inefficient energy systems.[6]

Reforms to public expenditure management began in the mid-l990s, and formed an important element of the National Poverty Reduction Strategy (NPRS) of 1996-2005. The foundations of public expenditure management were subsequently introduced, including a legal framework, budget management procedures, and a treasury system. Donors have undertaken several diagnostic studies o f the country's PFM framework, which have helped inform the reform agenda. They have resulted in implementing actions such as revising the Law of the Chamber of Accounts (COA) and enactment of a new Public Procurement Law (PPL). The PFM Action Plan of June 2006 was prepared by the Ministry of Economy and Finance in collaboration with donors. The plan is a systematic approach to define major reforms based on analyses such as the Country Financial Accountability Assessment (CFAA), Country Procurement Assessment Report (CPAR), Public Expenditure and Accountability (PEFA), and various technical notes on budget preparation and execution[7].

Progress has occurred in some areas, as noted later in this report, but has been slow in others because of lack of clear champions, turnover of political leadership within the Ministry of Finance, lack of qualified staff, and inadequate technical capacity in reform areas[8]. The constitutional reforms of 2007 and the re-election of President Bakiev in 2009 may usher in a period of relative political stability, albeit at the cost of some loss of liberty[9].

The recent economic conditions with reduced growth will put pressure on government spending, as already shown by the reduction in the last quarter of 2008. In this situation, clear government priorities for the medium-term, supported by sectoral strategies, will be important in ensuring the best use of resources. In that context, PFM reforms will play a crucial role in providing the tools to plan, control, account for and monitor expenditure and its impact.

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[6] JCSS Progress Report 2009
[7] World Bank CFAU 2007
[8] World Bank CFAU 2007
[9] JCSS Progress Report 2009

2.2. Description of budgetary outcomes

Fiscal performance

The overall fiscal performance in the Kyrgyz Republic has improved during the last four years. According to a recent IMF report[10] the "authorities were successful in consolidating the budget deficit, benefiting from strong economic performance, an increase in trade, and improved revenue administration." As shown in Table 4, the primary balance improved from -1,913 in 2006 to 1,241 KG som million in 2008. For the current year the primary balance is expected to worsen due to shortfalls in revenues caused by the overall economic slowdown. The expected shortfall in government revenues in 2009 is mainly covered by assistance received from Russia that includes 450 USD million in highly concessional budget support.

The Russian money, which consists of a grant and a loan, will ease immediate fiscal stress and will allow some room for an increase in capital spending in 2009.[11]

Table 4: Key fiscal indicators: General Government Finances 2006-2009 (in millions of soms)

	2006	2007	2008 (prel.)	2009 (proj.)
Total revenue and grants	30,062	43,039	56,015	61,491
Total revenue[1]	29,174	39,821	52,700	50,070
Total grants[2]	888	3,218	3,314	11,924
Total expenditure (incl. net lending)	32,922	44,020	54,836	66,220
Current[3]	28,232	37,170	46,582	52,905
Of which interest	1,002	916	1,371	1,710
Capital	4,918	6,745	7,605	12,550
Net lending	-277	105	650	765
Discrepancy[2]	447	538	-1,308	150
Primary balance	-1,913	472	1,241	-2,366
Total financing	2,915	444	130	4,077
External	2,837	1,911	705	15,089
of which: Russian loan	-	-	-	12,844
Domestic	58	-1,671	-322	-11,212
Privatization	21	203	-253	200

1/ Including Social Fund (excl. gov. contributions), Capital revenue
2/ Including Programme and PIP grants
3/ In 2008, discrepancy includes Som 1,059 million in final settlement expenditures made in January 2008 for the 2007 budget
Sources: IMF (2009), IMF (2008)

10 IMF (2009): 2009 Article IV Consultation and First Review Under the 18-Month Arrangement Under the Exogenous Shocks Facility – Staff Report.

11 IMF (2009)

The public debt of the Kyrgyz Republic as of end of 2008 amounted to 49.2% of GDP, of which external debt 41.8% and domestic debt 7.4% of GDP (see Table 5). The nominal stock of public and publicly guaranteed external debt declined from about 100% in 2003 to less than 42% at the end of 2008. Of all external debt, 68.01% is owed to multilateral creditors, 31.68% to bilateral creditors and 0.31% - to state guarantees.

Table 5: Debt stock outstanding (in % of GDP)

	2006	2007	2008
Public sector debt	72.5	56.8	49.2
Of which: external debt	69.8	54.6	41.8
Of which: domestic debt	2.7	2.2	7.4
Debt service-to-revenue ratio (in %)	10.9	7.0	5.7

Sources: IMF (2009): Joint WB/IMF Debt Sustainability Analysis

The Kyrgyz authorities declined to request support of the HIPC initiative in 2007 even though it did qualify for HIPC at this point of time. They also expressed interest to participate in MDRI, but it did not happen either.

Allocation of resources

The Country Development Strategy (CDS) 2007-2010 was replaced by the CDS 2009-2011. The new CDS does not change the vision and goals and still focuses on four strategic priorities: economic development, governance and transparency in public administration, human capital development, and environmental sustainability. The overall strategic development goal is "improvement of quality of life through improving the quality of economic growth, management and environment". The up-dated CDS encompasses a large amount of goals and indicators that also include the MDGs by 2015. The implementation of the CDS is supported by seven international organisations[12] through the Joint Country Support Strategy.[13]

No comprehensive analysis has been undertaken on how well the CDS priorities were reflected in the budget, but thanks to an overall increase of about 80% in total expenditures of the Republican budget in the review period all functions received substantially more budgetary resources in 2008 than in 2006. It is, however, very uncertain whether the additional funds were allocated strategically and in accordance with overall policy goals.

Table 6 indicates that relatively expenditures for economic activities grew fastest, followed by law enforcement and general public services. The sectors showing the least growth as a result of

[12] ADB, EC, German Government, Government of Switzerland, UK Department for International Development, UN Agencies, WB Group

[13] ADB et al. (2009): Joint Country Support Strategy Progress Report for the Kyrgyz Republic for the Period 2007-2008.

the increased revenues were social protection (+28%) and health (+44%) compared to the overall 80% growth. Law enforcement and economic activities expenditures more than doubled.

Table 6: Sector shares in total actual expenditure (as a % of total expenditures in the Republican Budget)

	2006	2007	2008	*08-06*
1. General Public Services	26.4	25.1	27.9	*1.5*
2. Defence	7.8	5.4	5.9	*-1.9*
3. Law enforcement	9.0	10.0	10.8	*1.8*
4. Economic activities	10.9	15.7	14.5	*3.6*
5. Environmental protection	[1]	0.4	1.2	*1.2*
6. Housing and utilities	3.3	3.6	3.6	*0.3*
7. Health	13.1	11.7	10.5	*-2.6*
8. Recreation, culture, religion	2.5	3.4	2.5	*0*
9. Education	11.1	12.9	11.7	*0.6*
10. Social Protection	15.9	11.9	11.4	*-4.5*

1/According to the old classification, expenditures for environmental protection were part of other functions in 2006. *Source: MOF, Budget Department*

Actual budgetary allocations by economic classification are shown in Table 7. The largest relative increase in expenditures between 2006 and 2008 was for domestically financed capital expenditures followed by purchase of goods and services. There was even in absolute terms a substantial reduction of foreign financed PIP loans. But to put the results into context: effectively any area that received the same percentage share in 2008 as 2006, or larger, received an 80% or more increase. Those receiving larger shares did so at the expense of a priority area, Social fund expenditures.

Table 7: Actual budgetary allocations by economic classification (in % of total expenditure)[1]

	2006	2007	2008 (prel.)	2009 (proj.)
Current expenditures	83.2	82.9	84.3	78.4
Wages and salaries	29.8	29.4	29.1	30.7
Goods and services	31.3	34.9	36.1	30.9
Interest payments	3.4	2.3	2.8	2.9
Transfers and subsidies	14.4	12.8	12.7	10.3
Social Fund expenditures	4.3	3.6	3.6	3.6
Capital expenditures	16.8	17.1	15.7	21.6
Domestically financed capital exp.	4.4	7.9	8.9	8.0
Foreign financed PIP loans	10.4	5.6	2.9	6.7
Foreign financed PIP grants	2.0	3.6	4.0	6.9

1/ Including Republican Budget, Social Fund, PIP and grants

Despite the Russian money, the revenues and subsequently expenditures are expected to decline in 2009, making prioritisation of expenditures even more important.

2.3. Description of the legal and institutional framework for PFM

The President is the head of state and is responsible for forming the government, and, subject to parliamentary approval, for the appointment of the Prime Minister. In September 2007, changes were proposed for the constitution, including replacement of constituency elections in favor of a proportional vote based on party lists, as well as a new electoral code and increased executive powers to bring regional administrators directly under the President. The referendum on October 21, 2007 overwhelmingly endorsed the changes to the constitution. The President immediately dissolved parliament (Jogorku Kenesh) and called early elections for December 16, 2007. The Jogorku Kenesh consists of one chamber and the total number of deputies is 90, elected every 5 years.

The Constitution has provided for legislative oversight over the executive in several ways: for example, by requiring the Jogorku Kenesh to approve the annual budget, and to receive the annual audit report on budget execution submitted by the Chamber of Accounts (Supreme Audit Institution). The Jogorku Kenesh can reject the entire budget, but cannot amend the budget without an agreement with the government. Parliament cannot formally pass any legislation that has financial implications without prior approval of the government. The Jogorku Kenesh has a specialist Budget and Economic Policy Committee to review budget proposals and budget execution reports. The Chamber of Accounts is responsible to the Jogorku Kenesh and the president, who appoints the chairman of the Chamber.

The country has, since 2007, been divided into 40 rayons (districts) and 483 local self government units[14]. Prior to that, and only for a brief period of around a year, there was only central government and local self-government units, the rayons and oblast structure (typical of former Soviet countries) has been taken under the central government system. All local self government units governed by keneshs consists of deputies that are elected for 4 years according to the law on local self government and local administration (adopted May 29, 2008). Total number of deputies for local keneshs is established according to the population distribution of respective administrative and geographical units. Local government responsibilities include expenditures on education and health, with contributions from the Republican budget. The laws also stipulate the revenue sharing arrangements between the different levels of government. In 2008, the local budgets (Rayon and LSG) were funded 51% out of own revenues and 49% out of transfers from the Central Government in accordance with a formula as required by "Law of the Kyrgyz Republic on Financial and Economic Basis of Local Self-Government (FEBLSG) 2006; that formula is subject to considerable adjustment. Local governments use the treasury system for financial transactions and the financial administration of the local government is manned and supervised by the Ministry of Finance.

[14]Kenesh comprise: Aiyl Okmoty Keneshs (usually a big village or a number of small villages united in one structure of local government):Village Keneshs; Town keneshs; Rayon keneshs

The legal roles and responsibilities for the Government in respect of the budget are set out in the Constitution of the Kyrgyz Republic 2007 (article 73). The other major legislation is: the Law on the Basic Principles of Budget Management 1998 (updated in 2009); the Law on Treasury; the Law on the Chamber of Accounts 2004 (updated in minor ways in 2008). There is also a Law on Procurement 2004 which established a central agency that has a standard setting and monitoring role.

There are three levels of budgets at the central government. The most important budget, both politically and financially, is the Republican budget that comprises recurrent and capital expenditure by central government (see Table 8). The Republican and the Local budget form the State budget, which is part of the consolidated budget. The State Budget is analysed in accordance with GFS 2001 across major sectoral areas and is further analysed down to economic classification.

Table 8: Consolidated amended budget 2009 (in KGS million)

	Total amount
Consolidated budget	**71,495.4**
State budget	***60,358.7***
▪ Republican budget	52,500.5
- Recurrent budget	39,224.4
- Capital budget (incl. PIP)	13,276.1
▪ Local budget	7,858.2
Social Fund	***11,136.7***
Development Fund[1]	***na***

[1] The Development Fund has only been operation since mid- 2009 (Russian loan).
Source: Ministry of Finance, Budget documentation

Revenues collected at the local and central levels are shared between the Republican and local budgets on the basis of legislatively determined functions and responsibilities and annual budget negotiations.

There are separate budgets for the Social Fund and the Development Fund. The former is an extra-budgetary fund for managing social insurance revenues and expenditures, which does not form part of the state budget. The fiscal operations of the Social Fund are presented to Parliament at the same time as the budget but in a separate document. The Development Fund, which also is an extra-budgetary fund, was established in 2009 to manage the Russian loan.

The bulk of capital expenditure is foreign-financed and is also shown under a separate programme – the Public Investment Programme (PIP). The PIP is part of the Republican budget. The proceeds of the sale of Centerra shares in 2004 were put into a special government account, the so-called Centerra Fund, which is part of the development budget. The purpose of the Centerra Fund, is to fund priorities in the medium-term national poverty reduction strategy under the budget. In 2008, the Centerra Fund financed projects with a total amount of about KGS 700 million.

The Ministry of Finance is the lead ministry for PFM with roles assigned to its budget, treasury and methodology departments.[15] The Budget Department of the Ministry of Finance is responsible for coordinating the preparation of the republican budget in accordance with a prescribed timetable that includes setting expenditure ceilings for MDAs. There is a Medium Term budget Framework that has a number, not complete as yet, of sectoral strategies. The budget calendar also includes instructions to the Social Fund, the Fund of the Mandatory Health Insurance, to the regional branches of MoF and to the LSGs. LSG is advised by MoF of the level of funding available.

The Treasury is the other major part of the MoF. The Treasury system with its 65 regional offices and its recently computerized payment system (with further changes planned) acts as the payment system and pay master for all budgetary organizations (central and local) and for all types of revenues and expenditures. All banking is centralized in a consolidated account with a transit account held at a local bank for each regional treasury office. Central Treasury also acts as the accountant for government and local government in producing quarterly budget execution reports and the annual budget execution report. Some ministries have their own accounting software packages but many rely on manual systems. The Social Fund has separate arrangements for banking and disburses social payments through local post offices.

Assessment and collection of taxes is the responsibility of the custom and tax authorities operating through their regional offices. Payment by taxpayers is made directly through commercial banks into the central treasury, which then provides the information necessary for accounting and reconciliation by the tax bodies.

Internal audit, which takes the form of soviet style revision and checking, is confined to a small number of MDAs. There was, during the period of the review, no law or standards on internal audit.

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[15] A detailed description of the structure can be obtained from the MoF website:
http://www.minfin.kg/index.php?option=com_content&view=article&id=54:2009-09-08-09-34-30&catid=34:2009-09-02-06-51-19&Itemid=27

3. Assessment of the PFM systems, processes and institutions

3.1. Budget credibility

The credibility of the budget is a fundamental requirement for PFM systems, processes and institutions to perform well. It matters to policy makers, citizens, investors, and, of course, to all those who will implement the budget. The difference between the initially approved budget and the actual expenditures and revenues measures the budget deviation.

PI 1: Aggregate expenditure out-turn compared to original approved budget

Overall score (M1)		**C**
Dimension	**Brief Explanation**	
(i) Difference between annual primary expenditure and the originally budgeted primary expenditure	(i) Only in 2007 has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 10% of the budgeted expenditure.	C

(i) Aggregate expenditure outturn compared to the original approved budget for 2006-2008 is shown in Table 9 below. The data shows the total amount of budgeted and actual expenditure of the Republican Budget without debt service payments and externally funded PIP (capital) expenditures, but including transfers to local self governments. The Social Fund and the Local Self Governments Budgets are not part of the Republican Budget (cf. Table 8). A consolidation of these different budgets is not done on a routine basis (cf. PI 9).

Table 9: Republican Budget out-turn compared to initially approved Republican Budget (in million KG som)

Year	**Initially approved Budget**	**Actual Expenditures**	**Deviation (absolute)**	**Deviation (%)**
2006	18,861.3	20,699.5	1,838.2	9.7
2007	26,200.6	30,449.5	4,248.9	16.2
2008	35,925.2	37,294.6	1,369.4	3.8

Source: MOF, Budget Department

The data in above table shows a fast increase of public spending by 80% in the given time period. The increase is due to high growth rates of the economy accompanied by fast increasing budget revenues (cf. PI 3). Thanks to the dynamics of budget revenues, the GoKR was in the position to further increase the budgeted expenditures of the Republican Budget through in-year budget revisions. The actual expenditure of the Republican Budget, therefore, exceeded the initially budgeted expenditures in each of the three years; in 2006 by 9.7% and 2007 by 16.2%. Given these deviation the score for this indicator is C which is an improvement compared to the 2005 assessment.

The main reason for the improvement in the indicator measuring variance is the economic slow down in 2008. The slow down and the lower than expected revenues in the second half of 2008 led to a situation where planned expenditures for un-protected items (after in-year budget revisions) were cut by 20% in the last five months of 2008. The overall macroeconomic objective of maintained fiscal discipline was, thereby, given priority over the execution of the revised budget. Nevertheless, the actual expenditures also exceeded the initially budgeted expenditures in 2008.

PI 2: Composition of expenditure out-turn to original approved budget

Overall score (M1)		**C**
Dimension	**Brief Explanation**	
(i) Extent to which variance in primary expenditure composition exceeded overall deviation in primary expenditure.	(i) Variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percent only in 2007.	C

(i) For the budget to be a useful policy and planning tool, the composition of actual expenditure should not vary so considerably from the initial budget that the original policy objectives and priorities are difficult to determine. Table 10 shows the variance in expenditure composition of the Republican Budget for the last three years. The weighted average of the variance in excess of the total deviation (cf. PI 1) was 8.9% in 2006, 4.5% in 2007 and 30.3% in 2008. With a deviation of more than 10% in one out of the last three years the score for PI 2 is C.

Table 10: Variance in expenditure composition of the Republican Budget (in million KG som)

Expenditure Item	**2006**			**2007**			**2008**		
	Budget	**Actual**	**+/-(%)**	**Budget**	**Actual**	**+/-(%)**	**Budget**	**Actual**	**+/-(%)**
1. General Public Services	6,302.2	5,458.6	13.4	8,235.8	7,647.9	7.1	7,681.8	10,420.7	35.7
2. Defence	1,384.4	1,616.8	16.8	1,455.9	1,658.4	13.9	1,869.2	2,217.8	18.6
3. Law enforcement	1,612.74	1,859.5	15.3	2,730.4	3,031.0	11.0	3,069.1	4,026.4	31.2
4. Economic activities	1,716.2	2,260.3	31.7	3,329.7	4,773.4	43.4	6,531.2	5,410.7	17.2
5. Environmental protection*	-	-	-	89.3	113.0	26.5	363.8	455.3	25.1
6. Housing and utilities	342.0	690.9	102.0	667.8	1,100.5	64.8	622.2	1,334.6	114.5
7. Health	2,383.1	2,702.8	13.4	2,936.8	3,554.2	21.0	3,716.5	3,914.7	5.3
8. Recreation, culture, religion	392.8	521.0	32.6	685.4	1,023.0	49.3	805.7	925.1	14.8
9. Education	1,807.8	2,301.1	27.3	2,558.9	3,915.0	53.0	2,700.1	4,354.4	61.3
10. Social Protection	2,920.1	3,288.4	12.6	3,510.5	3,633.2	3.5	8,565.7	4,234.9	50.6
Total	18,861.3	20,699.5	9.7	26,200.6	30,449.5	16.2	35,925.2	37,294.6	3.8
Aggregate variation (weighted ave.)			18.7			20.7			34.2
Variance in excess of total deviation			**8.9**			**4.5**			**30.3**

* According to the old classification, expenditures for environmental protection were part of other functions in 2006.

Source: MOF, Budget Department

The variance in expenditure composition was substantial in all of the three years. The variance in excess of total deviation was smallest in 2007 only because the total deviation was at a very high level of 16.2%. The deviations per main functions ranged in 2006 from -13.4% to +102%, in 2007 from -50.6% to +64.8% and in 2008 from -50.6% to +114.5%. Taking into account that the Budget Law in 2006 and 2007 was only signed by the President well within the current fiscal year (cf. PI 11) the result is even worse. The main reasons for the re-allocations within the budget are unforeseen events, external shocks and new political initiatives that required additional funding.

An example for an unforeseen event is the retroactive payment of teachers for seniority in 2007and 2008 after the government was successfully sued.[16] The high increase in expenditures for housing and health, attributed largely to a sharp increase in prices for utilities (eg. for gas from Uzbekistan), are examples of an external shock that caused much higher than expected subsidies.

There is despite increasing budgets, generally, a low predictability of funds apart from protected items in the budget (cf. PI 12, 16). It is, however, difficult to compare the result of this year's assessment with the one of 2005 because the classification system has changed in the meantime. The lower score in the 2009 assessment can, at least partly, be attributed to a better aggregate out-turn (PI 1). Political interference in the budget process after the initial budget was approved, exogenous shocks and an unstable legal environment remain important challenges for an improvement of the predictability.

PI 3: Aggregate revenue out-turn compared to original approved budget

Overall score (M1)		**A**
Dimension	**Brief Explanation**	
(i) Actual domestic revenue collection compared to domestic revenue estimates in the original, approved budget	(i) Actual domestic revenue collection was never below, but well above the defined threshold of 97% of budgeted domestic revenue estimates in all of the past three years.	A

(i) Table 11 shows the budgeted and actual revenue for 2006, 2007 and 2008 by type of revenue. In all three years the actual revenue did not only exceed 97%, but even 100% of the initially budgeted revenue for the State Budget. In the assessed period the revenues increased by more than 80%. This result reflects on the one hand the conservative approach of forecasting revenue and, on the other hand, the dynamics in the economic performance. As mentioned above, the period was one of high economic growth until the second half of 2008. The economic growth and subsequent increased imports led to a 44% increase of customs revenues between 2007 and 2008 alone. Raising salaries led to higher revenues from income tax and the decrease of the corporate income tax rate to 10% facilitated the integration of part of the large shadow economy. Furthermore, the Revenue Authorities claim that improved tax administration contributed to increase in revenues (cf. PI 13 to 15). Improvements in tax administration are partly substantiated by the raising level of revenues compared to GDP in 2007. It is a feature of the PEFA scoring system that underestimating revenues, for whatever reasons – reflecting a conservative approach or poor planning - can attract a high score. The score should not detract

[16] A seniority payment was foreseen in the law which the government did not adhere to.

from the fact that the budget was a poor planning tool and that the additional revenues were used to fund new policy initiatives through in-year budget amendments.

Table 11: Aggregate revenue out-turn compared to initial budget (in million KG som)

Revenue Item	2006			2007			2008*		
	Budget	**Actual**	**+/-(%)**	**Budget**	**Actual**	**+/-(%)**	**Budget**	**Actual**	**+/-(%)**
Tax revenues	17,644	20,025	13.5	23,468	26,545	13.1	34,588	35,925	3.9
Official transfers	1,183	266	-77.5	991	1,790	80.5	1,098	1,400	27.5
Non-tax revenues	4,013	4,650	15.9	5,240	7,189	37.2	6,685	8,155	22.0
Total revenues	**22,840**	**24,940**	**9.2**	**29,699**	**35,523**	**19.6**	**42,370**	**45,480**	**7.3**
Actual revenue in % of GDP			21.9			25.4			24.0

* Preliminary figures of Central Treasury Source: MOF, Revenue Department

The greatest relative deviation, in positive and negative terms, originated from official transfers, mainly caused by the repayment of an outstanding debt by the Ukrainian Government to the Kyrgyz Republic in 2007.[17]

Frequent changes in tax legislation hampered the ability to improve revenue forecasts over the years. The changes had a great impact on the availability of funds by Local Self Governments (cf. 8).

PI 4: Stock and monitoring of expenditure payment arrears

Overall score (M1)		**D**
Dimension	**Brief Explanation**	
(i) Stock of expenditure payment arrears and any recent change in stock	(i) The stock of expenditure arrears is above 2% and increased in the past year. Due to incomplete information on the stock of arrears, a default score D is given.	D
(ii) Availability of data for monitoring the stock of expenditure payment arrears	(ii) No monitoring system for expenditure payment arrears is in place.	D

(i) The Central Treasury produces data for some categories of arrears by the end of the year. The stock of expenditure payment arrears for Social Fund, salary and settlements with debtor and creditors (mainly delayed payments of suppliers of goods and services) exceeded 2% at the beginning of 2008 and 3% at the beginning of 2009. The arrears at the beginning of 2009 increased due to the general cut of expenditures in the last quarter of 2008 which was caused by the global economic crisis. This increase in arrears is surprising as there were sufficient revenue surpluses in those years to fund the arrears.

[17] The repayment was part of Ukraine's campaign to join the WTO.

According to the Central Treasury, the data on arrears is sent to the respective budget organisations and the Social Fund. However, the expenditure payment arrears are neither consolidated nor monitored by the government.

It is important to emphasize that the arrears calculated by the Central Treasury are incomplete due to the absence of an expenditure commitment system. However, discussions with business representatives suggest that the payment behaviour of the government is rather poor, a point reflected in the performance in PI 16. According to the Fiscal ROSC Report of the IMF, state-owned electricity firms also accumulate arrears among themselves and with the State Tax Committee and the Social Fund.[18]

The incomplete evidence points to a dimension score not higher than C, because the stock of arrears is above 2% and has increased recently. Given the fact that no complete data on arrears exist, the dimension is given a default score of D.

(ii) In the absence of an expenditure commitments system there is still no systematic process by which the Government can comprehensively monitor the level of and produce reliable data on expenditure arrears. The Ministry of Finance has yet to develop a robust financial management system that could ensure excessive commitments do not lead to accumulation of outstanding liabilities and create a first charge on future cash flows. Dimension score is D.

The monitoring of arrears is likely to improve once the planned Treasury Modernisation will be implemented (cf. section 4.1). One of the foreseen features of the Treasury Modernisation is the introduction of financial management system that allows capturing expenditures at the stage of commitments.

3.2. Comprehensiveness and transparency

PI 5: Classification of the budget

Overall score (M1)		**B**
Dimension	**Brief Explanation**	
(i) Classification system used for formulation, execution and reporting of the central government's budget	(i) The revised classification system that is used for budget formulation and execution is based on administrative, economic and functional (but not sub-functional) classification applying GFS/COFOG standards.	B

(i) The MoF has developed a new classification of the budget to bring it in line with GFS 2001 standards. The new budget classification system is fully applied to the Republican Budget since 2007. The economic classification consists of 8 digits, the administrative classification -after minor revision in 2008 - consists of 5 digits and the functional classification of 5 digits (3 for main function and two for sub-function).

[18] IMF (2008): ROSC – Fiscal Transparency Module.

The draft budget and the budget execution report are fully presented by applying economic and administrative classification. The explanatory note to the draft budget also describes the budget along the 10 main functions of the functional classification. The main functions are part of a narrative, but are not presented in a user-friendly table format. The budget execution report is also presented by the 10 main functions. For both budget preparation and execution the focus remains on economic and administrative classification.

The new classification system allows easier production of reports on certain expenditure categories, but the potential of the new classification system both for a better presentation of the budget and reporting purposes is not being fully used. The Treasury has produced some reports e.g. on education and health spending in response to specific requests, particularly by the Prime Minister's Office and the Presidential Administration.

The new budget classification – with some specification for administrative classification - is also applied to the Local Self Governments and autonomous government agencies such as the Social Fund. Before 2009, externally funded PIP funds did not go through the Central Treasury and, therefore, were not included in cash execution reports (cf. PI 7). Starting from 2009, all PIP figures will be part of the cash execution report, but can only be shown by administrative classification[19]. Given the fact that externally funded PIP expenditures accounted only for 6.9% of total expenditures in 2008 (c.f. Table 7), a score B for PI 5 is appropriate.

PI 6: Comprehensiveness of information included in budget documentation

Overall score (M1)		**A**
Dimension	**Brief Explanation**	
(i) Information in the budget documentation most recently issued by the central government	(i) Out of 9 elements, the budget documentation includes 7 elements. Only information on financial assets is missing and the one on previous year's budget is incomplete. The budget documentation is not presented in a user-friendly format.	A

(i) The annual budget documentation submitted to the Jogorku Kenesh comprises the draft budget and the explanatory note to the budget. While the information provided in these documents has improved in the past years, the documents are still not presented in a user-friendly manner. The documents include neither a table of content nor brief summaries of key issues such as major changes compared to the last year's budget. Almost every table is in a different format, partly using a font so small that it can hardly be read.

According to the PEFA Guidelines, the annual budget documentation should include information on 9 elements. The budget documentation for the 2009 budget contains the following information:

[19] Contradictory information was received on this issue. According to the Central Treasury, PIP execution reports can also be presented by economic classification.

Characteristic	Present
1. *Macroeconomic assumptions including at least estimates of aggregate growth, inflation and exchange rate*: The information on GDP growth, inflation and exchange rate (in the external debt section) is provided in the explanatory note.	Yes
2. *Fiscal deficit defined according to GFS or other internationally recognized standard*: The main budget contains information on fiscal deficit in the form of the table with budget resources (revenues, grants, loans, sale of property, financing external and internal) and expenditures (current, capital, public debt service) applying GFS 2001 standards.	Yes
3. *Deficit financing, describing anticipated composition*: In the table of budget resources and expenditures there is a line for deficit financing with a breakdown of internal and external borrowing. The table also contains information on grants, loans and sale of non-financial assets.	Yes
4. *Debt stock including details at least for the beginning of the current year:* Information is provided for the last three years break down by external and internal with additional information on servicing public debt. The detailed information is provided for external and internal debt.	Yes
5. *Financial assets including details at least for the beginning of the current year*: No information provided on financial assets.	No
6. *Prior year's budget outturn presented in the same format as the budget proposal*: Actual execution of 2007 and budget for 2008 is presented in the same format, but not in the same table for comparison.	Yes
7. *Current year's budget (either the revised budget or the estimated outturn) presented in the same format as the budget proposal*: Revised budget for the current year is shown in the same format as the budget proposal.	Yes
8. *Summarized budget data for both revenues and expenditures according to the main heads of the classification used, including data for the current and previous year:* Aggregated expenditure information is presented in the format of administrative and economic classification with the previous year's amended budget. There is no reference to the original budget. For revenues, aggregate information is presented according to the economic classification, but not in a user-friendly format. Main functions of expenditures are presented in the narrative of the explanatory note, with no reference to data for the previous year. Owing to the absence of a comparison with data of the previous year, this element is not met.	No
9. *Explanation of the budget implications of new policy initiatives with estimates of the budgetary impact of all major revenue policy changes and for some major changes to expenditure programs*: Information on selected major	Yes

Characteristic	Present
policy chances and their impact on the budget are being explained in the explanatory note. Additional information is provided for some major changes to expenditure programmes within the framework of the 10 functions of the government operations.	

Out of 9 elements, the budget documentation includes 7 elements. Only information on financial assets is completely absent. Information on previous year's budget is incomplete. To further increase the comprehensibility of the information presented, the budget documentation would need to be presented in a more user-friendly format. However, the latter is not taken into consideration by the PEFA methodology. Indicator score is A.

PI 7: Extent of unreported government operations

Overall score (M1)		**D**
Dimension	**Brief Explanation**	
(i) The level of extra-budgetary expenditure which is unreported	(i) The level of unreported extra-budgetary expenditure, originating from the Social Fund and quasi-fiscal operations, constitute about 16% of total expenditure	D
(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports	(ii) The PIP is not consolidated with the Republican Budget and presented in a different format. In the period of 2006 – 2008, there was no formalized reporting on PIP expenditures.	D

The State Budget includes the Republican Budget and the LSG Budget, but without consolidating them. In past years, most of extra-budgetary funds were brought into the Republican Budget (e.g. the Material Reserve Fund). The Social Fund, which also includes part of the Health Insurance Fund, and rather insignificant regional funds[20] are still outside the Republican Budget and also the State Budget (cf. Table 8). Also outside the State Budget is the newly established Development Fund. Furthermore, the Kyrgyz Republic has large quasi-fiscal activities in the energy sector that are considered as unreported extra-budgetary operations in accordance with the PEFA methodology.

(i) The Social Fund, which accounts for about 3.6% of total central government expenditure, is by far the largest extra-budgetary fund. The budget and execution reports of the Social Fund are done separately, but in a similar way as for the Republican Budget. The draft budget of the Social Fund is approved by the Coordination Committee which consists of 14 Ministries before it is sent to the Government. After reviewing the budget, the government submits the draft budget to the Jogorku Kenesh where it is approved separately from the State Budget.

[20] For example, contributions by the Kumtor Company to the Issik-Kul Oblast or by the Toktogul Hydrostation for the compensation of flooded territory. No detailed data available on the size of the two funds. The budget of the regional funds is negligible according to the Head of Budget Department.

The Social Fund issues monthly execution reports and sends them to the Presidential Administration, Prime Minister's Office and to MoF. End year reports are also issued and distributed to the relevant authorities. The execution report is audited on a two-yearly basis by the Chamber of Accounts. However, the fact that the Social Fund submits account and is audited (but only in alternate years) is not sufficient, according the PEFA, criteria as the information needs to be presented in the core fiscal reports, which it is clearly not.

The quasi-fiscal operations are carried out by the state-owned electricity firms. In the energy sector, the government sets tariffs of electricity below cost-recovery levels without compensating the firms. The quasi-fiscal deficit amounted to KGS 6,877 million in 2008. This is about 4.5 of GDP or 12.4 percent of total expenditures. Despite the fact that the quasi-fiscal deficit has been reduced from 2004 to 2008 in absolute terms by about KGS 1,300 million and in relative terms from 8.7 to 4.7 percent of GDP, it remains at a very high level.

The level of unreported extra-budgetary expenditure, which originates from the Social Fund and the quasi-fiscal deficit, constitute about 16% of total expenditure. Dimension score is D.

(ii) The PIP incorporates a large share of donor funded projects which is likely to amount to more the 90% of project aid provided (cf. PI D2), but not part of the PIP are donor funded projects in form of technical assistance. Even though the PIP is part of the Republican Budget, the externally funded part of the PIP was not included in the execution report. In the period of 2006 – 2008, there was no formalized reporting on externally financed PIP expenditures. Dimension score is D.

Starting from January 2009, the statement on the outturn of the Republican Budget also includes the externally funded PIP expenditures as part of the reporting on the Development Budget. The reporting about donor funded projects is, therefore, likely to improve.

The information received on the level of inclusion of PIP income and expenditure in official reporting was not very consistent. Above-mentioned assessment needs further clarification, but it seem that for dimension (ii) of this indicator a score D is justified. The overall score for the indicator is D.

PI 8: Transparency of inter-governmental fiscal relations

Overall score (M2)		**B**
Dimension	**Brief Explanation**	
(i) Transparent and rules based systems in the horizontal allocation among SN governments of transfers from central government	(i) The equalization grant formula is not consistently applied. The criteria for distributing matching grants allow substantial discretion. Categorical grants are paid on the basis of actual costs with no formulae in place.	C
(ii) Timeliness of reliable information to SN governments on their allocation from central government for the coming year	(ii) LSGs received reliable information on allocations from general republican taxes, size of categorical and equalization grants ahead of completing their budget proposal. Approval of the	B

	LSG budget has been well within the fiscal year because of late approval of the Republican Budget.	
(iii) Extent to which consolidated fiscal data is collected and reported for general government according to sectoral categories.	(iii) The budget execution report of MoF, which includes LSG figures, is published by 15 May and thereby well within 10 months of the end of the fiscal year.	A

The intergovernmental finance (IGF) system of the Kyrgyz Republic has undergone many substantial changes in the past years. Before 2007 the government consisted of four levels: Central, Oblast, Rayon and Local Self Government (LSG) with Oblast and Rayons being deconcentrated units of the Central Government, but part of the local budget. Transfers from the Central Government to the LSG were done via Oblast and Rayon. The oblast and rayon budgets were eliminated in 2006, leaving only two levels of budget in 2007: Central Government and Local Self Government (LSG). In 2008, the rayon level budget was re-introduced, but the transfers from the Central Government to the LSG continued to be done directly without passing through the Rayon Budget.

The legal basis for the IGF system is provided by the "Law of the Kyrgyz Republic On Main Principles of Budget Law" and the "Law of the Kyrgyz Republic on Financial and Economic Basis of Local Self-Government (FEBLSG)"with the latter being implemented from 2007. The laws foresee the following three major form of transfers[21]:

- categorical grant: earmarked transfers provided from the Republican budget on an irretrievable basis to finance specific expenditures (mainly for salaries of teachers and health staff) of the local budget that are guaranteed by the Central government;
- equalization grant: unconditional transfers provided by the Republican budget to finance the local budget expenditures according to ensure minimal social standards in order to support social and economic stability;
- matching (stimulating) grant: transfers provided by the Republican budget to LSGs in order to stimulate efficient spending of the LSG funds, state priority programs and projects, as well as to increase revenues of the LSG budgets and to mobilize local sources of income.

The laws also stipulate the revenue sharing arrangements between the different levels of government. In 2008, the local budgets (Rayon and LSG) were funded 51% out of own revenues and 49% out of transfers from the Central Government.

The structural and legal changes of the IGF system did not address the key underlying causes for weak service delivery in LSGs. The IGF system continues to suffer both from low capacities to manage LSGs and from delegation of functions from the Central Government to LSG without adequate appropriation of funds.

[21] A forth transfer provides funding for free breakfast to elementary school.

(i) Transparent and rules based systems of unconditional and conditional transfers from Central Government.

Based on legal documents and actual implementation of the laws, for the calculation and distribution of the three grants, the system is as follows:

- *Categorical grant:* Article 7 (1.) of the law on FEBLSG stipulates that "The Government of the Kyrgyz Republic shall establish methods and formulae for estimation of categorical grants". In fact, the categorical grants are still calculated on the basis of actual costs. A first step towards a formula based system was initiated in the education sector in 2008 where the government has undertaken a pilot project on the provision of categorical grants for teachers on financing per pupil instead of financing actual costs.

- *Equalization grant:* With the implementation of the Law on FEBLSG, a formula based system for the equalisation grant was introduced[22]. The formula calculates the equalization grant on the basis of the revenue potential and structural parameters that influence the level of expenditures of a LSG. According the Ministry of Finance, the formula does not lead to "satisfactory results" and a correction mechanism, which is based on a Decree by the President, is applied by the MoF when calculating the grant[23]. The decree lists four types of correction coefficients: i) coefficient for population living in mountainous and remote areas; ii) coefficient for number of children below the age of 17; iii) coefficient for expenditure liabilities for utilities in urban areas; and iv) coefficient for economies of scale for expenditures related to the management of LSGs. According to MoF, the main problem of the formula is that densely populated areas are favoured with insufficient regard paid to sparsely populated areas. It therefore urgently needs revision to meet the needs of remote areas and to reflect changes to the Tax Code in the calculation of the revenue potential. Furthermore, LSG received 0.423 billion KGS on the basis of the corrected formula and an additional 2.3 billion KGS during the year on a demand and needs basis where no formula was applied[24]. Latter was allocated on the basis of Article 15 of the Law on FEBLSG[25] in order to implement the President's Decree and the Resolution of the Government on "the increase of wages for social and municipal employees".

- *Matching (stimulating) grants:* Article 7 (3.) of the law on FEBLSG stipulates that "matching (stimulating) grants are provided to local self-government bodies on a competitive basis. Local self –government bodies may submit applications for matching

[22] Resolution by the Government of the KR on the methodology to calculate the equalization grant from 6th April 2007.

[23] Unfortunately, I was not allowed to review the calculations as it is not meant for public disclosure. However, the calculations are explained to LSGs on request.

[24] The large amounts for additional grants can partly be explained by the fast rising prices for utilities in 2008.

[25] Article 15 states that in case of adoption of normative acts by the Jogorky Kenesh and/or the GoKR, which lead to higher expenditures at LSG level, the central government has to compensate the LSGs with additional transfers..

(stimulating) grants in accordance with the conditions approved by the Government of the Kyrgyz Republic." A special committee decides which projects are supported and with what amount[26]. The committee makes its decision on general guidelines with priorities given to remote areas. Despite the guidelines, the committee has lot of discretion in its decision making.

Overall, some efforts are being made by the MoF to move towards a transparent and rules based system in the allocation of grants. The categorical grant, which amounted to more then 50% of the total grant in 2008, is, to a large extent, predictable for the LSG, even though there are no clear rules on some key allocation e.g. the basis on which the number of teachers is determined. Both the equalization and the matching grant are not fully transparent. The score for dimension (i) is C.

(ii) Timeliness of reliable information to SN governments on their allocation from central government for the coming year.

Article 13 of the law on FEBLSG stipulates the "Order of formation and implementation of the local budget". According to Article 13, "before May 30, territorial units of the KR Ministry of Finance shall prepare the instructions to draw up the budget, the calendar plan, target parameters of revenues and expenses, assumed norms of deductions from national taxes and the assumed amounts of categorical and equalization grants allocated to local budgets to the notice of financial bodies of aiyl okmotu." Adjusted revenue and expenditure targets, national tax sharing rates and amounts of categorical and equalization grants to local budgets are provided to LSG after submission of the draft republican budget to the Jogorku Kenesh at the beginning of September. It seems that the legal procedures which allow the provision of reliable information to LSG are generally complied with. The continuing reliability of the information depends on changes made by the Jogorku Kenesh and the President during the discussion of the Republican Budget. The LSG budgets are only approved after the President signs the law on the Republican Budget. In 2006 and 2007, this approval was well within the fiscal year (cf. 11). Nevertheless, it seems that LSGs received reliable information on allocations from general republican taxes, size of categorical and equalization grants ahead of completing their budget proposal, but approval of the LSG budget has been well within the fiscal year because of late approval of the Republican Budget by the Jogorku Kenesh and the President (score B).

(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories.

Since the introduction of the new budget classification the LSG budget and expenditure reports follow the classification of the Republican Budget. All LSGs provide reports on the budget outturn to MoF on a monthly basis. The final report on LSG budget outturn is submitted to MoF no later than two months after the end of the fiscal year. The budget execution report of

[26] The grant covers 80-90% of the investment for poor LSG, 40-80 % for middle income LSG and less than 40% for rich LSG.

MoF, which is published by 15 May and thereby well within 10 months of the end of the fiscal year, includes the LSG figures. Dimension score is A.

Applying the scoring methodology 2, the overall score for this indicator is B.

PI 9: Oversight of aggregate fiscal risk from other public sector entities

Overall score (M1)		**C+**
Dimension	**Brief Explanation**	
(i) Extent of central government monitoring of AGAs and PEs	(i) AGAs and PEs submit financial statements on a quarterly basis and produce annual reports for each fiscal year. However, the information is not consolidated.	C
(ii) Extent of central government monitoring of SN governments' fiscal position	(ii) LSGs cannot generate fiscal liabilities for central government. The consolidated financial position of LSGs is part of the annual budget execution report.	A

On a macro level, the government has, according to IMF, succeeded in further improving the fiscal consolidation in the past years. The overall fiscal discipline remained remarkably high. But fiscal risk can occur not only from the Republican Budget, but also from AGAs, PEs and LSGs. The way the government monitors and manages these risks determines the ability to manage the overall fiscal risks.

(i) Extent of central government monitoring of AGAs and PEs

The State Property Committee is entrusted to oversee, among others, the management of state equity holding, which include the largest state-owned enterprises. AGAs and PEs submit financial statements on a quarterly basis and produce annual reports for each fiscal year. The information, which is sent to the State Property Committee, the National Statistic Committee and the Tax Committee, is not consolidated by the central government, and there is, in practise, no clear monitoring framework of state-owned enterprises.[27]

The largest fiscal risk emanates from the energy sector. The quasi fiscal deficit of the energy sector, monitored by MoF, remains significant (cf. PI 7). In terms of long-term risks, there is an agreement between the Russian and the Kyrgyz governments for an investment in the Kambarata-I hydro station totalling 1.7 billion USD by the Russian partner of the joint stock company. A recent IMF report concluded that "if the [Kyrgyz] government were to assume any responsibility for the repayment of these loans, public debt indicators would deteriorate drastically[28]. Also, the capital basis of the energy sector is used to provide substantial subsidies to consumer tariffs. Consequently, the infrastructure in the energy sector has severely deteriorated. An additional risk in the long run, originates from the pension system. The lowering of retirement age in 2007 has created additional liabilities, which, so far, have been met through transfers from the Republican budget and improved contribution collection. However, it is unclear how such expenditures would be financed in later years in a sustainable manner[29]. The Social Fund does not have the capacity to produce mid-term forecasts for pension payments. The score for dimension (i) is C.

[27] IMF (2008): Fiscal ROSC

[28] IMF (2009): Kyrgyz Republic Joint World Bank / IMF Debt Sustainability Analysis.

[29] IMF (2008): Fiscal ROSC

(ii) Extent of central government monitoring of SN governments' fiscal position.

The law on FEBLSG Article 8 to 11 stipulates the regulations for short-, mid- and long-term borrowing by LSGs. According to Article 8 (5) "The state shall not be liable for borrowings of local self –government bodies and local self-government bodies shall not be liable for obligations of the state." Up to now, only Bishkek City has taken advantage of the new power to borrow. As mentioned under PI 8 (iii), the LSGs submit financial reports to MoF before March 1. The overall financial position of LSGs is consolidated in the annual budget execution report of the government. The republican budget execution report and local budget execution report are consolidated into the state budget report by the Treasury. This is done for 6, 9, and 12 months report of the fiscal year. The score for dimension (ii) is A.

The overall score for PI 9 is C+.

PI 10: Public access to key fiscal information

Overall score (M1)		**C**
Dimension	**Brief Explanation**	
(i) Listed elements of public access to information that is fulfilled	(i) Out of 6 listed types of information the government made only in-year budget execution reports publicly available.	C

The government provides the public with limited information on the central government's budget and financial activities. According to the Open Budget Index 2008[30], the Kyrgyz Republic only scored 8 out of possible 100 percent and ranks 73rd of 85 assessed countries and is about at the level of Yemen, Chad or Vietnam. The low score is also confirmed when applying the PEFA criteria:

Characteristic	**Present**
(i) *Annual budget documentation:* The draft budget is not published before approval by the Jogorku Kenesh.	No
(ii) *In-year budget execution reports:* General budget information and fiscal control data is published on the websites of MoF (www.minfin.kg) and the Central Treasury (www.kazna.gov.kg) on a quarterly basis.	Yes
(iii) *Year-end financial statements:* The 2008 budget execution report, which is not a financial statement as the term is defined by international accounting standards, is not published on the website or anywhere else where it is accessible to a wider public.	No
(iv) *External audit reports:* not published	No
(v) *Contract awards:* Article 30, item 2 of the Public Procurement	No[31]

[30] www.openbudgetindex.org

[31] „No" was put as default because no information on publication contract awards was provided.

Characteristic	Present
Law stipulates that the procuring entity must notify other bidders by means of a public announcement on award of contract with specification on the winning bid price and location of the winning bidder. Contract awards are not published on the SPA website	
(vi) *Resources available to primary service units:* not published	No

Public access to key fiscal information is basically non-existent, with only in-year budget execution reports made publicly available. The score of PI-10 is C.

3.3. Policy-based budgeting

PI 11: Orderliness and participation in the annual budget process

Overall score (M2)		B
Dimension	**Brief Explanation**	
(i) Existence of and adherence to a fixed budget calendar	(i) A clear annual budget calendar exists, but for MDAs the four weeks period for preparing the draft budget is often too short and therefore not always adhered to.	B
(ii) Guidance on the preparation of budget submissions	(ii) A comprehensive and clear budget circular is issued to MDAs with already approved ceilings.	A
(iii) Timely budget approval by the legislature	(iii) In 2007 and 2008, the annual budget law was signed by the President with more than two months delay.	D

(i) Detailed budget calendar

The government issues each year a budget calendar on the basis of the Law on the Main Principles of the Budget. In accordance to the budget calendar, the main steps for the formulation of the Republican Budget are as follows[32]:

1. By April 9, MDA to present to MoF financial and economic indicators based on sector strategies for coming three years.

2. By April 9, line ministries to present MTBF to MoF-

3. By April 30, MoF to prepare on the basis of MTBF budget ceilings for line ministries for approval by the Coordination Committee.

4. By May 31, MoF to provide instruction material including approved ceilings to MDA.

[32] Budget calendar for 2009 budget

5. By July 1, line ministries to present draft budgets to MoF

6. By August 15, MoF to present draft Republican Budget to the government.

7. By September 1, government to submit draft Republican Budget to the Jogorku Kenesh where it is discussed in three readings (cf. PI 27).

The budget calendar also includes instructions to the Social Fund, the Fund of the Mandatory Health Insurance, to the regional branches of MoF and to the LSGs. The budget calendar, which provides clear deadlines for the budget organisations, is generally well adhered to with the exception of MDA, whose submission of the draft budget to MoF is sometimes delayed. The instructions provide the MDA only a month's time to prepare the draft budget, thereby falling two weeks short of the PEFA requirement. According to MoF, the adherence to the budget calendar has not changed much since the last PEFA assessment in 2005.

Decisions made with regard to the use of the Centerra Fund and the domestically funded capital budget are not well harmonised with the budget calendar of the Republican Budget. These decisions, which have an impact on the Republican Budget, are only taken towards the end of the year, usually after the budget is approved by the Jogorku Kenesh.

The main problem of the Kyrgyz budget process does not lie with the preparation of the draft budget, but with the relevance and observance of the draft budget later in the process. There are two major issues that undermine the credibility of the draft budget: Firstly, the government in the form of Presidential Decrees introduces new initiatives well after the draft budget has already been submitted to the Jogorku Kenesh. The funding of these initiatives requires substantial changes to the draft budget. Secondly, the Law on the Main Principles of the Budget allows in-year revisions of the budget that are often approved by the Parliament post factum. Because the budget organisations know that it is possible to obtain additional funding or to undertake re-allocation within the budget, the draft budget and even the initially approved budget is not that binding. A better balance has to be found between allowing some flexibility to react on unforeseen events in a rather unstable environment and the credibility of the draft budget to guarantee funding of planned activities.

Because PEFA focuses on the adherence to the budget calendar, the score for this dimension is B, but as noted the MDAs find the one month timetable difficult to achieve.

(ii) Guidance on the preparation of budget submissions

The MoF issues the budget circular for drafting the Republican Budget before June 1. The circular contains ceilings that are approved by the Coordination Committee[33]. The ceilings are firm and well-respected by the Cabinet of Ministers later in the process. According to the

[33] The Coordination Committee consists of MoF, several Ministers of line ministries and Members of Parliament.

Ministry of Health and the Ministry of Labour and Social Protection[34] the circular does provide the necessary information to the budget organisations to prepare the draft budget. Additionally the two ministries mentioned that, thanks to close collaboration with MoF throughout the drafting of the budget and during the official negotiation period after submission of the draft budget, unresolved issues can be discussed promptly. Dimension (ii) can be given a score A.

(iii) Timely budget approval by the Jogorku Kenesh

In the Kyrgyz Republic the annual budget has the status of law. The law comes into force when it is approved by the President. In 2006 and 2007 the President signed the law only at the beginning of the second quarter within the fiscal year[35]. The delays were partly caused by prolonged discussions in the Jogorku Kenesh. In case of delayed approval of the budget law, there is a legal provision that 1/12 of the non-approved budget can be spent each month.

After parliamentary elections at the end of 2007, which were won by the political party of the President, the debate over the budget in the Jogorku Kenesh was much shorter so that the 2009 budget was signed by the President in January 2009. Despite this recent improvement the score for dimension (iii) is D.

The overall score of the indicator is B.

PI 12: Multi-year perspective in fiscal planning, expenditure policy and budgeting

Overall score (M2)		**C+**
Dimension	**Brief Explanation**	
(i) Multi-year fiscal forecasts and functional allocations	(i) The links between the MTBFs of sub-sequent years are weak and the MTBF are not presented in the form of the economic classification.	C
(ii) Scope and frequency of debt sustainability analysis	(ii) DSA are undertaken annually in collaboration with IMF and WB.	A
(iii) Existence of costed sector strategies	(iii) Costed sector strategies exist for six ministries, but the estimates are largely inconsistent with fiscal forecasts.	C
(iv) Linkages between investment budgets and forward expenditure estimates	(iv) Budgeting for investment and recurrent expenditures largely remain separate processes.	D

At times of fast growing budgets, as it was the case in the Kyrgyz Republic during the review period, a strong mid-term fiscal planning is essential to strategically allocate the additional funds. The substantial deviations between the initially budgeted and actual amount (cf. PI-2) suggest that a large part of the additional funds was either not spent according to the budget or that new policy initiatives that were not included in the budget received funding. That ad hoc

[34] As part of the validation of the information by MoF, we had meetings with these two line Ministries.

[35] The budgets for 2006 to 2009 were approved on April 4, 2006, April 28, 2007, March 17, 2008 and January 21, 2009.

funding of new initiatives is problematic can be illustrated by the case where new IT equipment was provided to schools in 2008, but at the same time there was a lack of trained teachers who were able to use the new equipment.

(i) Multi-year forecasts and functional allocations

The three-year fiscal forecasts are drafted in the framework of the MTBF. The MTBF includes revenue forecasts and forecasts for expenditures for the ten main functions of the budget. However, there is no data for economic classification. The multi-year forecasting has continued to be improved in the last years. More MDAs are now producing a MTBF. The MTBF process has been given more weight by serving as a basis for discussions by the Coordination Committee to determine budget ceilings of the Republican Budget.

The link between the current MTBF and the previous MTBF is, according to MoF and selected line ministries, still weak. Also, while in theory they should be the same, in practice there is no close link between year 1 of the MTBF and the annual budget.

It is expected that the fiscal forecast will be of even higher importance in future. The President, in his public speech addressed to Jogorku Kenesh and the Government of the Kyrgyz Republic on the 10 of January 2008, requested a three year budget. The appropriate changes to the organic budget law were made in October 2008 and starting from 2009 the annual budget law is produced for three years on a rolling basis. It is too early to assess the impact of these changes, but it seems that the budgets for the second and third year are merely projections on the basis of expected inflation.

Due to the weak links between the MTBFs of sub-sequent years and also the failure to the MTBF to include information in the form of the economic classification, dimension (i) is scored C.

(ii) Scope and frequency of debt sustainability analysis

There has been continued progress in undertaking debt sustainability analysis (DSA) in the last years. The DSA for public debt (external and internal debt) is produced in collaboration with the IMF and WB at least once a year. DRS reports are also produced annually. Additionally the public debt department issues an analysis of the structure of the current public debt on a monthly basis. The analysis is put on the website and forwarded to Presidential Administration, Prime Minister's Office, the Parliament, and the National Bank. Dimension (ii) can, therefore, be scored an A.

(iii) Existence of costed sector strategies

The number of sector strategies has increased from 5 strategies in 2006 to 8 in 2008. With the exception of the strategies of Ministries of Internal Affairs and Defence, the sector strategies include expenditure estimates[36]. According to MOF, the forecasted costs of the sector strategies, which contain both recurrent expenditures and investment, add up to about 60% of total primary expenditure. However, the expenditure estimates reflect the funding needs for desired activities (wish list) rather than a realistic forecast in line with budgetary constraints and are, therefore, largely inconsistent with fiscal forecasts.[37]

The sector strategies are considered by the Coordination Committee when policy priorities are being selected which guarantees an indirect link to the budget ceilings and thereby to the annual budget. The score for dimension (iii) is C.

(iv) Linkages between investment budgets and forward expenditure estimates

Budgeting for investment and recurrent expenditures largely remain separate processes[38]. MoF has undertaken some efforts to better integrate the development budget (incl. the PIP) into and the recurrent budget both during budget formulation and in budget reporting. But the integration has focused rather on the consolidation of the draft budgets and budget outcomes in the same document than on a real integration where recurrent cost implications are included in forward budget estimates. The score for dimension (iv) remains D.

3.4. Predictability and control in budget execution

PI 13: Transparency of taxpayer obligations and liabilities

Overall score (M2)		**C**
Dimension	**Brief Explanation**	
(i) Clarity and comprehensiveness of tax liabilities	(i) Frequently changing taxes and uncertain rules and application by the tax authorities.	C
(ii) Taxpayer access to information on tax liabilities and administrative procedures	(ii) Access to information was limited and has only improved recently (Scoring based on 2006 Code).	C
(iii) Existence and functioning of a tax appeals mechanism	(iii) A system of appeals was provided for in the Tax Code but its operation was cumbersome and time-consuming.	C

Dimension (i) Comprehensiveness and clarity of tax liabilities

The position under the Tax Code introduced in 2006 (based on a version of 1996 updated in 2004) was that while all taxes were identified by name and, therefore, had a legislative base, the liabilities of taxpayers and the tax service were not clearly defined; there were ambiguities[39]; tax inspections were random and not risk based and not set within the framework of a

[36] Sector strategies exist for health, labour and social protection, education, agriculture, transportation, internal affairs, defence, ministry of emergency situations.

[37] MoF (2009): PEFA self-assessment report

[38] MoF (2009): PEFA self-assessment report

[39] Min Fin PEFA Self Assessment 2009

strategy[40]. In addition, there were many laws, often generated at the initiative of different bodies, which were contradictory[41] and some of which did not assist in helping business, or indeed had disincentives to participate. These uncertainties and the ability to inspect at random and repeatedly[42] created an atmosphere in which businesses were unsure about their official tax liability. There was concern about the threat of corrupt practices because of the ambiguities[43]. It is, however, worth noting that the WB Doing Business ranking improved from 99th to 68th place. Surveys do not yet show the perception of businesses has improved[44].

Scoring has been based on the 2006 Tax Code. However, it is relevant to note that a new Custom and Tax Code was introduced in 2009. It accurately spells out the majority of taxation conditions, timeframe and regularity of main tax procedures, documentation requirements, rules of tax control, definitions used in the tax legislation, and relations between taxpayers and government. The Tax Code, which is over three times the length of the previous Code, has reduced the number of taxes from 16 to 7, with one, that relating to land (immovable property) currently being reviewed, following its rejection by the President. There are, however, still a number of taxes that seem likely to be problematic, for example the sales tax at all levels and non-standard exemptions on VAT[45]. Dimension score is C.

Dimension (ii) Taxpayers access to information on tax liabilities and administrative procedures

The uncertain provisions of the 2006 Code and the lack of adequate definitions limited the usefulness of information that could be made available. There was no duty to assist taxpayers and consequently little effort was made to do so[46]. However, there have been recent improvements. The State Customs Committee (SCC) runs a website (www.customs.gov.kg) that contains a feedback link for communication between site administrator and user, with the help of this link any individual can get an answer to inquiries related to customs. Information on activities of customs services and customs-related legislation are regularly updated.

Each taxpayer now has their own regional tax office, each of which now has a team to assist with tax payer queries. In addition to that there are quarterly meetings of the Consultative Council under the SCC that review customs-related matters with participation of Association of Customs Brokers of the Kyrgyz Republic, and economic entities engaged in foreign trade.

The old Tax Code made no reference to the duty to assist and inform taxpayers, while the new code places a duty on the tax authority to provide assistance. They have also developed the

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40 Tax Authority interview

41 Tax Authority interview

42 Tax Authority interview

43 Min Fin PEFA Self Assessment 2009

44 Joint Country Support Strategy Progress Report 2007-8 April 2009

45 USAID Tax project paper by John Thissen

46 Tax authority interview

concept of the one stop window/shop where tax payers can register their business in accordance with company law as well as register it for tax purposes.

In launching the new Code, meetings were held in the major cities and the administrative zones of Bishkek. Copies of the Code were disseminated as were soft copies on CD rom. There is also a website that users can access.[47]

These represent significant improvements over the old system with its conflicting and overlapping taxes and an attitude that was not helpful. Dimension score is C based on the 2006 Code.

Dimension (iii) Tax appeal mechanism

The 2006 Code made provision (article 57) for appeal by a tax-payer to be made within 30 days of the decision against which he is appealing. The Tax Authority must reply with its decision within 30 days giving the reasons for its decision. Prior to 2009 a taxpayer had to appeal to the same office as assessed the case in the first instance. It took several attempts to move the appeal to a more independent person and other bodies were occasionally included, thus confusing the process. There was no right of appeal outside the Tax Authority to the courts.

Under the 2009 Code an appeal is immediately submitted to an appeals unit within the central apparatus of the tax authority. There is a State Committee for Tax and Customs (SCTC) unit that works with appeals by taxpayers and is responsible for improving operation of the tax appeal system. According to the Deputy Head of the Tax Authority around 30-40% of appeal cases are decided in favour of the taxpayer.

As before, a taxpayer has 30 days within which to appeal against an assessment and the tax authority has 30 days in which to respond; failure to respond within the period results in the appeal being allowed. There is also a right to appeal to the courts if the taxpayer is dissatisfied with the result. Dimension score is C.

PI 14: Effectiveness of measures for taxpayer registration and tax assessment

Overall score (M2)		**C+**
Dimension	**Brief Explanation**	
(i) Controls in the taxpayer registration system PI 14	(i) The taxpayer registration system operated by the regional tax offices is not linked and there are no linkages to other registration/licensing systems	C
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	(ii) The 2006 Code provided for a range of penalties but these were not administered consistently	B
(iii) Planning and monitoring of tax audit programmes	(iii) Tax audits were not based on a targeted risk-based approach; organisations could be repeatedly visited.	C

[47] Tax Authority

Dimension (i) Control measures as part of the taxpayer registration system

A database system (KITIS) ,which is only operational in the Large Taxpayer Office and other pilot offices in the Bishkek area is used to register details of taxpayers, but currently it is not integrated with other KITIS offices; each tax office operating a stand alone version of the system[48]. The majority of tax offices use NALOG, an outdated system. There are no automatic links to other databases[49]. There is provision under the Tax Code 2006 (article 17) for taxpayers to be issued with a unique tax identification number (TIN), but concerns have been expressed about how well this works[50]. Individuals use their social security number as a TIN. The Code requires that the tax authorities quote the TIN in all correspondence.

Since 2008 a single one stop system for registering businesses with the ministry of justice has operated. At the same time as registering for business purposes the entity is registered for tax and is given an individual tax payer number. Representatives of the business community considered that the one stop window had been a partial success. There is no link between the Social Fund and the tax authorities such that any new social security number is automatically notified to them.

Each tax office maintains details of tax payers, as well as of tax due and tax paid. There are plans to link the currently independently operated KITIS databases at the regional offices to the central tax authority starting with a pilot involving six offices. Dimension score, based on the 2006 Code, is C.

Dimension (ii) penalties for non-compliance with registration and tax declarations

The 2006 Code made provision (article 64-66) for penalties for a variety of offences. Late filing attracted a penalty of 5% of the unpaid tax amount for each delayed month with a ceiling of 20% of the total unpaid tax. Understatement attracts a penalty of up to100% of the understated amount of tax if deliberate and up to 50% in the case of negligence. Failure to register attracted a penalty of 200% of the tax amount payable for the period. Late payment was charged interest at a rate equal to the discount rate of the National Bank of the KR. This rate did not adequately penalise taxpayers. There is doubt about how consistently the penalties were administered, particularly given some of the lack of clarity in some areas of the Code, and concern that errors were used as an opportunity for rent-seeking.

The 2009 Code has replaced these penalties with a new regime (articles 137-140) covering failure to register, non-filing, understatement, late payment and non-disclosure. Understatement now attracts a clear set of penalties based upon the size of the understatement as a percentage of the gross annual income. The rates for penalties and the different rates were abolished in 2009 and now a single rate is charged for delays in paying outstanding balances of amounts due or

[48] USAID tax project interview

[49] Interview Tax Authority and USAID tax project

[50] USAID tax project interview

amounts assessed as not having been paid. The current rate equates to an annual rate of 32.8%. The rate is set a level above the bank borrowing rate so that there is every incentive to pay. For non-disclosure penalties are higher if the non-disclosure is major and deliberate and what the amount not disclosed represents as a percentage of the total due. If the amount not declared is less than 2.5% of the amount declared, then 50% of the amount is taken. If the amount exceeds 5% then the whole amount is taken. Dimension score, based on the 2006 Code, is B.

Dimension (iii) Planning and monitoring tax audits and fraud investigations

No risk based approach to audits was adopted during the period of this PEFA assessment. Organisations were visited randomly and all their taxes were checked. Organisations could be checked more than once, indeed repeatedly, and there was no planning of the work[51].

The situation has changed following the introduction of the new Tax Code implemented 01/09 which identifies types of tax audits, how they are to be planned and the relevant authority in the form of a written order to undertake each audit (articles 100-103). The risk of non-payment by organisations are assessed based on a number of criteria which include: data incompatibility; payment levels inconsistent with similar businesses; continuing to trade whilst making continuous losses. Non-risky organisations are selected for visit on the basis a 5% sample form the total number in each tax area. All these audits are scheduled and taxpayers are made aware before the event that they are to be visited. A Taxpayer Inspectorate was set up within the SCTC for to undertake inspection analysis and planning. Dimension score based on 2006 Code is C.

PI 15: Effectiveness in collection of tax payments

Overall score (M1)		**D+**
Dimension	**Brief Explanation**	
(i) Success in collecting tax arrears (proportion of the amount outstanding at the beginning of the year actually collected during the year)	(i) Arrears collection is below 60% and arrears average 14%.	D
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administrations	(ii) Revenue is paid directly to the Treasury with details then passed to the tax bodies on a daily basis.	A
(iii) Frequency of complete reconciliations of tax assessments, collections, arrears records and Treasury receipts	(iii) Tax authority and Treasury cash collection records are reconciled monthly. Information on net aggregate arrears is provided monthly but includes overpayments.	A

Dimension (i) Arrears collection rate – percentage of the gross arrears at the beginning of each fiscal year that was collected during that fiscal year (average of the last two fiscal years)

[51] Tax Authority interview

Table 12: Analysis of the tax payments arrears collections for 2007-2008 (million KGS)[52]

	2007	2008
Arrears as of the beginning of the year	4,288.8	4,724.0
Amount paid in during the year	1,641.6	2,392.2
Per cent of the years repaid	38.3	50.6

Arrears collection is well below 60% for both years and arrears are above 2% of the annual collection, averaging around 14%. Dimension score is D.

Dimension (ii) Effectiveness of revenue transfers to the Treasury

Tax payments are made into commercial banks using pre-printed multi-part payment stationery. The funds are remitted to the Treasury the same day as part of the clearance process and reconciled by the local tax office to their local database using copies of the payment input forms that the banks supply to the local treasury office[53]. The databases in use in the different tax offices all follow the same system (Kytis – Kyrgyz Integrate Tax system) but there is not yet an integrated database that consolidates the results of all. The current system pays funds into the Treasury immediately and the delays, such as they are, relate to accounting for the receipts in the various tax offices and reconciling them with the amounts received by the Treasury[54]. Dimension score is A.

Dimension (iii) Reconciliation of tax assessments, collections, arrears and taxes received by the Treasury (tax reconciliations)

Transfer and reconciliation of revenue data is done on a daily basis between departments of the treasury, SCTC departments, and SCI departments in line with the Instruction on the order of accounting state budget revenues in the treasury system of the Kyrgyz Republic" Reconciliation statement on reported data is prepared every month.[55]

Copies of payment input forms are supplied daily by the banks to the nearest regional treasury office which reconciles the data with the amount forwarded by the bank to the Central Treasury. The regional treasury also forwards one copy to the local office of the Tax Authority which then inputs the information into its database of tax due, using control totals supplied by the Treasury to ensure the completeness of the detailed data. We were informed that the data is reconciled by the end of the next working day with the Treasury totals, i.e. confirmed that the total of the paying in vouchers equals the total and agree the taxes to which the payments relate, i.e. tax category[56]. The time taken to allocate all the payments to individual tax payer accounts depends upon the completeness and accuracy of the paying–in form; no comprehensive data on

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[52] Revenues Department MoF

[53] Tax authority interview

[54] Tax Authority interview

[55] PEFA Self Assessment 2009

[56] Tax Authority and MinFin Revenues department interviews

this is available. We were advised that all vouchers were cleared by the next working day[57], but this seems implausible given the manual completion of the form by payees and the absence of a comprehensive database. For most cases tax payers would pay into the bank in the same locality as the local treasury/tax offices but this may not always be the case. Monthly reconciliation appears more realistic.

As noted earlier, tax offices are not linked and most operate the NALOG system which has limited functionality such that it does not produce reports of amounts due, amounts received and arrears. Consolidation is mostly, therefore, a manual process involving collation of information submitted by the many tax offices. The central tax authority consolidates the information by the 10th of each month analysed by regional tax office and type of tax. This data is reconciled to Treasury information received by the 20th of each month. Information is also provided of the cumulative collection in the year and differences that may arise in a month, normally timing differences, are usually corrected in the following month. Aggregate arrears by taxpayers showing the net position – so it includes overpayments – is provided monthly. Individual tax payers accounts are only reviewed annually. Offices with automated systems are able to readily analyse if taxpayers are in arrears and if they have fines to pay.. Dimension score is A.

PI 16: Predictability in the availability of funds for commitment of expenditures

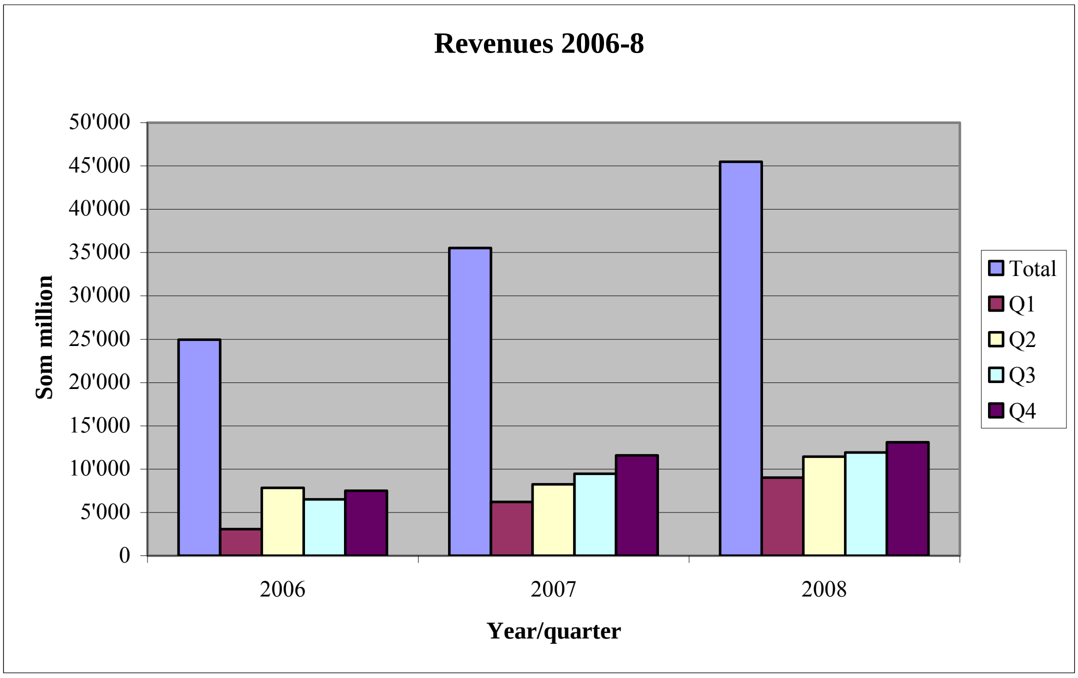
Overall score (M1)		**D**
Dimension	**Brief Explanation**	
(i) Extent to which cash flow are forecast and monitored	(i) Annual and quarterly planning is of poor quality because it is subordinate to monthly allocations with cash rationing affecting non-protected items owing to the unpredictability of cash inflows.	D
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	(ii) Realistically MDAs operate on a monthly time horizon.	D
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs	(iii) Adjustments are made by the Ministry of Finance, with a large proportion in the fourth quarter of the year, but they do not consider the process is transparent.	D

Dimension (i) Extent to which cash flow are forecast and monitored

Chart 1 below illustrates the actual quarterly receipt of revenues in each of the years and over the four quarters. Both the increase in revenues over the three years and their seasonality are clearly demonstrated.

[57] Tax Authority interview

Chart 1: Total amount and seasonality of revenues 2006 - 2008



Despite the increase in revenues in the period of the PEFA review and that these have exceeded budgeted amounts, cash planning continues to be problematic. Each month a Budget Commission, comprising civil servants, meets to decide which demands for cash that month will be met. So called "protected" items – wages and salaries, social insurance contributions, medicines, food and social benefit payments – are guaranteed to be paid, while utilities and foreign debt also receive preference. These items account for around 38-40% of total annual expenditure. Unless there is insufficient cash to fund protected items, short-term borrowing is not used as a mechanism to fund monthly expenditure requirement. Fiscal discipline is given priority over predictability of funds for spending bodies.

The Ministry of Finance prepares a plan of the expected inflow of revenues of different types. Annual expenditure cash flow plans are prepared by budgetary organisations based upon the approved annual budget and these are submitted to the Treasury which prepares a consolidated plan. This annual plan is then supplemented by quarterly plans, analysed by functional and economic classification for each budget institution; again this information is consolidated. While in theory institutions may request their total quarterly funding in one month, in practice this can be problematic. As the data in dimension (iii) indicates expenditure is brought forward but the scale of this is small (around 20%) in comparison to net changes in expenditure. However, as the next paragraph explains, the annual and quarterly planning is of little use and is, therefore, regarded as being of poor quality.

Serious planning takes place on a monthly basis when budgetary organisations submit to the Treasury their requests for funds based on the approved budget expenditure quota. Items other than protected expenditure requests may be delayed if the revenues collected are insufficient.

Discretionary items, like repairs and equipment are delayed or dropped[58]. No certain information appears to be given to ministries about likely ceilings in advance; they are only made aware when a request for expenditure items is not approved. In the absence of any form of commitment accounting within the central Treasury, this situation does suggest that liabilities are being incurred as goods may be ordered in anticipation of receipt of funds. In addition because the Treasury does not release the funds allocated to procuring entities in a timely manner, frequently funds are available to procuring entities only a few weeks before the end of the fiscal year. As a result, procuring entities conduct uneconomic procurement using methods and procedures that lack transparency and do not foster optimal competition (see also PI19).[59]

The significant rises in revenues – by nearly 80% between 2006 and 2008 – have not overcome the problems of accurate cash planning. While in part this can be attributed to the corresponding rise in expenditure budgets, the main problem is the unpredictability in timing of receipt of revenues. The question of revenue planning has been considered by the USAID tax project in a recent paper "Tax Revenue and Policy Midyear considerations"[60]. The paper identified seasonality in revenue collections as a factor and the effect of changing taxes, each of which may have its own seasonality.

The paper identifies a key problem:

"As the arm of the government responsible for providing the funding for government activities, as well as enforcing the Country's tax laws, the tax administration authorities face three central objectives:

- *Enforce the tax laws, ensuring that liability is realized in the forms of payments into the Budget.*
- *Collect taxes as liability is accrued.*
- *Provide a smooth stream of revenue to allow for seamless budget execution.*

In some countries these objectives are relatively consistent with one another. However, in countries such as Kyrgyzstan, they distinctly compete with one another. The loading of real economic activity into the second half of the year suggests that liability is not going to be accrued evenly over the course of the year, thereby providing a budgetary squeeze earlier in the year".

How to predict the revenue stream is a key issue in improving the predictability of cash planning and the issues and explanations set out in the USAID paper need to be explored by the MoF and the Tax authority.

[58] MoF sectoral expert Agriculture and Water Resources
[59] World CFAU Kyrgyz Republic 2007
[60] USAID tax project paper by John Thissen June 2009

The World Bank funded Treasury Modernization Project includes plans for introduction of the system for registration, accounting and control of budget obligations to prevent accumulation of new arrears. This function is meant to assist in the formation of an aggregate cash plan on the basis of receipts and payment plan. Potential cash flow gaps and free funds are determined on the basis of this aggregate cash plan. The system will also hold historical data on budget execution for the previous three years that should inform operational management decisions.

The purpose of this function is the automatic:

- formation of annual cash plan;
- monthly clarification of the cash plan;
- a rolling five day cash plan; and
- daily analysis of implementation of the cash plan61.

However, while the daily availability of information of funds will assist in preparation of cash flow plans and in maximising the amount of funds available, the modernisation project cannot overcome the apparent unpredictability of revenues and the unevenness in the availability of revenues to meet expenditures as they are incurred. Dimension score is D.

Dimension (ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment

Line ministries are notified of their annual allocation and prepare annual plans. The only certainty that is available with regard to expenditure is that protected items (salary, social insurance contributions, social payments and food in hospital) will be funded. For remaining expenditure the only certainty is in the month at which point the Treasury notifies the bodies of the amount available for different economic classifications of expenditure.[62] Dimension score is D.

Dimension (iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs

Budget organisations can request shifts of money within the months of a quarter, but not between quarters and may vire funds between expenditure heads, within defined limits. The rules on which changes can be made only with the permission of the MoF are set out in article 15 of the law on "The main principles of the Budget" and gives authority to the MoF to alter budget limits except in respect of protected items within general expenditures by the main expenditure groups, groups and subgroups. Discussions with MoF indicate that in their view

[61] Information on modernisation form interview with team leader GTAC Treaury modernisation project
[62] MinFin interview and Self Assessment

these rules require further elaboration and clarification, as provided for in the law[63]. All other changes require the approval of the Jogorku Kenesh.[64]

Amendments and addenda to the Law on republican budget have to pass through mandatory approval by the Ministry of Finance, except for cases related to non implementation of the revenue side of the budget and forced measures on reduction of expenditures, as well as cases of redistribution of budget allocations among departmental units of a ministry or agency within one departmental code and for the same type of expenditures, i.e. for one expenditure item. It is also important to note that with introduction of a new budget classification, developed in line with GFS 2001 principles, starting from 2007, ministries and agencies were given more powers to manage and distribute budget funds at the lowest level of budget coding (element).

Discussions indicate that the Ministry of Finance still consider that too many changes are made both to budgets and to agreed cash allocations. An analysis of changes in 2007 shows that of the 4.7m som increases made to the budget, 3.4 m som (72%) were made in the fourth quarter. In 2008 the corresponding percentage was (70%)[65].

The biggest reason numerically (as compared to value) for changes was to make inter quarter changes, i.e. to change the timing of the expenditure. In 2007 these changes accounted for 85% of the numbers of changes and in 2008 the corresponding figures was 80%. In the main the changes are to bring expenditure forward from quarters three and four to the first two quarters.

A final feature of the adjustments is the failure to obtain the approval of the Jogorku Kenash to changes in the budget on a timely basis. While no specific data were available it was commonly accepted that many of the changes were made at the end of the year and after the changes had taken place. In part this appears to be because the Jogorku Kenesh is unable to find the necessary legislative time to consider the proposals. Dimension score is D.

An issue that underlies these changes is the quality of the original budgets (cf. PI-1, PI-2).

PI 17: Recording and management of cash balances, debt and guarantees

Overall score (M2)		**B**
Dimension	**Brief Explanation**	
(i) Quality of debt data recording and reporting	(i). A computerised debt recording system is in use	A
(ii) Extent of consolidation of the government's cash balances	(ii) Cash balances are not consolidated though the two major accounts used for daily purposes are.	C

[63] MoF Budget Policy
[64] PEFA Self Assessment 2009
[65] Analysis of data submited in PEFA Self Assessment 2009

(iii) Systems for contracting loans and issuance of guarantees	(iii) Only the Ministry of Finance with the approval of the Jogorku Kenesh may enter into loans or issue guarantees. However there are weaknesses in policy and data analysis and in the co-ordination between institutions involved in decisions.	B

Dimension (i) Quality of debt data recording and reporting

The statistics relating to debt are set out in Table 4. The Directorate of Public Debt and Assets (DPDA) is responsible for recording and monitoring public debt (both external and domestic) of the Kyrgyz Republic. The Ministry of Finance maintains an accounting book of public debt and public Government guarantees.[66] Detailed information on the volume and structure of external debt is maintained in the database (Debt Tracking System v3.1), and debt balances are regularly reconciled with the data from creditors. Details are also maintained of domestic debt, which is reconciled weekly. Reports on public debt are sent every month to the Parliament, President's Office, Government Office (Cabinet), National Statistics Committee, and State Committee on National Security of the Kyrgyz Republic. Quarterly reports by name of lender are produced showing flows, i.e. both disbursements and debt service. In addition, every year Ministry of Finance sends external debt reports to the World Bank (Debt Reporting System). The Ministry of Finance maintains an official website that contains detailed information on public debt of the Kyrgyz Republic. Public debt information on the website is updated on a monthly basis[67]. Dimension score is A.

Dimension (ii) Extent of consolidation of the government's cash balances

There are a total of 53 accounts held by the NBKR in respect of the Central Treasury and the Ministry of Finance (effectively representing the state budget). Foreign currency accounts total 19. In accordance with the law of Kyrgyz Republic "On main regulations on the treasury of the Kyrgyz Republic" funds on these accounts are an inseparable part of the Consolidated Budget of Kyrgyz Republic.

Accounts can be grouped into two categories:

- accounts of the consolidated fund – these are accounts for accumulating budget funds that are used to cover recurrent expenditures of the state budget, as well as accounts that accumulate special funds of state budget funded organizations. On a daily basis NBKR provides account statements on movements of funds and cash balances, and for some the statements are issued for each transaction. On the basis of such statements they are accounted daily in primary CT registers with daily balances and budget reports.

- off-balance accounts that accumulate grant and credit funds - funds on these accounts are of targeted nature and are meant to finance certain economic sectors. These funds are used in agreement with the international donors (accounts for grants provided by

[66] Regulations on the Registration book of public debt and public guarantees.
[67] PEFA Self Assessment. Debt Tracking system observed. Reports seen

China, Japan, Switzerland, as well as German credit, IDA credit). Outgoing and remaining funds are accounted on these accounts daily (using account statements). However, they are reflected in reports only when these accounts are used through CT's Current Account in the NBKR.

Cash balances on treasury accounts and off-balance accounts are reconciled in detail on a daily and monthly basis, but not all accounts are consolidated. Off-balance accounts are used as holding accounts for monies paid in; funds are transferred to the consolidated account so that any expenditure incurred is captured by the Treasury system and forms part of the accounts.

The Social Fund of the Kyrgyz Republic is operated independently of the state budget and its activities are not included within the state budget or reports of its execution, except for funds allocated to the Social Fund from the republican budget. The Social Fund does not use the treasury or its bank but instead has a network of commercial banks that provide services on management and financial services for the SF. Pensions are distributed to retirees through the post offices The MoF only receives financial statements from the SF for the purpose of calculating the fiscal deficit for the whole government sector.

Although the law prohibits budget institutions from opening bank accounts, a right reserved to the Treasury, as the middle of May 2009 there were 55 unauthorised bank accounts in commercial banks[68]. These appear to be accounts opened in response to requests from donors (cf. PI-D3). Dimension score is C.

Dimension (iii) Systems for contracting loans and issuance of guarantees.

The Ministry of Finance is the sole government agent authorised to manage public debt, external borrowing and issuances of public guarantees of the central government. As noted in PI-8 local self government is also able to borrow by issuing municipal securities (Law on FEBLSG, Art. 8) for short-term purposes, but only with the consent of the MoF. Medium and long-term borrowing also requires such consent, even though not specifically required (Art. 11). All borrowings of local self-government bodies shall be recorded in the registry of liabilities of local self-government bodies which shall be maintained by the Ministry of Finance (Art. 11). Decisions on issuance of government guarantees to loans provided by internal and external creditors under credit agreements are made by the Government of Kyrgyz Republic. Decisions on public external loans are also made by the Government, while credit agreements that provision financial obligations are subject to ratification by the Jogorku Kenesh, but these decisions are not accompanied by information about the impact of the proposed new debt on the overall debt position and only report the terms of the loan. Changes to the domestic debt schedule of issues, redemption and other are approved by the Jogorku Kenesh in the form of the changes to the annual budget law.

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[68] PEFA Self Assessment 2009

To ensure sustainability, the government has been borrowing on concessional terms and maintains the minimum 35% grant element requirement in relation to all new public external loans[69]. The Government has not issued any guarantees for external debt of enterprises and corporations since 2000[70]. A formal moratorium was adopted by the government in March 2009.

The SECO Debt Advisers during their mission in February 2009[71] noted that there had been few changes to the institutional and co-ordination structures for debt management as outlined in the previous Aide Memoire of September 2007. In particular, it was noted that a formal co-ordination mechanism, involving all the key departments for the design and implementation of a Government debt and resource mobilisation strategy, has not as yet been established and the current procedures of informal meetings or contacts for specific ad hoc purposes remain. The mission made the following recommendations:

- A debt sustainability analysis using the new DSF framework be conducted to analyse thoroughly the impact of the financial crisis, using updated macroeconomic projections, which include the anticipated benefits of the Russian investment proposal as well as its costs.

- A policy and a ceiling be established on the amount of mixed credits that can be authorised and contracted by the Kyrgyz Republic.

- The Public Debt Department analyses carefully debt conversion operations through an assessment of the present value of the cash flows and elaborate a debt conversion policy in order to make the process transparent and to maximise the benefits for the authorities' approbation.

- To strengthen the existing coordination between the different Government institutions by identifying the appropriate institutions that are to participate in the design and implementation of a national Debt and Resource Mobilisation Strategy and design new Terms of Reference for a coordination committee or revise the Terms of Reference of an existing committee (if appropriate) to include the appropriate responsibilities to conduct regular debt strategy analysis

In view of the above concerns but also taking into account the sustainability strategy noted above, the dimension score is B.

PI 18: Effectiveness of payroll controls

69 PEFA Self Assessment 2009

70 Balance of Payments Department National Bank Kyrgyz Republic.

71 Kyrgyz Republic –SECO funded Short-term External Debt Advise February 2009

Overall score (M1)		D+
Dimension	**Brief Explanation**	
(i) Degree of integration and reconciliation between personnel records and payroll data	(i) All systems are currently manual and highly decentralised with no reconciliation at either Ministry of Finance or MDA level.	D
(ii) Timeliness of changes to personnel records and the payroll	(ii) Administrative orders passing through the HR and payroll sections should ensure changes are made timeously but the procedures are decentralised so that no monitoring is possible. Data on retroactive changes are not available.	D
(iii) Internal controls of changes to personnel records and the payroll	(iii) A supervisor, the HR section and the payroll section should all be involved in changes to personnel records and payroll but the extent of decentralisation, the large number of small organisations, and the complexity of salary calculations weakens the control. There is no clear audit trail.	C
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	(iv) No specific payroll audits are undertaken and no reviews of system weaknesses. Some reports of ghost workers.	D

(i) Degree of integration and reconciliation between personnel records and payroll data

There are no centralised or ministry computerised personnel databases; all systems are based upon manual records with no direct links to payroll data. Payroll is processed through the Treasury system like other payments and most employees receive their salary in cash at their local place of work. There are nearly 5,000 such points of payment.

Budgets to cover salaries and associated insurance costs are prepared based upon submissions of the approved staffing complement of each budgetary institutions (by grade). When budgets are approved this provides a monthly expenditure limit that is guaranteed to be available since salaries are protected items. Requests for cash for salaries are made each month by budget institutions which provide an authorised demand for a total amount, i.e. it does not provide to the Treasury a list of the individual employees and the amount to be paid to each. Providing this total is within the ceiling it is paid. Problems are: salaries comprise grade, added years, qualifications additions and other bonuses that complicate the calculation of salary. The World Bank Kyrgyz Republic Country Fiduciary Assessment Update 2007 noted employees could receive up to 18 salary payments a year[72]. There are many institutions not all of whose accountants are well-trained or competent and so errors are likely[73]. The Chamber of Accounts cited instances where the number of staff on the payroll of a budget organisation exceeded the approved complement.[74]

[72] Kyrgyz Republic Country Fiduciary Assessment Update 2007 Report No. 42392-KG. also contains detailed evaluation consistent with our findings

[73] PEFA Self Assessment 2009 and interviews Minfin budget policy

[74] Interview Chamber of Accounts 8 October 2009

Because payroll is decentralised the central apparatus of ministries are able to exercise no effective control over payroll other than to ensure it is within budgetary limits.

A review of the 2008 and 2009 budgets show some significant reductions between the original and revised budgets for wages and salaries. The 2008 revised budget was 85% of the original, with outturn in line with the revised budget. The 2009 budget shows a 130% increase over the revised 2008 budget. These levels of changes are significant in an area where changes usually reflect pay increases only and throw doubt on the reliability of the wages and salaries budget figures.

A Pilot project implemented in the State Civil Service Agency (Human Resource Management Information System (HRMIS)) includes seven modules only three of which are currently operational: 1- management of organizational structures, 2- personnel administration, and 3- personnel recruitment. The others: 4- personnel evaluation and attestation, 5- personnel development and training, 6- income and property declarations of civil servants, and **7-** accounting personnel costs and calculation of salaries - are not yet operational.

The GTAC project's IT experts have developed a module that helps to maintain personnel administration and payroll fund functions. The HRMIS will at the initial stage meet Ministry of Finance needs in accounting personnel costs and calculation of salaries of all staff of public bodies of the Kyrgyz Republic. At the next stage the HRMIS system should support (i) HR management of the whole public sector, (ii) accounting and calculation of salaries of all state budget workers[75]. Dimension score is D.

(ii) Timeliness of changes to personnel records and the payroll

Appointments, promotions and new posts are controlled by administrative order and these are prepared within the HR section and authorised by the responsible officer before being submitted to the accountancy/payroll section of each budgetary organisation. These changes are said to be processed promptly and given the monthly authorisations required for each payroll at local level should be effective (see dimension (iii))[76]. On the face of it, the administrative order signed by one person and processed by others is a strong control but many ministries operate in a highly decentralised way and all the systems are manual so that no monitoring of the situation is possible on a regular basis. The MoF expressed concern about delays and reliability of data[77], while, as noted earlier, the Chamber of Accounts cited instances of staff in excess of the approved complement indicating either non-disclosure or lack of monitoring. The score for the dimension is D.

(iii) Internal controls of changes to personnel records and the payroll.

[75] PEFA Self Assessment

[76] Interview MinFin budget policy staff

[77] PEFA Self Assessment

Each month timesheets are prepared for staff reflecting attendance, holidays and sick leave and this is signed by a line manager and the head of the budget institution. This positive process should reduce the incidence of leavers being overlooked and ensure that changes to personnel records are timely. This information is not submitted anywhere but is maintained locally and is subject to audit/checking. The requirement to maintain the detailed record of the individual amounts disbursed and a record of the person having signed to indicate receipt of the payment is an important control but it appears not to be reviewed on a regular basis.

There is no centralised personnel database and all systems are manual. HR sections and accountancy sections are involved in the payroll process but it is highly decentralised because it is done at the local level and payments to staff are in cash. There is no effective audit trail in the sense of payroll having exception reports of joiners and leavers and there is no effective review by management outside the institutions except of the total amount paid for salaries; management in central ministries rely on checks by auditors of various sorts to identify any problems. Dimension score is C.

(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers

The checking undertaken by the control departments (also called internal audit in some cases) of central ministries over its subordinate budgetary organisations includes all expenditure transactions and, as noted earlier, budget organisations are required to maintain detailed supporting documents for each monthly payroll. It is not clear to what extent payroll is explicitly checked and whether this checking would include positive identification of all or a sample of employees to confirm their existence. No comprehensive payroll audits have been undertaken, though Ministry of Finance Financial control department claim that there are thematic audits focussing on specific topics such as payroll. However, no evidence to support this was produced. The Head of Financial Control in Ministry of Finance reports that instances of ghost workers have been found by his staff, but he was unable to be specific[78]. The Chamber of Accounts also reported instances of ghost workers, but there was no suggestion the problem was widespread[79].

There is a WB GTAC project to develop a database to be run by the State Agency on Public Service that would be able to calculate the payroll for all posts filled based on the specific details of the person, their grade, experience etc. The database would also assist in overall analysis of staffing levels and potential for efficiency savings. There are also plans to increase the electronic payment system for state employees from 8,000 to 70,000 people by 2010.

Having given bodies some discretion about salaries and given the decentralised nature of the payroll system there will always be concerns. Given the examples of ghost employees and staff numbers in excess of approved complement, the dimension score is D.

[78] Interview Head of Financial Control MinFin

[79] Written reply CoA

PI 19: Competition, value for money and controls for non-salary expenditure

Overall score (M2)		
Dimension	**Brief Explanation**	**D+**
(i) Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases	(i) No separate statistics are maintained for contracts that must be subject to open competition. Statistics for all contracts above a minimum, when a number of methods are available shows around 20% are subject to open competition. These statistics do not relate directly to the scoring criteria as they include cases where other methods can legitimately be chosen. (2005 incorrectly scored)	D
(ii) Extent of justification for use of less competitive procurement methods	(ii) The law prescribes when less competitive methods of procurement may be used. However, methods other than full open competition are the default position if below the mandatory ceiling. The interpretation of the law does not make open competition the preferred method	D
(iii) Existence and operation of a procurement complaints mechanism	(iii) A complaints mechanism that allows for appeal to a body independent of the procuring organisation but is not operating effectively	C

(i) Evidence of the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases (percentage of the number of contract awards that are above the threshold)

In Kyrgyzstan public procurements are performed in compliance with the Law "On public procurements" of May 24, 2004 №69. The authorized public procurement body is the State Agency for Public Procurements and Material Reserves

for the Government of the Kyrgyz Republic. The Agency is funded from the republican budget. This Agency is the central body performing overall public policy on procurements, goods, works, services and advisory services.

The Agency performs the following functions:

- develops normative and legal frameworks for functioning of public procurement system;
- coordinates and regulates activities of public bodies regarding the performance of procurements;
- controls the observance of legislation of the Kyrgyz Republic in public procurements area by public bodies;
- personnel training in procurement procedures/techniques and provision of advisory service.
- complaints and appeals procedures.

Procurement units are established in the organizations which are responsible for procurements. An individual tender commission must be established for each tender. Both of these named activities have a list of defined functions under the law. The World Bank CPAR 2007 noted that the Agency was involved in procurement decisions, thus undermining its independence, and that staff in line ministries were poorly trained.

Public procurements are performed according to the following procedures and techniques:

- Tenders with unrestricted participation
- Tenders with restricted participation
- Two stage tenders
- Quotation request
- Procurements from one source.

When holding tenders with restricted participation, tender documents including specification is sent together with the invitation card.

Contracts over 1.5m som or 2m som, depending on the size of the organisation must be let by open competition. Below those limits, but above 0.5m the organisation can choose any method other than single source. To use single source it requires the permission of the Agency. Data is maintained by the Agency about all contracts above 0.5m som but it is not able to identify if any contracts above the threshold were let by means other than competition. There certainly have been cases, e.g. emergency single source tender in 2006 for locust control in the Ministry of Agriculture and Water Resources, value 8.45m som[80]. All tender results are notified to the Agency by the Tender Commission of the procuring organisation prior to the announcement of the result to bidders. The Agency is able to comment as well as approve or not a proposed decision.

The data in the table below shows that contract letting methods that included some form of competition, though less than full open, was nearly 82% in 2008 and 79% in 2007. However, the data does not distinguish contracts above the maximum where open competition is mandatory.

[80] Pilot audit in MAWR undertaken as part of DFID GSAC project

Table 13: Number and value of contract over 0.5m som in value let by different methods 2007-8[81]

Year		Competitiv e	Limited	Quote	One source	Total
2008	Number	1,208	240	3478	1105	6031
	% by number	20.0	4.0	57.7	18.3	100.0
	Total by type (bn som)	6,385	0.4	2,713	2.4	11,957
	% by value	53.4	3.5	22.7	20.4	100.0
2007	Number	923	422	4,203	1,473	7,021
	% by number	13.1	6.0	59.9	21.0	100.0
	Total by type (bn som)	3,713	302	1,888	1,441	7,343
	% by value	50.6	4.1	25.7	19.6	100.0

Dimension score is D.

(ii) Extent of justification for use of less competitive procurement methods

If the value of the contract is greater than1.5m som then there must be competition of some sort, including limited and quotes. Article 38 of the procurement law sets out rules on single source procurement. If a body wishes to use single source in cases above 0.5m som, but below its maximum, it must seek the permission of the Agency. If it is less than 500k do not need to request. The Agency explained that in practice open competition is only used for contracts above 1.5m som because contractors do not regard it as economically worthwhile to bid through open competition for contracts of a lesser value. Thus, the law is being interpreted such that open competition is not the preferred method of procurement but rather the method of used when other methods are not legally permitted.

The Agency explained the reason for the high number of contracts let by means other than open competition as follows, "The main reasons for the high rate of non-compliance to the rule of the threshold amount include procurement of goods and services from monopolies or companies that exclusive rights to sell or produce the acquiring product, it is also permitted for emergency situations of disaster or some specific unforeseen circumstances. All these reasons apply for article 38 procurement from one sources."

To police compliance with the law, the Agency carries out inspections: In 2007 there were 206 inspections with 113 violations found; in 2008 the comparable figures were 319 with 326 violations found (other bodies also identify violations whose results are included). These figures indicate high levels of violation of the rules, though the nature and seriousness of the violations is not known and whether they relate to improper use of less competitive methods of procurement. Dimension score is D.

[81] Source Public Procurement Agency

(iii) Existence and operation of a procurement complaints mechanism

There is provision in the law for a complaints mechanism where participants in a procuring process may appeal firstly to the procuring entity and, if not satisfied with the result, to the Procurement Agency: In 2007 there were 37 complaints and in 2008 39. The Agency website: www.goszakupki.gov.kg holds brief details of complaints but no substantively useful information about the decisions reached. Complaints are considered by the agency but as it has not been directly involved in the procurement it considers that it is independent. The World Bank CFAU 2007 concluded that it was "a complaint resolution mechanism that appears to lack objectivity and transparency, has led the providers of goods, works, and services to lose trust in the system[82]. Dimension score is C.

PI 20: Effectiveness of internal controls for non-salary expenditure

Overall score (M1)		**D+**
Dimension	**Brief Explanation**	
(i) Effectiveness of expenditure commitment controls	(i) There are no effective expenditure commitment controls	D
(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures	(ii) Rules relate almost entirely to payment controls. Accounting recording is highly structured though in a manual form which is cumbersome.	C
(iii) Degree of compliance with rules for processing and recording transactions	(iii) In general rules are complied with though internal control checks regularly find instances of non-compliance.	C

(i) Effectiveness of expenditure commitment controls

There are no computerised commitment systems in place although budget organisations are reported to maintain details of their commitments in order that they can stay within their budgetary limits for the year. The systems do not commit cash as they do not link to the Treasury system and in any event cash is only certain on a monthly basis.

Commitments are, theoretically, problematic if the expenditure item is non-protected. It seems likely that bodies maintain manual records, enter into contract before cash is available and then manage the payment when they can. The Treasury does not provide information about expenditure to date compared to budget (see PI 24) and so it is left to each body to maintain manual records.

To strengthen control over expenditures of budget institutions and prevent accumulation of arrears for goods and services received, the WB-funded Treasury Modernization Project has developed draft instructions and pilot software for accounting non-financial obligations "Registration of Contracts and Obligations". The software will have modules for control of

[82] World Bank CFAU Kyrgyz Republic 2007

obligations that include accounting timeframe, volume and cost of supplies. Agreements and contracts signed by budget institutions for procurement of goods and services over a minimum amount (0.5m som) will be subject to mandatory accounting and registration that will help to control timely use of budget funds, performance of contract obligations, and prevent signing of new contracts (taking new obligations) if previous obligations are unfulfilled.

The system for registration of contracts and obligations will be introduced after its piloting in one of the regions of the republic, which is scheduled for the second half of the current year. It is unclear how the commitment system will represent a real improvement while the availability of funds as noted in PI 16 continues to be a problem. Dimension score is D.

(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures

The internal control framework in the Kyrgyz Republic includes budgetary controls, treasury controls, accounting and reporting controls, procurement controls, and human resource controls.

"The Provisions on Organization of Accounting in Budgetary Institutions" approved by the order #192-П as of November 24 2008 of the Ministry of Finance of the Kyrgyz Republic (updating an earlier and rather similar instruction), defines responsibilities of a head and a chief accountant. They include:

- A head who is responsible for the organization of accounting and observance of the rules on expenditure.
- A chief accountant who reports to the head and is responsible the work of accounting service and budget execution reports.

The control requirements of the payment system and the need for a budget with sufficient available balance remaining are well-understood and there are detailed checks by the Treasury before any payment is made. Purchase of major items is covered by procurement law and these are subject to review by the Procurement Agency. All of these processes operate on the basis of authorisation by more than one person and provided there is no collusion these are a strong control. It is uncertain if there are rules over other areas of expenditure such as business trips, but these areas are de minimis.

The World Bank CFAU noted: "Written rules are excessive in some areas and incomplete in others. This leads to an incomprehensible system o f internal controls. For example, Treasury had detailed how payment requests received from the budget institutions were to be verified. However, rules were incomplete as to how they would be reconciled at the central Treasury level."[83] It also appears to be the case that there are no written procedures regarding computerized systems, such as the Treasury and at present while there is hot back-up (on site every 30 minutes) there is no off-site back-up, which represents a significant risk in the event of a major failure or fire. Dimension score is C.

[83] World Bank CFAU Kyrgyz Republic 2007

(iii) Degree of compliance with rules for processing and recording transactions

All payments are made through the treasury system with organizations using their regional treasury office to make payments supported by relevant documentation. Control over expenditures of budget institutions is done in terms of their targeted use, i.e. use of budget funds for intended purposes (it is implied that funds allocated for salaries cannot be used for payment of utilities and so on).

The monthly and quarterly reporting reconciliation requirements (see PI22) are well understood and the checks undertaken by the treasury and the central ministries' obligations to consolidate the results of their subordinate bodies should ensure that these requirements are met. However, internal audit/control units report regular instances of errors and violations, though some of these relate to misclassification of items that do not affect the reconciliation of the amounts spent. The Chamber of Accounts considers that, in general, controls are operated adequately[84]. Dimension score is C.

PI 21 Effectiveness of internal audit

Overall score (M1)		**D**
Dimension	**Brief Explanation**	
(i) Coverage and quality of the internal audit function	(i) No internal audit in the international sense of the activity is undertaken	D
(ii) Frequency and distribution of reports	(ii) Reports of control and compliance checking are produced irregularly	D
(iii) Extent of management response to internal audit findings	(iii) Line management is sometimes required to make corrections but senior management takes no active part in rectifying systemic weaknesses.	D

(i) Coverage and quality of the internal audit function

During the period of review so-called internal audit functions operated within the following ministries and other bodies:

- Ministry of Finance
- Ministry of Labour and Social Protection
- Social Fund
- Ministry of Agriculture
- Mandatory Health Insurance Fund (MHIF)
- Ministry of Health
- Ministry of transportation
- Ministry of Interior

[84] Written reply by Chamber of Accounts.

A review of their terms of reference or statement of role and responsibilities undertaken by the DFID GSAC project in 2005 indicate that none are expressed in terms that clearly relate to the international definitions of the role of internal audit. There is a focus in most on monitoring budget execution and the lawful use of resources (meaning in accordance with the budget), and investigation of fraud[85]. These units have been created within various structural subdivisions rather than reporting directly to the most senior level of management and, therefore their independence is not assured[86]. In any case, in absence of legal framework for internal audit the staff have been performing control-inspection functions instead of evaluation of internal control systems and risks. The work focuses entirely on the transactions that are recorded in the accounting system with no clear strategies for sampling or assessing the quality and sufficiency of evidence[87]. No work would be taken on the procurement process as this does not result in an accounting transaction. Limited work may be undertaken on inventories but this is by separate units.

There were no significant changes over 2005-2007. However, it is important to note that over the past year Ministry of Finance did a lot to create a legal framework for internal audit and as a result of this, the Government passed several important documents related to operation of internal audit services:

- In the second half of 2007 Ministry of Finance created a unit on internal audit methodology for the government sector
- A Program for establishment and development of internal audit in public bodies and institutions of the Kyrgyz Republic for 2008-2013 was approved by the Government Decree # 341 of 27 June 2008
- Internal audit standards for public bodies and institutions of the Kyrgyz Republic were passed by the Government Decree of the Kyrgyz Republic # 341 of 27 June 2008
- Internal Audit Guidelines have been approved by the order of the Minister of Finances of the Kyrgyz Republic # 54 on 17.04.2008.

In addition, the law of the Kyrgyz Republic “On internal audit” # 25 was passed on 26.01.09. Dimension score is D.

(i) Frequency and distribution of reports

Reports are drafted irregularly and are not submitted either to the head of the ministry or copied to the Ministry of Finance and Chamber of Accounts as there is no legal requirement so to do. The focus of reports is upon violations and errors with no attempt to identify the underlying weaknesses that caused the errors or violations.[88] Dimension score is D.

(ii) Extent of management response to internal audit findings

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[85] Author’s own data based on DFID GSAC project 2004-7

[86] PEFA Self Assessment 2009

[87] See footnote 48

[88] PEFA Self Assessment confirmed by findings form DFID GSAC project 2004-7.

Heads of line ministries do not use the reports of internal auditors[89]; their reports are used to identify errors and assign blame and do not contain conclusions[90]. Where reports are issued line management are required to confirm the accuracy of the findings and where appropriate to rectify errors identified. Dimension score is D.

3.5. Accounting, recording and reporting

PI 22: Timeliness and regularity of accounts reconciliation

Overall score (M2)		**A**
Dimension	**Brief Explanation**	
(i) Regularity of bank reconciliations	(i) Balances are agreed between the Treasury and the National Bank daily with reconciliation of expenditures on a daily basis. Other accounts are also reconciled daily.	A
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	(ii) Detailed monthly reconciliations are prepared of expenditures and revenues with suspense items posted to a "non-identified amounts" account that is subject to a quarterly scrutiny to clear it to the minimum possible.	A

(i) Regularity of bank reconciliations

Republican and state funds are held in accounts opened in the National Bank of the Kyrgyz Republic. The regime and their operation are defined by bilateral agreements. The Ministry of Finance reconciles balances on these accounts daily. In accordance with the Account Servicing Agreement balances on Government accounts are bilaterally reconciled in written form.

Each regional treasury office has a transit account with a local bank into which revenues are paid and expenditures funded. Revenues are paid into the central bank account gross while sufficient funds are made available daily to meet the expenditures. At the end of each day the transit account is cleared to a zero balance. Details of transactions are sent by the banks to the regional treasury office daily and expenditures are reconciled to the authorized payments. The central treasury is then informed by each regional treasury office of the amounts reconciled. The budget institutions also receive statements from their accounts with detailed description of budget expenditures[91].

The off-balance bank accounts are also reconciled daily. They are used to hold funds which are transferred to the Consolidated account when they are to be expended.

Thus, bank accounts are reconciled in detail every day on the basis of bank statements. Dimension score is A.

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[89] PEFA Self Assessment

[90] Author's knowledge based on DFID GSAC project 2004-7

[91] PEFA Self Assessment and interview with MoF Revenues department

(ii) Regularity of reconciliation and clearance of suspense accounts and advances

Within 5 days after the reporting month cash flow statement for each day of the month is prepared, and later reconciled and proved by the treasury. Each month budget institutions complete a form summarising their expenditures in aggregate by classification which they submit to their regional treasury and this is reconciled to the regional treasury records. This process should identify any anomalies and ensures that local and central records are in agreement.

On a quarterly basis, budget institutions submit a similar analysis to the regional treasuries and central ministries, in cases where the institution is a subordinate body. This analysis is then submitted to the central treasury who reconcile the data with their records. These reconciliations act as a check that the BOs are declaring all their spending to their central ministry as well as showing that all expenditure has been accounted for in the nominal ledger, i.e. charged to a service. The quarterly summary picks up any errors or omissions that had not been identified through the monthly process and assists in the process of clearing items on suspense. Items that cannot be identified are put into the "Non-identified amounts account" and receive detailed scrutiny on a quarterly basis to ensure it is cleared.

The major area where items on suspense occurs is tax revenues because of taxpayers wrongly coding their paying in slips. The arrangements for reconciliation and clearance of outstanding items are described in P1-15. Dimension score is A.

PI 23: Availability of information on resources received by service delivery units

Overall score (M1)		**D**
Dimension	**Brief Explanation**	
(i) Availability of information on resources received by service delivery units	(i) Information on resources received by service delivery units is not available	D

(i) Collection and processing of information to demonstrate the resources that were actually received by the most common front-line service delivery units

Budgets for schools, health clinics and other small front line service units are held at the level at which expenditure is incurred and these institutions draw up quarterly cash plans and monthly cash plans in the same way as all other institutions. The coding system introduced in 2007 and based on GFS 2001 allows a much greater degree of analysis so that expenditure by classification, by institution can be tracked and reported. However, the Treasury provides no such reporting service to line ministries and to other budget users. All line ministries rely on manual data preparation by their subordinate bodies for expenditure analysis that forms part of the monthly and quarterly reconciliation with data held by the Treasury but this is not compiled into reports of the sort envisaged by the indicator. Some ministries input the data into a computer so that its reporting is easier, but other ministries do not.

The situation with funding of schools is more complex because of the joint responsibility with local government.

No attempt is made to report in relation to this PI although the information now appears to exist in the Treasury in the form of the detailed budget and execution information for every budget institution.

PI 24: Quality and timeliness of in-year budget reports

Overall score (M1)		**C+**
Dimension	**Brief Explanation**	
(i) Scope of reports in terms of coverage and compatibility with budget estimates	(i) Quarterly reports with comparative budget data are prepared but no commitments are included.	C
(ii) Timeliness of the issue of reports	(ii) Quarterly reports are issued by the 25th of the following month, but Treasury reports are not distributed to line ministries or other budgetary organisations.	A
(iii) Quality of information	(iii) The execution data is probably complete as it is based on actual payments made but there are concerns (not material) about the accuracy of coding by budget organisations.	C

(i) Scope of reports in terms of coverage and compatibility with budget estimates

Reports on state budget out-turn are made on a monthly and quarterly on the basis of statements on implementation of republican and local budgets submitted by regional treasury units. Regional treasury units report to the Central Treasury by 15th after the reporting date. The statement on state budget implementation (budget outturn statement) now provides a comparison with the approved budget for the quarterly report, but not the monthly report. Commitments are not included. Dimension score is C.

(ii) Timeliness of the issue of reports

Monthly(without comparable budget data) and quarterly reports are provided by 25th day after the end of the reporting period to the Jogorku Kenesh, the President’s office, the Prime Minister’s office, National Statistical Committee, National Bank of the KR, State Committee on National Security, Budget Department of the MoF, and the IMF.

A major issue is that the reports currently produced are not distributed to the spending organisations so that the benefits of the work in improving analysis, the ability to review execution to date as an absolute sum and as a percentage, and the balance available are not shared. Line ministries and their subordinate bodies continue to rely on their cumbersome manual records; some ministries have introduced computerised systems to record the aggregated data submitted by their subordinate bodies.

Proposals to establish workstations in regional treasuries or in larger budget organisations that will provide a direct link to the treasury payment system will provide some benefits to users, but the main focus appears to be on the treasury. That the line ministries and their subordinate bodies might be users who have an interest in sharing in the benefits of improved reporting does not seem to be fully appreciated. Dimension score is A.

(iii) Quality of information

A problem in earlier years was that the budget classification was insufficiently detailed and this was addressed by the introduction of a chart of accounts based on GFS2001 in January 2007. No commitment information is included. There appear to be no major concerns about the accuracy of the data contained, but concerns were expressed about reliability and timeliness in the context of PI 20; these concerns are not highlighted in reports[92]. Dimension score is C.

PI 25: Quality and timeliness of annual fiscal statements

Overall score (M1)		**D+**
Dimension	**Brief Explanation**	
(i) Completeness of the financial statements	(i) The annual budget execution report is on a cash basis presented in accordance with the classification system of GFS 2001 and includes all revenue and expenditure flows, but does not disclose outstanding debt.	B
(ii) Timeliness of submission of the financial statements	(ii) The execution report is submitted to the Jogorku Kenesh by 15th May, i.e. within 6 months.	A
(iii) Accounting standards used	(iii) Information is presented in a consistent way. However, there are no formal accounting standards disclosed..	D

(i) Completeness of the financial statements

Annual budget statements contents include:

- explanatory note;
- statement on state budget out-turn;
- consolidated summary statement on balance of the state budget ledger;
- statement on republican budget out-turn;
- statement on local budgets out-turn;
- information on public debt;
- other reference information

A report of is produced which essentially is a receipts and payments record. The budget execution report provides detailed (rather than summary) information about revenues and expenditures, together with comparable figures from the previous year analysed in accordance with GFS 2001 (functional, economic classifications, net cash flow form operational activities, assets and liabilities and financing of monetary and non-monetary items). This information is

[92] PEFA Self Assessment PI 20 noted issues concerning reliability and timeliness

presented in a consistent way and includes the consolidated republican budget as well as the state and local budgets. Only flows during the year are recorded so that, for example, the extent of outstanding debt is not shown. Dimension score is B.

(ii) Timeliness of submission of the financial statements

Annual budget statements are formed on the basis of financial statements on republican and local budgets submitted by regional treasury units, ministries, and agencies (incl. budget and special funds). Annual financial statements are submitted by treasury units, ministries and agencies in the following reporting timeframe:

- for ministries and agencies – starting from January 20 to February 25 of the year that follows after the reporting year, i.e. 1-2 months after completion of the budget year;
- for regional treasury units – starting from February 11 to March 17 of the year that follows after the reporting year (statements on implementation of republican and local budgets).

The Ministry of Finance submits to the Government of the Kyrgyz Republic the annual statement on budget implementation every year in May of the year that follows after the reporting year. In 2007 the accounts were submitted to the Jogorku Kenesh on 23 May 2008, and for 2008 accounts the date was 21 May 2009. After review and approval by the Government of the Kyrgyz Republic the annual budget statements is forwarded for review and approval to the parliament. The report is then submitted to the Chamber of Accounts to audit in the period May to September. The report of the Chamber of Accounts is generally laid before the Jogorku Kenesh in September or October, but the approval of the report has been slow. The 2006 Budget Execution report was approved on May 15, 2008 and the 2007 on January 23, 2009. Dimension score is A.

(iii) Accounting standards used

The accounts are produced on a cash basis and the analysis of expenditure, from 2007, conforms to the requirements of the Government Finance Statistics 2001 (GFS). While the data is presented in a consistent, if very detailed way, no internationally recognized accounting standards, such as IPSAS 10 Financial Reporting under the Cash Basis of Accounting, are used and the basis of the preparation of the accounts is not disclosed anywhere in the accounts.

In 2008 Ministry of Finance initiated first steps towards reform of financial accounting in the public sector that envisage fuller, more reliable and systematic accounting of public finances. To this end a Government Decree and action plan for implementation of the program for reform of financial accounting and reporting in the public sector of the Kyrgyz Republic for 2009-2011 were approved and computerization of financial accounting and accounting on the basis of international accounting standards is intended by 2009-2010. Dimension score is D.

3.6. External scrutiny and audit

PI 26: Scope, nature and follow-up of external audit

Overall score (M1)		**D+**
Dimension	**Brief Explanation**	
(i) Scope and nature of audit performed	(i) The Chamber of Accounts has a degree of independence. The consolidated accounts of the Ministry of Finance are audited annually but the strategy for audit coverage of other bodies is unclear.	D
(ii) Timeliness of submission of audit reports to the legislature	(ii) In 2007 the report was submitted around five months after being submitted to the Jogorku Kenesh by the government.	B
(iii) Evidence of follow-up on audit recommendations	(iii) Arrangements appear to vary depending on the particular circumstances but there is no clear evidence of effective follow-up by the Jogorku Kenesh	D

(i) Scope/nature of audit performed (including adherence to auditing standards)

The Chamber of Accounts is established by law and reports to the Jogorku Kenesh and is, therefore, independent of the government. The chairman is appointed by the Jogorku Kenesh. In accordance with Article 4 of the Law on the Chamber of Accounts 2004, the main objectives of Chamber of Accounts include: (i) evaluation of implementation of republican and local budgets, off-budget and special funds, (ii) evaluation of use of state and municipal property, (iii) ensuring observance of standards, (iv) formulation of the methodology for using international standards of financial accounting and reporting, and (v) promotion of financial management reforms in public, municipal bodies, organizations and institutions.

The financial statements/reports that are produced by the government and by individual budget organisations are, as noted in PI 25, cash based budget execution reports presented in accordance with GFS 2001, but not in accordance with IPSAS 10 Financial Reporting under Cash Basis of accounting. Accordingly, it is problematic to try to apply international auditing standards in such an environment.

The Social Fund is audited once every two years.

The Chamber reports on errors and violations and the extent of compliance with the budget. Its reply notes that "The CoA during the audit process of the republican and local budgets studies and analyses the completeness and timeliness of cash inflows, actual spending of the budget allocations in comparison with approved figures for republican and local budgets, analyses them, detects violations and makes suggestions for the their improvements". It appears to operate in accordance with a work plan and, in its replies refers to modest and low risk. However, the answers were not clear as to what constituted medium or low risk or what impact this had on the frequency of audit or sample sizes, other than to say frequency was not more than once a year. It appears that only the consolidated statement of the Ministry of Finance is audited annually; the policy in relation to frequency of audit of other bodies is not clear. Apart form the general requirements of the law, the Chamber does not operate within a framework of formally adopted local auditing standards, though the Chamber claims to operate in accordance with INTOSAI standards. As noted in the World Bank CFAU 2007 "the chamber acknowledges that despite having one of the best legislative frameworks in the region, no significant shift has been made from the control and inspection approach"[93]. Dimension score is D.

(ii) Timeliness of submission of audit reports to legislature

The budget execution report is referred to the Chamber by the Jogorku Kenesh in May after the report is submitted by the government. The audit takes place between May and September. It submits its report in September or October. The 2007 audit report was submitted to the Jogorku Kenesh on 27 October. Dimension score is B.

(iii) Evidence of follow-up on audit recommendations

The nature of reports with their focus on errors and violations do not lend themselves readily to follow-up as they do not seek to address systemic issues. However, in respect of the Budget Execution Report, the Jogorku Kenesh takes account of the audit report of the CoA with a view to removing detected violations and deficiencies. The approval of the annual Budget Execution Report has been slow; the 2006 report was approved on May 15, 2008 and the 2007 on January 23, 2009. In these circumstances follow-up is unlikely. Taken together with information on PI 28, the arrangements for follow up appear unclear. Dimension score is D.

PI 27: Legislative scrutiny of the annual budget law

Overall score (M1)		**C+**
Dimension	**Brief Explanation**	
(i) Scope of the legislature's scrutiny	(i) There is an opportunity for the legislature to give directions on the main priorities prior to the detailed budget being submitted by the government. The scrutiny appears to cover fiscal issues as well as detailed review of expenditure and income but not medium term fiscal framework	B
(ii) Extent to which the legislature's procedures are well-established and respected	(ii) There is a specialised committee that follows a structured approach with three separate reading of the draft budget in the Jogorku Kenesh	A
(iii) Adequacy of time for the legislature to respond to the Government's proposals	(iii) The Jogorku Kenesh has three months in which to review the draft budget, although the internal timetable for review by specialist committees is considered to be too short. In the years 2006-8 the budget was not adopted until March at the earliest.	A
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature	(iv) The law on main principles of the budget sets out the extent of changes that are possible without the consent of the legislature but these are regarded as unclear. Changes requiring the approval of the legislature are often made after the event	C

[93] World Bank CFAU Kyrgyz Republic 2007

(i) Scope of the legislature's scrutiny

In accordance with Article 190 of the Law "On regulations of the Jogorku Kenesh of the Kyrgyz Republic" Jogorku Kenesh committees formulate their proposals to the draft budget for the upcoming year on the basis of medium-term budget and foreword them to relevant committee that deals with budget issues by end of May of the current year. The budget Economy and Finance Committee that is in charge of budget issues formulates a draft decree on main directions of the republican budget for the upcoming year (budget resolution) and submits it for review to the Jogorku Kenesh by June 15 of the current year. The Jogorku Kenesh adopts a resolution on main directions of the republican budget for the following year (the budget resolution) by July 1. The budget resolution defines budget priorities of the state for the following period and serves as guidance for the Government of the Kyrgyz Republic during formulation of the draft republican budget.

The Committee of Budget, Economy and Finance currently (July '09) comprises 8 members (earlier there were 14 members) and is supported by 13 staff. Its work is divided into three areas:

- Budget issues
- Fiscal and tax
- Monetary and credit.

The committee held 56 formal meetings in the last 18 months. Dimension score is B.

(ii) Extent to which the legislature's procedures are well-established and respected

Parliament hearings are held in line with the procedural rules governing chairing, open and closed sessions etc as set out in Chapter 12 of the Law "On regulations of the Jogorku Kenesh of the Kyrgyz Republic".

The budget is considered in three readings of the bill and the Committee divides its work amongst its three groups as follows: budget group looks at numbers; fiscal group considers the tariff; and the monetary and credit group considers debt and borrowing.

First reading considers four parameters as a basis of establishing the overall revenue and expenditure ceilings:

- Total revenue as a % of GDP
- Total expenditure as a % of GDP
- Deficit as a % of GDP
- Sources to finance the deficit.

The Second reading decides on the split of expenditures across the sectors, at which point around 70-80% of the budget is agreed.

The Third reading reviews the budget on line basis. Dimension score is A.

(iii) Adequacy of time for the legislature to respond to budget proposals

The procedure and the timetable for the legislature to consider the draft budget from the government are laid down in the Law on the main principles of the budget. The government is required to submit a draft budget to the legislature by the 1st September of the year preceding the budget, giving three months for consideration by the legislature. The draft budgets of 2007 to 2009 were submitted to the government at the following dates: Draft budget 2007 - Government Decree #632 dated 30.08.2006; Draft budget 2008 - Government Decree #380 dated 30.08.2007; Draft budget 2009 (plus forecast 2010. 2011) – Government Decree #474 dated 27.08.2008. The Budget, Economy and Finance Committee takes the lead in the scrutiny process while other committees provide their comments. The political groups and other committees in the JK have 10 working days for review, while the budget committee has a further 20 working days to review the draft budget and the comments received. According to the budget committee, the 20 working days are usually not enough for a thorough review a view shared by the World Bank CFAA 2004.

The Jogorku Kenesh has three months (September to November) to review the draft republican budget, which the law states shall be adopted no later than one month before the start of the new budget year so that the President can sign the annual law on the budget. However, for the years of the review the annual budget law was approved well into its period of operation:

- 2006 – April 4, 2006
- 2007 – April 28, 2007
- 2008 – March 17, 2008.

Dimension score is A as, despite concerns about the time available to specialist committees, the overall timetable is three months.

(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature

In accordance with Article 2 of the Law "On main principles of budget law in the Kyrgyz Republic" amendments to the law on republican budget, draft laws on introduction or cancellation of taxes, on tax relief or changes of financial obligations of the state, other draft legislation that provisions increase in state budget expenditures or reduction in revenues can only be made by the Jogorku Kenesh with the prior approval of the Government. All other changes can be made with the approval of the Ministry of Finance, as described in PI-16 dimension (iii).

In-year amendments to the budget are covered by the Budget Code. Amendments and addenda to the Law on republican budget have to pass through mandatory approval by the Ministry of Finance, except for cases related to non implementation of the revenue side of the budget and forced measures on reduction of expenditures, as well as cases of redistribution of budget allocations among departmental units of a ministry or agency within one departmental code and for the same type of expenditures, i.e. for one expenditure item. With the introduction of a new budget classification, developed with consideration of GFS 2001 principles starting from 2007, ministries and agencies were given more powers to manage and distribute budget funds at the element level of coding depending on the needs of state budget-funded institutions

There is a widely held view that amendments are not made transparently and that in some or even many cases the approval by Parliament is retrospective. We have been unable to form a clear picture as to why there are these problems. That is to say whether there is a lack of clarity in the rules or a failure to comply with them, for reasons of choice or circumstance. . Dimension score is C.

PI 28: Legislative scrutiny of external audit reports

Overall score (M1)		**D+**
Dimension	**Brief Explanation**	
(i) Timeliness of examination of audit reports	Formal approval of Budget Execution report more than 12 months after submission. No formal plans for hearing reports within defined timescales appear to exist.	D
(ii) Extent of hearings on key findings	(ii) In depth hearings include officials on some occasions but it is not clear all reports are considered, or how those reviewed are selected.	C
(iii) Issuance of recommended actions and their implementation by the executive	It is unclear that there is any follow up to determine if recommendations are implemented	D

(i) Timeliness of examination of audit reports

The audit report on the Budget Execution report is submitted in September and October (27 October 2007 for the 2006 Execution report). However, as noted earlier, formal adoption of the Budget Execution report has been considerably delayed; in 2006 it was approved on May 15, 2008 and the 2007 on January 23, 2009. In addition a summary report is prepared of the many audits of individual budget organisations, enterprises and local budgets. In 2008, a total of 2,148 such audits were undertaken, 1,586 of which were of budget institutions, 397 of enterprises and 165 of local budgets. The committee is aware of the work plan of the Chamber and states it is aware when reports will be produced. It is not evident that the committee plans specific meetings to consider such reports or to determine which reports are sufficiently important to warrant a hearing as no such claim was made. Dimension score is D.

(ii) Extent of hearings on key findings

The Budget, Economy and Finance committee of the Jogorku Kenesh considers reports relating to audits other than the Budget Execution Report and in turn submits its recommendations to the full legislature. The CoA sends a representative to hearings by the committee and on occasions representatives of the Ministry of Finance or the relevant line ministry attends. The precise rules that determine which reports are considered and if a representative from the Ministry of Finance or the line ministry/budget organisation attends are not defined and it appears the decision depends on the specific circumstances of each audit. Dimension score is C.

(iii) Issuance of recommended actions and their implementation by the executive

The Budget Committee, having considered the report of the auditors and the explanations/statements made by line ministry officials, if they are asked to attend, then decides what recommendations to make. Its decision is recorded in the minutes of the meeting and this is regarded as sufficient; no further instructions are issued. There does not appear to be a single defined way in which recommendations are followed up and it appears that the government, in the form of the prime minister or a vice prime minister, or the line ministry is trusted to implement the recommendation. The government reports monthly to the Jogorku Kenesh and this, it was stated, could provide the opportunity for the government to report on progress in implementing audit recommendations The CoA, following an amendment to the original 2004 law, now has the right to issues orders for taking follow-up measures and it follows up recommendations either within a few months or at the next audit of the body. This arrangement appears to be independent of recommendations of the Jogorku Kenesh and, in any event, would still require a report to be considered by the Jogorku Kenesh.

While there are arrangements, because of the uncertainty over the hearing arrangements and the weak follow-up arrangements the dimension score is D

3.7. Donor practices

D 1: Predictability of direct budget support

Overall score (M1)		**NS**
Dimension	**Brief Explanation**	
(i) Annual deviation of actual budget support from the forecast provided by donor agencies	(i) Only in 2008 has direct budget support outturn fallen short of the forecast by more than 5%.	A
(ii) In-year timeliness of donor disbursements	(ii) na	NS

(i) Disbursement plans for direct budget support are part of the agreements between donors and the Kyrgyz government. These plans form the basis for the formulation of the budget proposals. The implementation of the plans depends on the timely fulfilment of conditions for the release of funds. Usually the donors make their final decision whether and how much funds are spent for the coming year after the budget has been submitted to the Jogorku Kenesh.

Table 14: Direct budget support 2004 – 2006 (in USD million)

	2006			2007			2008		
Institution	**Forecast**	**Actual**	***%***	**Forecast**	**Actual**	***%***	**Forecast**	**Actual**	***%***
ADB	8.0	8.0	*100*	-	-	-	7.75	0	*0*
EC	-	-	-	10.2	10.2	*100*	13.1	11.3	*92.9*
WB	7.5	6.8	*90.7*	18.8	17.6	*93.6*	27.5	24.5	*89.1*
Total	**15.5**	**14.8**	***-4.5***	**29.0**	**27.8**	***-1.3***	**60.9**	**48.3**	***-20.7***

Source: MOF, External Aid Division

According to data provided by the MoF (cf. Table 14), direct budget support outturn has fallen short by more than 5% of the forecast in only one out of the last three years. The dimension score is A.

(ii) Quarterly disbursement plans of budget support are agreed upon between donors and governments. The in-year timeliness of donor disbursements depends on the timeliness of the fulfilment of conditions, but also on bureaucratic procedures on the side of the donors once the conditions have been fulfilled. In the absence of data on planned disbursements after fulfilment of conditions, this dimension cannot be scored.

D 2: Financial information provided by donors for budgeting and reporting on project and program aid

Overall score (M1)		**D+**
Dimension	**Brief Explanation**	
(i) Completeness and timeliness of budget estimates by donors for project support	(i) Not all major donors provide budget estimates for disbursement of project aid for the government's coming fiscal year.	D
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support	(ii) Quarterly reports are received by donors covering more than 50% of externally financed project estimates, but information is inconsistent with the government budget classification.	C

(i) Completeness and timeliness of budget estimates by donors for project support

There is no consistent system in place whereby donors submit budget estimates for project support to the government. According to the Aid Coordination Department in MoF, complete and timely information on project budget estimates for the PIP budget of 2009 is only received from PIUs. However, not all donors have PIUs for the implementation of the project, the EC being one of them. Also other donors, e.g. DFID, confirmed that they don't provide any timely information on budget estimates for their projects. Overall, project budgets which are part of the PIP budget seem to be quite comprehensive and submitted in a timely manner, but for some major donors information is not complete or provided too late. Information originating from additional requests by GoKR does seem neither to be in appropriate format nor to be requested well ahead of the fiscal year so that it could be used for budgeting purposes.

Some donors admitted in discussions that their information provided on project budgets to the government remains rather poor. However, it was also mentioned that the requests for information by the MoF and other ministries were at times rather confusing because of frequent changes of the format how the information should be submitted.

The dimension score is D.

(ii) There is a similar picture to dimension (i) for the assessment of dimension (ii) on frequency and coverage of reporting by donors on actual donor flows for project support. Again projects that are managed by PIUs provide timely quarterly and annual reports on the disbursement made. According to the Aid Coordination Unit, complete information is also being provided by KfW and DfID even though there are no formal PIUs set up for their projects. Information from other non-PIU managed projects is incomplete and provided on an annual basis if at all.

None of reports provided are consistent with the government's classification system. However, the quarterly reports received within two months of end-of-quarter on all disbursements made from ADB, DfID, KfW and WB are likely to exceed 50% of the externally financed projects for 2007 and 2008. According to the progress report of the JCSS, disbursements by these three donors in 2007 and 2008 accounted for nearly 70% of all JCSS donor disbursements. JCSS donors again do disburse by far the biggest amounts for project support to GoKR. Dimension score is C.

D 3: Proportion of aid that is managed by use of national procedures

Overall score (M1)		**D**
Dimension	**Brief Explanation**	
(i) Overall proportions of aid funds to central government that are managed through national procedures	(i) Aid funds continue to be managed outside government procedures.	D

(i) Aid funds, except budget support, continue to be managed by applying the respective procedures of donors and not the one of the Kyrgyz government. Donors argue that the Kyrgyz PFM system in terms of e.g. accounting, audit, reporting and procurement arrangements do still not comply with international standards. The donor procedures are, however, in line with national procedures and do not contradict Kyrgyz law.

The dimension score is D.

4. Government reform process

4.1. Description of recent and on-going reforms

Following the previous PEFA review the government approved in 2006 a National PFM Action Plan, to be led by the Ministry of finance. This plan covered: budget reform; the budget process; a development budget; improved budget classification; reform of inter-governmental finance; introduction of SWAp principles into budget formulation and execution; improved budget execution; tax policy and administration; and introduction of internal audit. Earlier sections of this report have discussed the major developments since the previous PEFA. The main progress in relation improving the budget appears to be the introduction of the chart of accounts and automation of the treasury process and more detailed reporting. Predictability of revenues remains a major issue. Tax policy and administration is progressing with the introduction of a new Tax Code and plans to upgrade the KITIS database through the development of an integrated taxpayer master file and application software based on new business processes. The goal that budget formulation should clearly address objectives of policy and expected outputs and be set in the context of the long-term has made little, if any, progress. Intergovernmental finance, despite the law, is still subject to political adjustment. The Internal audit legislative and methodological framework has progressed significantly recently, but there is no technical assistance available to provide the necessary support and training.

There has been a further development in the form of a Medium Term Vision developed with assistance from the European Union. This document seeks to address perceived weaknesses in the action plan and is considerably more detailed. It appears that this document may form the basis of a formally adopted document, but it is still under discussion and it, as yet, has no formal status.

The table below summarises ongoing and planned reforms.

Table 15: Summary of recent and planned reforms

Title	Description	Date	Sponsor/ donor
New Budget Classification	New budget classification meeting GFS 2001 requirements was introduced (economic and functional)	Introduced in January 2007	DFID, WB PPER
Budget reporting	Externally funded PIP expenditures are on budget and will be included in budget execution reports	2009	
Law on FEBLSG	New law allows direct transfers from Central to Local Governments and includes a formula for equalisation grants.	Introduced in January 2007	USAID, WB
Chart of accounts	Introduction of GFS 2001 compatible chart of accounts leading to improved analysis of expenditure and revenues. The CoA is based	Implemented 2009	DFID, WB PPER

Title	Description	Date	Sponsor/ donor
	on the new budget classification		
Treasury modernisation	Introduction of Single Treasury Account, commitment registration; improved cash flow planning; on-line access by all budgetary organisations; access to treasury reports by all users.	Contract to be let 09/09 implementation by spring 2011	World Bank GTAC envisages full automation of the treasury system
The GTAC project – Payroll administration	IT experts have developed a module that helps to maintain personnel administration and payroll fund functions. The HRMIS will at the initial stage meet Ministry of Finance needs in accounting personnel costs and calculation of salaries of all staff of public bodies of the Kyrgyz Republic. At the next stage, the HRMIS system should support (i) HR management of the whole public sector, (ii) accounting and calculation of salaries of all state budget workers	Ongoing	WB
Tax Code	New Code 2009 – more comprehensive; simplifies tax structure from 16 down to 7; provides clearer definitions; a duty to assist tax payers with website and units in each tax office dedicated to help; revised penalties; risk based tax audits	2009	USAID
Tax database	Development of an integrated taxpayer master file and development of application software based on new business processes	Tax modernization is under implementation	USAID/ADB
Accounting reforms – introduce accounting in line with international standards	Reform of accounting and financial reporting in the public sector of the Kyrgyz Republic to comply with the International Financial Reporting Standards for Public Sector Includes: • Development of the control ceilings for compiling balance sheet in accordance with the new chart of accounts • Development and approval of the draft Methodology of balance sheet consolidation for the government sector • Computerization of keeping accounting records and financial reporting preparation with the transfer to the International Financial Reporting Standards for Public Sector	2009-11	

Title	Description	Date	Sponsor/ donor
Internal Audit	Government decrees in 2008 approving standards, methodology unit; IA units established in 20 bodies; internal audit guidelines (manual); Internal Audit Law 2009	IA department have been established in several line ministries and are now in the process of training. They are supposed to be guided by MoF's department on internal audit methodology.	No TA to assist this process since DFID GSAC project ended in 12/07
MTBF	More MDAs are now producing a MTBF. The MTBF process has been given more weight by serving as a basis for discussions by the Coordination Committee to determine budget ceilings of the Republican Budget.	2005 - 2008	DFID, EC
Budget presentation	2008 budget submission to the parliament included 2008 budget numbers and 2009-10 projections by economic and administrative classification. Both budget numbers and projections are based on MTBF numbers, signalling further integration of annual budget and MTBF processes	Current	
Budget formulation process	Budget formulation process has been improved. Instead of having at least 3 parallel processes (line item, program and MTEF), now the budget process is more streamlined with a budget submission including both line items and some program elements.	Current.	

4.2. Institutional factors supporting reform planning and implementation

After the 2005 PEFA assessment, the platform approach to PFM reforms was adopted with annual work plans. As shown in annex 1, the impact of the reforms efforts on the PIs has been limited despite substantial and coordinated provision of TA by donors. Before starting a new phase of PFM reforms, all involved stakeholders will need to honestly and critically analyse the reasons some reforms did not have the planned impact or were not successfully completed and seek to ensure that problems that remain are resolved prior to or during a new phase of PFM reform.

Despite the slow progress, GoKR and donors are committed to continue the PFM reforms. With the support of EC, GoKR has drafted a mid-term vision for PFM reforms. Though it still lacks prioritization, the vision is a good starting point to discuss the reform needs. The MOF expects the result of this PEFA assessment to provide further inputs into the vision.

On the donor side, a multi-donor trust fund, administered by the World Bank, has been set up for the support of the next phase of PFM reforms. The grant agreement between the World Bank and the government is yet to be signed. The amount set aside is very substantial and there seems to be a risk that the absorption capacity in the GoKR will be over-stretched.

Annex 1: Performance Indicators Summary 2005 and 2009

Indicator	Rating 2005	Rating 2009	Reasons for changes from 2005
PI-1. Aggregate expenditure out-turn compared to original approved budget	**D**	**C**	**Strong fiscal discipline was maintained even in times of strong economic growth.**
PI-2. Composition of expenditure out-turn compared to original approved budget	**A**	**C**	**High number of in-year amendements to the budget. Lower deviations on aggregate level.**
PI-3. Aggregate revenue out-turn compared to original approved budget	**A**	**A**	
PI-4. Stock and monitoring of expenditure payment arrears	**D**	**D**	
(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and a recent change in the stock	D	D	
(ii) Availability of data for monitoring the stock of expenditure payment arrears	D	D	
PI-5. Classification of the budget	**C**	**B**	**Introduction of GFS compatible classification system in 2007**
PI-6. Comprehensiveness of information included in budget documentation	**B**	**B**	
PI-7. Extent of unreported government operations	**NS**	**D**	
(i) Level of unreported extra-budgetary expenditure	NS	D	Many extra-budgetary funds have been brought onto the Republican budget, but low score because of high quasi-fiscal deficit.
(ii) Income/expenditure information on donor- funded projects	NS	D	
PI-8. Transparency of Inter-Governmental Fiscal Relations	**C+**	**B**	
(i) Transparency and objectivity in the horizontal allocation amongst Sub National Governments	C	C	Rules-based system for equalization grant is foreseen by the law on FESLSG, but problems with implementation prevent better score.
(ii) Timeliness and reliable information to SN governments on their allocations	D	B	Implementation of FESLSG in 2007
(iii) Extent of consolidation of fiscal data for general government according to sectoral categories	A	A	
PI-9. Oversight of aggregate fiscal risk from other public sector entities.	**D+**	**C+**	
(i) Extent of central government monitoring of AGAs/PEs	D	C	
(ii) Extent of central government monitoring of SN governments' fiscal position	B	A	Implementation of FESLSG in 2007
PI-10. Public Access to key fiscal	**C**	**C**	

Indicator	Rating 2005	Rating 2009	Reasons for changes from 2005
information			
PI-11. Orderliness and participation in the annual budget process	**B**	**B**	
(i) Existence of, and adherence to, a fixed budget calendar	B	B	
(ii) Guidance on the preparation of budget submissions	D	A	
(iii) timely budget approval by the legislature	A	D	Very late approval of the budget by Parliament and President in 2007 and 2008.
PI- 12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	**D+**	**C+**	**Some improvements in multi-year budget forecast (GSAC project)**
(i) Multi-year fiscal forecasts and functional allocations	C	C	
(ii) Scope and frequency of debt sustainability analysis	B	A	
(iii) Existence of costed sector strategies	D	C	More sectors have at least partly costed strategies.
(iv) Linkages between investment budgets and forward expenditure estimates	D	D	
PI-13. Transparency of taxpayer obligations and liabilities	**C**	**C**	
(i) Clarity and comprehensiveness of tax liabilities	C	C	
(ii) Taxpayer access to information on tax liabilities and administrative procedures	C	C	
(iii) Existence and functioning of a tax appeals mechanism	C	C	
PI-14. Effectiveness of measures for taxpayer registration and tax assessment	**NS**	**C+**	
(i) Controls in taxpayer registration system		C	
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations		C	
(iii) Planning and monitoring of tax audit and fraud investigation programs		C	
PI-15. Effectiveness in collection of tax payments	**B+**	**D+**	
(i) Collection ratio for gross tax arrears, being percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year	B	D	Arrears collection data is not maintained. Incorrect information in previous PEFA
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	A	
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by	B	A	Reconciliation of cash by tax type and the aggregate position on arrears is produced each month.

Indicator	Rating 2005	Rating 2009	Reasons for changes from 2005
the Treasury			
PI-16. Predictability in the availability of funds for commitment of expenditures	**D**	**D**	
(i) Extent to which cash flows are forecast and monitored	D	D	
(ii) Reliability and horizon of periodic in-year information to MPSAs on ceilings for expenditure	D	D	
(iii) Frequency and transparency of adjustments to budget allocations which are decided above the level of management of MDAs	D	D	
PI-17 Recording and management of cash balances, debt and guarantees	**B+**	**B+**	
(i) Quality of debt data recording and reporting	A	A	
(ii) Extent of consolidation of the government's cash balances	C	B	
(iii) Systems for contracting loans and issuance of guarantees	A	B	Lack of information presented to the Jogorku Kenesh as well as criticism of debt sustainability analysis and co-ordination arrangements between institutions involved.
PI-18. Effectiveness of payroll controls	**NS**	**D+**	**No score because of lack of information**
(i) Degree of integration and reconciliation between personnel records and payroll data.	NS	D	
(ii) Timeliness of changes to personnel records and the payroll	NS	D	
(iii) Internal controls of changes to personnel records and the payroll.	NS	C	
(iv) existence of payroll audits to identify control weaknesses and/or ghost workers	NS	D	
PI-19. Competition, value for money and controls in procurement	**C+**	**D+**	
(i) Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases	C	D	Limited availability statistics but open competition is only used in around 20% by number 53% by value in 2008
(ii) Justification for use of less competitive procurement methods	C	D	Open competition is used only when above the mandatory limit. It is not used for lower value contracts
(iii) Existence and operation of a procurement complaints mechanism	B	C	Little evidence of effective operation
PI-20. Effectiveness of internal controls for non-salary expenditure	**D+**	**D+**	
(i) Effectiveness of expenditure commitment controls.	D	D	
(ii) Comprehensiveness, relevance and understanding of other internal control rules/	C	C	

Indicator	Rating 2005	Rating 2009	Reasons for changes from 2005
procedures.			
(iii) Degree of compliance with rules for processing and recording transactions.	C	C	
PI-21. Effectiveness of internal audit	**D**	**D**	**Default score in 2005 – no IA**
(i) Coverage and quality of the internal audit function	NS	D	
(ii) Frequency and distribution of reports.	NS	D	
(iii) Extent of management response to internal audit findings.	NS	D	
PI-22. Timeliness and regularity of accounts reconciliation		**A**	
(i) Regularity of bank reconciliations	A	A	
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	NS	A	
PI-23. Availability of information on resources received by service delivery units	**D**	**D**	
PI-24. Quality and timeliness of in-year budget reports	**C+**	**C+**	
(i) Scope of reports in terms of coverage and compatibility with budget estimates	C	C	
(ii) Timeliness of the issue of reports	A	A	
(iii) Quality of information	C	C	
PI-25. Quality and timeliness of annual financial statements	**D**	**D+**	**Default score in 2005**
(i) Completeness of the financial statements	NS	B	Data in compliance with GFS 2001 cash flows included
(ii) Timeliness of submission of the financial statements	NS	A	Within 6 months
(iii) Accounting standards used		D	No accounting standards disclosed
PI-26 Scope, nature and follow-up of external audit	**D**	**D+**	
(i) Scope/nature of audit performed	NS	D	Annual coverage uncertain. Strategy for cyclical coverage unclear.
(ii) Timeliness of submission of audit reports to legislature	NS	B	Within 4-5 months
(iii) Evidence of follow-up on audit recommendations	NS	D	Approval of execution report too late for effective follow-up to be effective
PI-27 Legislative scrutiny of the annual budget law	**D+**	**C+**	
(i) Scope of the legislature's scrutiny.	C	B	Further information available than in 2005
(ii) Extent to which the legislature's procedures are well-established and respected.	C	A	The Budget, Economy and Finance Committee has a dedicated secretariat. Delays are less common since the elections in 2007
(iii) Adequacy of time for the legislature to provide a response to budget proposals both	D	A	Although the specialist committees have only 20 days, in total the Jogorku Kenesh

Indicator	Rating 2005	Rating 2009	Reasons for changes from 2005
the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined).			has 3 months to consider the budget and has an opportunity earlier in the budget cycle to comment on the main priorities.
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	D	C	Post facto approval is common but the rules about which amendments require the approval of the Jogorku Kenesh appear to be clear.
PI-28 Legislative scrutiny of external audit reports	**D**	**D+**	
(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).	D	D	Budget Execution reports delayed. No information on timeliness of other reports
(ii) Extent of hearings on key findings undertaken by the legislature.	D	C	Arrangements are flexible with no fixed rules but do not appear to cover all audited bodies
(iii) Issuance of recommended actions by the legislature and implementation by the executive.	D	D	Arrangements place responsibility with the executive with no clear evidence of effective follow-up.
D-1 Predictability of Direct Budget Support	**C+**	**NS**	
(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature.	A	A	
(ii) In-year timeliness of donor disbursements.	C	NS	No information. Evidence for score C in 2005 is unclear.
D-2 Financial information provided by donors for budgeting and reporting	**NS**	**D+**	
(i) Completeness and timeliness of budget estimates by donors for project support	NS	D	
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support	D	C	
D-3 Proportion of aid that is managed by use of national procedures	**NS**	**D**	

Annex 2: List of Counterpart Institutions

GoKR

- Central Treasury
- Jogorku Kenesh - head of budget committee secretariat
- MoF External Aid Coordination Department
- MoF Revenues Department
- MoF Budget Policy Department
- MoF Debt Management Department
- MoF Internal Methodology Division
- MoF Financial Control Department
- MoF Local Budget Division
- MoF Real Sector Department
- MoH Financing and Planning Department
- MoLSD Financing and Planning Department
- State Agency for Procurement and Material Reserve
- State Customs Committee
- State Property Fund
- State Tax Committee

Donor agencies

- ADB
- DFID
- EC
- IMF
- SDC/SECO
- WB

Others

- Alliance for Transparent Budget (NGO)
- GTAC Treasury Modernisation project
- USAID Private Sector Development Project
- USAID Tax project

Annex 3: Sources of Information

Self-assessment report of the Government of Kyrgyz Republic

Report June 2009

Official documents of the Government of the Kyrgyz Republic:

Budget circular 2008
Constitution of the Kyrgyz Republic 2007
Main Principles of the budget 1998
Law on Economic Basis of Local Self Governments 2007
Law on Procurement 2004
Law on the Chamber of Accounts 2004
Tax Code 2006
Tax code 2009

Other documents:

JCSS 2009
IMF reports
PEFA 2005
ROSC 2008
World Bank CFAU 2007
Tax policy and major mid-year considerations (USAID tax project)