Kyrgyz Republic
PEFA Assessment Report

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MDTF

ПРОЕКТ МНОГОСТОРОННЕГО ДОНОРСКОГО ТРАСТОВОГО ФОНДА «РАЗВИТИЕ ПОТЕНЦИАЛА В УПРАВЛЕНИИ ГОСУДАРСТВЕННЫМИ ФИНАНСАМИ»

PEFA assessment implemented by

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Abbreviations and Acronyms

AGAs	Autonomous Government Agencies
CoA	Chart of Accountants
CG	Central Government
ChoA	Chamber of Accountants
COFOG	UN Classification of Functions of Government
DBS	Direct Budget Support
DFID	UK Department for International Development
EU	European Union
FSU	Former Soviet Union
GFS	Government Finance Statistics
GKR	Government of Kyrgyz Republic
HRMIS	Human Resources Management Information System
IA	Internal Audit
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
KR	Kyrgyz Republic
LSGs	Local Self-Governments
MDAs	Ministries, Departments and Agencies
MoF	Ministry of Finance
NBKR	National Bank of the Kyrgyz Republic
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PIP	Public Investment Program
SAHR	State Agency for Human Resources
SECO	Swiss Cooperation Office
SOEs	State Owned Enterprises
SPF	State Property Fund
STS	State Tax Service
TMIS	Treasury Management Information System
WB	World Bank

SUMMARY ASSESSMENT

The Kyrgyz Republic is a small and mountainous country with difficult communications and few natural resources. Although income per head has been rising, and is projected to exceed US$1,300 in 2014, the country remains poor, with 38 per cent of the population living in poverty. It is heavily reliant on remittances from its citizens working in other countries, which currently account for about 30 percent of GDP. Its main export is gold, which is mined in difficult conditions, and whose price may fluctuate considerably in world markets. It is thus very vulnerable to external shocks, and needs the continuing support of international institutions in order to meet its international payments and undertake essential investments.

2. The 2014 assessment shows a considerable improvement as compared with 2009, with 14 Indicators scored as A or B, as compared with 6 in 2009. The number of Indicators with a D score has fallen from 14 to 6.

(i) Integrated assessment of PFM performance

Credibility of the Budget (PIs 1-4)

3. The Kyrgyz economy has been growing at an average rate of about 5 per cent a year in real terms over the years 2011-14, with total General Government (i.e. central government together with local governments and the Social Fund) revenue in excess of 30 per cent of GDP until 2014 when it is projected to fall back to 28.9 per cent of GDP. As compared with the period covered by the 2009 PEFA assessment when revenue and expenditure grew rapidly, growth during 2011-13 was more modest, with both revenue and expenditure out-turns in aggregate close to the original budgets for these years. Revenue forecasting has apparently improved, but while total expenditure remained close to budget the composition of expenditure by function changed considerably during budget execution, as it did in 2006-08. Because of this the budgets as presented to Parliament have continued to lack credibility and predictability as indications of the Government's intentions concerning expenditure on different public services.

4. As in 2009 there is still no systematic process to keep track of payments which are in arrears. But the automation of Treasury operations does now permit the continuous tracking of outstanding liabilities, whether or not these are in arrears. Since total outstanding liabilities at the end of 2013 were less than 5 per cent of expenditure during that year, it is possible to conclude that arrears did not exceed 5 per cent. But there is still no system to track where expenditures are actually overdue.

Comprehensiveness and Transparency (PIs 5-10)

5. The Republican (i.e. central government) Budget is now formulated according to a GFS-2001 compatible economic classification, as well as by administrative unit, function and sub-function and most recently by programme. But the Social Fund through which almost all pensions and some social benefits are paid, and which accounts for about a quarter of General Government expenditure, remains for the time being outside the budget. Although the Social Fund budget and out-turn are fully reported, this is not done within the same timescale as consideration of the Republican Budget. Nor is there any regular reporting of the substantial quasi-fiscal deficit arising in the energy sector as a result of prices being controlled at levels far below the costs of power generation. Because of this the score for PI-7(i) remains D, although there is now full integration of the externally financed Public Investment Programme (PIP) into the budget as presented to Parliament, thereby justifying A on PI-7(ii). On the question of fiscal risks posed by other public sector entities (PI-9), LSGs as before pose no problem, but there are still no effective arrangements directed towards improving the financial performance of State-Owned Enterprises (SOEs).

6. There are now only two levels of government: the central government and 484 Local Self-governments (LSGs) (453 of which are rural and 31 urban). The system has been further simplified by LSGs being given a larger share of certain national revenues collected within their territories, while at the same time their responsibilities for the funding of education have been reduced, as has the extent of their reliance on Equalisation grants from central government. As a result of this the large majority of LSG revenues are now determined by predictable and rules-based systems, although the formula for the distribution of Equalisation grants is complex and may not allow optimally for the differing needs of the LSGs. concerned.

7. Considerable efforts have been made since 2009 to improve transparency. Budget execution and debt reports are now published monthly on the MoF website, while all tenders and contract awards are published without delay on another government website. Reports of the Chamber of Accounts (ChoA) are published on the ChoA website when submitted to the Parliament, except for those which are subject to legal restrictions. In addition to reports on revenue and expenditure the annual financial statements presented by the Government now include details of financial assets and liabilities, and some balance sheet information about fixed assets. Presentation of the budget remains without signposts enabling the essential elements to be grasped, while the transparency of published information on budget formulation and execution is undermined by the withholding of any information about expenditure on defence and law enforcement.

Policy-based budgeting (PIs11-12)

8. The annual budget process is clearly defined and well-respected within the government. Ceilings within which Ministries, Departments and Agencies (MDAs) should prepare their submissions are determined within a consultative process involving government and Parliament before the Budget Circular is issued. Although MDAs have only a month to prepare their submissions, the ground is well-prepared, and the timescale does not appear to pose problems. Discussion of the draft budget in Parliament is a lengthy and sometimes difficult process, but the last two budgets have been passed by Parliament before the end of the previous year.

9. Much attention has been devoted to medium-term fiscal planning since 2009, with MDAs required to provide detailed figures for the two years subsequent to the budget year on administrative, economic, functional, sub-functional and (for the 2015 budget) programme classifications. However, there is no sign that the figures for the second and third years in the budget for year n constrain the shape of the budget for year n+1when that is prepared the following year. Investment planning remains fragmented, with inadequate links to the planning of current expenditure, and sector strategies are not formulated in terms of objectives to be attained within specified timescales. It has to be recognised that stable medium-term planning of the development of public services is very difficult in the Kyrgyz Republic because of the extent to which it is exposed to external shocks which may render changes in budget allocations unavoidable. This is clearly seen in the plans for 2015, where intended current expenditure on goods and services has been progressively squeezed in successive annual presentations in order to leave room for investment while still complying with targets for the size of the fiscal deficit.

Predictability and control in budget execution (PIs 13-21)

10. The 2008 Tax Code, which includes detailed operational rules for all taxes, represents a substantial improvement on its predecessor, although problems can still arise through differences of interpretation. Better information is available for taxpayers on the web and at one-stop shops, while electronic filing is now available for VAT and company income tax. The system of administrative tax appeals appears to work reasonably well, although taxpayers' representatives would like to see an independent appeal body and a specialized tax court established which would avoid the need for numerous appeals to the ordinary courts. The State Tax Service (STS) database has been unified throughout the country, with links to social security and business registration databases. Taxpayers are selected for audit through an automated system (implemented with donors' assistance) which assesses the risks they present. STS reckons to collect during each year more than 80 per cent of the arrears owed at the beginning of the year. All tax revenue reaches the Treasury on the day it is paid into a bank, with STS and Customs informed of the details of the transactions so that they can arrange monthly reconciliations of the receipts of each tax, and update the accounts of each taxpayer.

11. Cash planning and monitoring has been considerably facilitated by the automated "Treasury-Budget Info System" in which all expenditure and revenue are registered as transactions take place, and which prevents the execution of any payment which is not provided for in the budget. An annual budget plan is made at the beginning of each year, taking account of the time profiles of expenditure supplied by MDAs; this is then translated into quarterly plan amounts for each MDA which also take into account the known seasonal profile of revenues. But apart from "protected" expenditure (salaries, debt interest, food, transfers to the Social Fund, medicine, social benefits and pensions) MDAs still have no assurance of the availability of cash for other expenditures beyond the horizon of the monthly allocations from MoF. A long-running project to establish a Treasury Management Information System (TMIS) which would have linked budget preparation, commitments, budget execution, payments (currently still dependent on paper instructions from the Treasury to the National Bank of the Kyrgyz Republic (NBKR)) and a Human Resources Management Information System (to provide the basis for centralised control of the payroll) was eventually cancelled in November 2013.

12. Public debt is well monitored and controlled by MoF, with full monthly reporting of stocks and flows of both external and domestic debt. Debt sustainability is the subject of regular consultations with the International Monetary Fund and the World Bank, and new external borrowing is undertaken only on concessional terms and within a limit of 60 per cent of GDP (stipulated in law) for the nominal value of outstanding external debt. No new guarantees are provided by the government for borrowing by SOEs or LSGs.

13. Controls over payroll remain very weak, with each MDA responsible for its own payroll within aggregate allocations from MoF. Public Expenditure Tracking Surveys (prepared by consultants funded by DfID) found wide disparities in pay between different service delivery units, while those units with vacant posts may be in a position to boost the pay of some or all the staff to absorb the otherwise unused provision. In accordance with a Government decision of June 2014, steps are being taken by MoF, the Ministry of Labour, Migration and Youth and the State Agency for Human Resources (SAHR) to bring all government employees within a pay grid which allows properly for their position, qualifications and experience; these initiatives are understood to be supported by the findings and recommendations of a 2013 audit of the payroll throughout the government by the Chamber of Accounts (ChoA).

14. Responsibility for enforcement of the generally satisfactory 2004 Law on Purchases (i.e. Public Procurement) has recently been transferred to the MoF Department of Public Procurement. There is now full publication on-line of all bidding opportunities and contract awards, and statistics show that 80 per cent or more of contracts are let by open competition. But there are reports of tenders being manipulated to favour particular suppliers, and there is not yet any independent machinery available to hear procurement appeals. A draft law currently before Parliament provides for such a body, but it must be doubtful whether this will work satisfactorily without provision to pay the independent members who may have to spend considerable periods considering appeals.

15. Internal financial controls still require substantial further strengthening. Contracts above a threshold amount now have to be registered with the Treasury before any payment can be considered, but there is not yet any general system to keep track of the extent to which each year's budget allocations to MDAs are already committed. A December 2013 Government Decree provides for the institution of arrangements consistent with the European Union's Public Internal Financial Control (PIFC) concept, but no action has yet been taken to ensure its implementation. For the time being it is up to each MDA to establish its own arrangements and procedures to ensure that applicable laws and regulations are observed, and that there is proper hierarchical supervision, including avoidance of conflicts of interest, of all activities giving rise to expenditure commitments and payments. Compliance with Treasury rules for the recording and processing of payments appears satisfactory, with payments on behalf of individual budget users (schools, health clinics, etc) made directly to ultimate beneficiaries by rayon Treasuries through the government's bank agent.. Internal audit is now functioning in 18 Ministries, coordinated by the Central Harmonisation Unit of MoF, and work should be carried out in accordance with international internal audit standards; reporting is generally direct to the Minister. Much of the work continues to take the form of compliance testing of transactions (where it can be seen as contributing to internal control in accordance with the PIFC concept), but a significant part is being directed towards the review of systems.

Accounting, Recording and Reporting (PIs 22-25)

16. The computerisation of Treasury functions enables rayon Treasuries to agree the amounts of payments made with the local transit banks each day before submitting returns to the central Treasury which then agrees the total with NBKR. Rayon Treasuries notify the banks each day of the total expected cash requirements for the following day which they in turn request from Head Office. Revenue details are also received by rayon 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 result in regular reports to the Prime Minister, President and Parliament, which are also published (with some excisions) on the MoF website. These reports cover revenue and expenditure on a cash basis; expenditure is covered only at the payment stage, with no information about commitments. The central Treasury can now provide reports on expenditures attributable to each service delivery unit. A cash-based budget execution report, together with information about financial assets and liabilities and some information about fixed assets, is submitted to the Parliament each May in respect of the previous year. The reports are in a form promulgated by MoF and are consistent from one year to the next, but do not conform to International Public Sector Accounting Standards (IPSAS).

External Scrutiny and Audit (PIs 26-28)

17. The Chamber of Accounts (ChoA) is responsible for the audit of general government, including LSGs and the Social Fund as well as the Republican Budget. ChoA annually submits to the Parliament and President a report of the results of audit of government revenue and expenditure, including LSGs and the Social Fund as well as the Republican Budget. It reckons to cover about 80 per cent of central government MDAs each year, together with a sample of LSGs and some work on SOEs. It is required to make an annual report to Parliament and the President on the Government's budget execution statement, which it receives in May each year; the report to Parliament is due in October. Hitherto the report has mainly consisted of errors and compliance failures, including amounts recovered to the Budget, and identification of wasteful ("irrational") expenditure. Details are also given about the extent to which previous recommendations have been implemented. The most recent reports have included some analysis of the impact of particular expenditures. Separate reports are made to Parliament about individual MDAs. ChoA has begun to undertake financial and performance audits on a pilot basis with the support of some European Supreme Audit Institutions (SAIs). The Parliament, whose role was strengthened in the new constitution introduced after the 2010 revolution, now makes considerable use of ChoA reports to question MDAs, and has most recently instructed the Government, when it presents its report on activities, results and outcomes in the 2014, to report also on what has been done to implement the ChoA's "prescriptions" (i.e. recommendations which auditees are expected to implement).

18. The draft budget for the following year is submitted to the Parliament each year at the beginning of September. It is subject to detailed scrutiny, led by the Committee on Finance and Budget, and negotiations with the government continue through each autumn. The Parliament can only propose increases in expenditure if it finds offsetting savings or if the government agrees to find the money. The scrutiny, assisted by a ChoA analysis of the government's proposals, covers the fiscal stance and the details of revenues as well as expenditure. But the focus remains on the year immediately ahead: although detailed figures on all classifications are presented for the following two years, little attention is paid to them.

Donor assistance (D 1-3)

19. Total external funding covered about 25 per cent on average of KR Budget expenditure during the period 2011-13. About a third of this took the form of direct budget support (DBS), with the remainder provided as funding for projects. DBS provided by some donors was reasonably predictable, but others provided substantially more (or less) than had been taken into consideration when budgets were prepared. The very substantial shortfall in 2011 was mainly due to an expected drawing from the Asian Development Bank not taking place. In 2012 and 2013 receipts of DBS exceeded budget. Externally funded projects are now fully taken into account in the presentation of each year's budget, and the amounts actually provided were not far short of the budgeted figures. The projects are actually executed under the control of KR line Ministries and agencies, and monthly and quarterly reports of progress are made to both donors and MoF. Generally the procedures of the International Financial Institutions and donor countries are followed for procurement, payment/accounting, reporting and audit. Only assistance provided through Direct Budget Support (DBS) by definition uses KR systems; thus most external funding continues to be subject to donors' rather than national systems.

(ii) Assessment of the impact of PFM weaknesses

Macro-fiscal discipline

20. Stable fiscal planning has continued to be difficult in KR, because on the one hand priority has had to be given in accordance with the IMF Three Year Programme under the Extended Credit Facility to containing the fiscal deficit at 5 per cent of GDP or less whatever the impact of external shocks, and on the other because priority is given to protected expenditure (government employees' salaries, social benefits, etc.) rather than to priorities in the development of public services. The consequence has been continuing changes in the functional breakdown of government expenditure between budget estimates and actual out-turn, and a lack of stability in medium-term fiscal planning (PI-2(i) and PI-12(i)).

Strategic allocation of resources

21. Resources for public expenditure are scarce in the Kyrgyz Republic, but it remains doubtful whether they are allocated to best advantage. The Government's National Sustainable Development Strategy 2013-17 recognises many shortcomings in the way the government works. The economic and functional breakdowns of actual expenditure show that, apart from externally financed investment in the power and communications sectors, the highest priority has been given to social benefits and government employees' pay (see Chapter 2 below). It does not appear that strategies have been established which will ensure that the best use is made of limited resources in developing public services (PI-12(iii)). For example, the 2014 World Bank Public Expenditure Review of the education sector shows that expenditure of more than 7 per cent of GDP – a much higher proportion than is spent by other countries in the region – produces disappointing results in terms of educational standards reached. MDAs' main concern in the preparation of budgets appears to be to maintain, so far as possible, the current pattern of activities and current levels of employment. The containment of expenditure in 2013-14 has been achieved largely by cutting back on purchases of goods and services, which will almost certainly result in an additional maintenance backlog which threatens the future usefulness of public sector assets. The late release of budget funds towards the end of each year (PI-16(ii)) means that procurement decisions may be based on what can most easily be spent quickly rather than on what will produce the greatest benefit. A performance culture needs to be built which will examine critically the use of manpower, and require public sector managers to be accountable for the results of the expenditures under their control.

Operational efficiency

22. The PEFA Indicators do not directly test the efficiency of government operations. Large in-year changes in the composition of expenditure (PI-2(i)) and the absence of continuity in medium-term expenditure planning (PI-12(i)) may be seen as evidence that the system is permeated with inefficiency. Some of the changes in recent years - improvements in the content and timeliness of expenditure reporting (PI-24), improvements in the transparency of public procurement (PI-19) – should help to create conditions in which inefficiency can more effectively be challenged. The development of internal and external audit should shed more light on the scope for improvement. But much remains to be done. Effective internal financial control arrangements need to be instituted throughout the government (PI-20(ii)), and order needs to be brought to the management and control of the public sector payroll (PI-18). Consideration needs to be given to achieving efficiency gains through better use of manpower or the rationalisation of facilities for the provision of public services.

(iii) Prospects for reform planning and implementation

23. Although an ambitious Medium-Term Action Plan for the improvement of PFM during the period 2009-13 was promulgated in 2009, not much progress was made in the aftermath of the 2010 revolution. Since 2012, however, progress has been made on a number of fronts: new legislation has been submitted to Parliament on arrangements for budget preparation and execution (the "Budget Code"), including the medium-term dimension and the basis for programme budgeting, and also on public procurement, so as to provide a basis for the establishment of an independent body to deal with complaints. New impetus has been given to the work of internal audit, and a Decree has been issued providing the basis for more effective and consistent arrangements for internal financial control throughout the government. Facilities now exist for on-line filing for VAT and company income tax, and a framework has been prepared for the development of taxation 2014-20, which looks for a further simplification of the system , including the abolition of the cascade sales tax which is still collected alongside VAT. The World Bank, DFID, and SECO are considering a successor to the current Multi-Donor Trust Fund-financed Capacity Building PFM project which has supported most of these improvements and which comes to an end in mid-2015.

24. The failure of the World Bank-financed Treasury Management Information System (TMIS) project, which was to have provided an integrated IT infrastructure covering budget preparation, execution (including a commitments module), accounting and reporting, and payments and receipts through the National Bank, represents a major set-back. An integrated TMIS is needed both to make the processes more efficient and to increase their integrity by reducing the scope for information to be altered manually at different stages. The intention is that it should be linked to a Human Resources Management Information System, thereby providing for effective central management of staffing and pay throughout the government. The Government has committed itself to a PFM Action Plan whereby a decision would be taken before the end of 2014 on arrangements for achieving the objectives previously envisaged. The options include adapting systems already in use in Turkey and Estonia, and further developing the current "Info-System Treasury Budget" developed in-house by MoF, which covers budget execution, reporting and accounting, but lacks a budget preparation module and is not connected to the payments process.

25. Overall the picture shows considerable improvements in particular parts of the PFM infrastructure since 2009, but some of the key elements to ensure the coherence of the structure are still lacking. The TMIS is one such element; the absence of a strategy to ensure the full implementation of the PIFC concept is another; and the need for a fully articulated medium-term plan for the development of services, with quantified and time-bound objectives and clear accountability for their achievement, is the third. These elements could usefully constitute parts of a new Capacity Building PFM project.

Comparative Summary of Scores

Table 1: Performance Indicators Scores for the PFM System in 2009 and 2014

FM Performance Indicators		**2009**	**2014**	**Scoring Method**	**Comparable Scores**	**Change since2009**
A. PFM OUT-TURNS: **I. Credibility of the budget**						
PI-1	Aggregate expenditure out-turn compared to original approved budget	C	A	M1	Yes	Performance improvement.
PI-2	Composition of expenditure out-turn compared to original approved budget	C	D+ i)D ii)A	M1	No; changed methodology	Not directly comparable. but 2009 score would also have been D under revised methodology for dimension i)
PI-3	Aggregate revenue out-turn compared to original approved budget	A	A	M1	No: changed methodology	Underlying situation has effectively improved as 2009 score would have been C under new methodology.
PI-4	Stock and monitoring of expenditure payment arrears	N/R i) N/R ii) D	D+ i)C ii)D	M1	Yes	Not rated in 2009
	B. KEY CROSS-CUTTING ISSUES: **II. Comprehensiveness and Transparency**					
PI-5	Classification of the budget	B	B	M1	Yes	No change
PI-6	Comprehensive-ness of information included in budget documentation	A	B	M1	Yes	Performance deterioration due to 2 benchmarks now not being met

PI-7	Extent of unreported government operations	D i)D ii)D	D+ i) D ii) A	M1	No	Performance improvement due to dimension (ii)
PI-8	Transparency of Inter-Governmental Fiscal Relations	B i)C ii)B iii)A	A i)A ii)B iii)A	M2	Yes	Performance improvement
PI-9	Oversight of aggregate fiscal risk from other public sector entities	C+ i)C ii)A	C+ i) C ii)A	M1	Yes	Performance unchanged
PI-10	Public Access to key fiscal information	C	C	M1	Yes	Performance unchanged
	C. BUDGET CYCLE **III. Policy-Based Budgeting**					
PI-11	Orderliness and participation in the annual budget process	B i)B ii)A iii)D	B i)B ii)A iii)C	M2	Yes	Performance improvement due to timely approval of budgets
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+ i)C ii)A iii)C iv)D	C+ (i)C (ii)A iii)C (iv)D	M2	Yes	Performance unchanged
	IV. Predictability & Control in Budget Execution					
PI-13	Transparency of taxpayer obligations and liabilities	C i)C ii)C iii)C	B i)B ii)B iii)B	M2	Yes	Performance improvement across the board
PI-14	Effectiveness of measures for	C+	B	M2	Yes	Performance improvements in

	taxpayer registration and tax assessment	i)C ii)B iii)C	i)B ii)B iii)B			registration and tax audit
PI-15	Effectiveness in collection of tax payments	D+ i)D ii)A iii)A	B+ i)B ii)A iii)A	M1	Yes	Performance improvement in arrears collection
PI-16	Predictability in the availability of funds for commitment of expenditures	D i)D ii)D iii)D	C+ i)A ii)C iii)C	M1	Yes	Performance improvement across all three dimensions
PI-17	Recording and management of cash balances, debt and guarantees	B+ i)A ii)C iii)A	A i) A ii) B iii) A	M2	Yes	Performance improvement in cash consolidation
PI-18	Effectiveness of payroll controls	D+ i)D ii)D iii)C iv)D	D+ i)D ii)A iii)C iv)B	M1	Yes	Performance unchanged at indicator level but dims (ii) and (iv) improved
PI-19	Competition, value for money and controls in procurement	D+ i)D ii)D iii)C	B i)B ii)B iii)A iv)D	M2	No	Changed methodology but performance seems significantly better
PI-20	Effectiveness of internal controls for non-salary expenditures	D+ i)D ii)C iii)C	C i)C ii)C iii)C	M1	Yes	Performance improvement
PI-21	Effectiveness of internal audit	D i)D	C i)C	M1	Yes	Performance improvement

		ii)D iii)D	ii)C iii)C			
	V. Accounting, Recording and Reporting					
PI-22	Timeliness and regularity of accounts reconciliation	A i)A ii)A	A i)A ii)A	M2	Yes	No change
PI-23	Availability of information on resources received by service delivery units	D	A	M1	Yes	Performance improvement
PI-24	Quality and timeliness of in-year budget reports	C+ i)C ii)A iii)C	C+ i)C ii) A iii)B	M1	Yes	Performance unchanged at indicator level though improvement in dim (iii)
PI-25	Quality and timeliness of annual financial statements	D+ i)B ii)A iii)D	C+ i)A ii)A iii)C	M1	Yes	Performance improvement
	VI. External Scrutiny and Audit					
PI-26	Scope, nature and follow-up of external audit	D+ i)D ii)B iii)D	C+ i)C ii)B iii)A	M1	Yes	Performance improvement
PI-27	Legislative scrutiny of the annual budget law	C+ i)B ii)A iii)A iv)C	C+ i)B ii)A iii)A iv)C	M1	Yes	Performance unchanged.
PI-28	Legislative scrutiny of external audit reports	D+ i)D	C+ i)C	M1	Yes	Performance improvement

		ii)C iii)D	ii)B iii)B			
	D. DONOR PRACTICES					
D-1	Predictability of Direct Budget Support	N/R i) A ii)N/R	D+ i)C ii)D	M1	No	Not previously rated
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D+ i)D ii)C	A i)A ii)A	M1	No	Performance improvement
D-3	Proportion of aid that is managed by use of national procedures	D	D	M1	Yes	No change

Table 2: Summary of Changes in Indicator Scores since 2009 Assessment

Score	**PEFA 2014**	**PEFA 2009**	**Net Change**
A	7	2	+5
B/B+	7	4	+3
C/C+	11	9	+2
D/D+	6	14	-8
Not Rated	0	2	-2
Total	31	31	0

Note: 2009 scores adjusted to reflect current methodology

Table 3: Summary of Changes in Dimension Scores since 2009 Assessment

Score	PEFA 2014	PEFA 2009	Net Change
A	27	16	+11
B/B+	21	7	+14
C/C+	20	22	-2
D/D+	8	27	-19
Not Rated	0	2	-2
Total	76	74	+2

Note: 2009 scores adjusted to reflect current methodology

1. Introduction

Objective of the PFM-PR

The main purpose of the third PEFA assessment in the Kyrgyz Republic (KR) is to provide the Government and the Ministry of Finance (MoF) with an objective and up-to-date assessment of KR's Public Financial Management (PFM) system. MoF expects to achieve two main objectives from the results of the assessment, as follows:

- to check on progress in implementing PFM reforms since the previous PEFA assessment in 2009, and
- to support the preparation of a fresh PFM reform plan to be implemented beginning in 2015, which will be consistent with the objectives of the National Sustainable Development Strategy adopted for the period 2013-17.

Process of Preparing the PFM-PR

2. The assessment has been undertaken as part of the Capacity Building PFM project financed by a Multi-Donor Trust Fund to which the UK Department for International Development (DFID), the European Union (EU) and the Swiss State Secretariat for Economic Affairs (SECO) have contributed. The project is implemented by MoF and managed on behalf of the Trust Fund by the World Bank.

3. Overall responsibility for the management of the assessment rests with the Minister of Finance. There is a Steering Committee chaired by Deputy Minister Mr Almaz Baketaev, Head of the Central Treasury, on which the operational heads of the different sections of the MoF are represented, together with representatives of the Trust Fund donors and CB PFM Project Consultants. A Working Group led by Ms Irina Kim, Head of the Macroeconomic Analysis and Monitoring of State Programmes Unit of MoF, and Ms Elmira Kerimalieva, CB PFM Project Manager/MoF focal point on the PEFA assessment, have been appointed to facilitate the assessment; the membership of the Working Group includes representatives of all sections of MoF involved in the assessment, together with representatives of other Ministries and Agencies which are stakeholders in the process, and also representatives of the Budget and Finance Committee of the Parliament and of the Chamber of Accounts. The independent PEFA assessment team has been composed of John Wiggins, David Biggs and Meder Temirbekov.

4. The following steps have been taken in the preparation of the assessment:

i. an initial mission from 7-10 October 2014 to launch the process, and explain the data requirements at a workshop on 8-9 October for all stakeholders;

ii. a stage of self-assessment in the course of which the members of the Working Group gathered the necessary evidence and prepared self-assessments of most of the Performance Indicators which are scored for the assessment;

iii. a main mission from 11-28 November 2014 during which the review team discussed the self-assessment material with its authors, and sought other information from representatives of professional bodies and civil society;

iv. a workshop on 27 November 2014 at which the review team presented their provisional scores for of each of the 31 Performance Indicators, and the reasons for them, which were the subject of a lively discussion;

v. a first draft report which has been shared (December 2014) with the KR Government, representatives of donor agencies as peer reviewers, and the PEFA Secretariat for quality control purposes;

vi. a final report, taking account of and responding to comments on the draft from the KR Government and the others consulted (early March 2015);

vii. publication of the final report on the KR MoF and PEFA websites.

Methodology

5. The PEFA methodology is set out in the Public Financial Management Performance Measurement Framework (available, also in Russian, at www. pefa.org). It is based on 28 Performance indicators covering a country's PFM system, and three Indicators addressing the interaction between donors and a country's PFM system and budget process. PEFA assessments provide evidence of the effectiveness of PFM systems, and of their evolution over time. They do not directly provide, however, for an analysis of the causes of identified weaknesses. It should be emphasised that PEFA is largely a backward-looking process, based on actual public financial management practice in the years up to the autumn of 2014. Developments during 2014 are for the most part not taken into account in the scoring, although every effort is made to include information about the latest steps to improve PFM.

6. Each Indicator is scored on a scale from A to D. The bases for these scores are the minimum requirements for each Indicator set out in the methodology. Many Indicators include two or more dimensions, which are summed according to PEFA-specific methods M1 or M2. For M1 the weakest link is decisive, i.e. the Indicator score is based on that of the dimension with the lowest score. For M2 an average of the sub-ratings is used to arrive at the score for the Indicator as a whole (see the PEFA Framework)

7. The starting point for this PEFA report is the self-assessment work carried out by members of the Working Group, which covered almost all Indicators. This work was carried out during the month between the initial mission to launch the assessment and the main mission beginning on 11 November 2014. Besides the self-assessment scores and the evidence provided for them, the independent consultants drew on the following sources of information in preparing the report: (i) official KR reports and data; (ii) external evaluations and reports, including in particular reports by the IMF on regular consultations with the KR Government, World Bank reports produced as part of the WB Public Expenditure Review (2014), and reviews by WB and other donors of KR progress in improving PFM though programmes they supported; and (iii) interviews with users and providers of PFM information and other stakeholders (government officials, representatives of donor organisations, representatives of selected NGOs, and private sector representatives. To the extent possible the consultants have sought to triangulate information to ensure that a balanced view is presented. In addition to being submitted to the KR Government for review, the draft was submitted to the PEFA Secretariat and to the nominated peer reviewers from World Bank, EU, DFID and SECO. This revised text incorporates the review team's responses to all the points raised by KR Government stakeholders, the PEFA Secretariat and the peer reviewers.

8. The 2009 PEFA assessment is used as the baseline for this report. The report aims to ensure that (i) changes in PFM performance are clearly identified; (ii) factors resulting in a change in scoring are explained for each Indicator and Dimension; and (iii) readers can track all changes in PFM performance as compared with the 2009 assessment.

Scope

9. The PEFA assessment focuses primarily on the central government's PFM system, in the KR case on the Republican (i.e. central government) Budget; it seeks to cover the entire PFM system including cross-cutting issues, the revenue side, the budget cycle from planning through execution to accounting, reporting and auditing, and the interaction of development partners with the PFM system. In addition to the Republican Budget the Indicators look at other activities under central government control, including notably the Social Fund which accounts for about a quarter of total General Government Expenditure, and the report also reviews the way in which sub-national governments are financed. The income derived from State-Owned Enterprises (SOEs) falls within the ambit of PEFA, as do the fiscal risks posed by loss-making SOEs and the action taken to contain them; the government owns the majority of the equity in the seven companies in the energy sector, as well as a substantial shareholding in gold-mining operations and in banking 100 per cent ownership of the Savings and Settlements Company.

2. Background

2.1. Economic and Fiscal Information

The Kyrgyz Republic remains one of the poorest countries in the Former Soviet Union (FSU), with GDP per capita of US$ 1,305 in 2013, according to the World Bank Economic Report, April 2014. However GDP per head has been rising rapidly in recent years from the US$713 in 2007 recorded in the 2009 PEFA assessment. Poverty, which had been declining rapidly up to 2008, rose somewhat following the global financial crisis, increasing from 33.7 per cent of the population in 2010 to 38.0 per cent in 2012; much of this increase was in urban areas where the incidence of poverty increased from 23.6 per cent in 2010 to 35.4 per cent in 2012. Agriculture remains the largest employer in the rural areas where most of the population live, although the work-force has been declining; the share of agriculture in GDP fell from 31 per cent of GDP in 2007 to an average of 16 per cent in 2011-13. Industry currently accounts for about 16 per cent of GDP, construction about 7 per cent and services about 48 per cent, with indirect taxes accounting for the remainder (information from the 2015-17 MTBF Document prepared in 2014).

Table 4: Main Economic Indicators

	2011	**2012**	**2013**	**2014 (projection)**
Population (millions)	5.5	5.5	5.5	5.6
GDP (billion KSG)	286	310	350	391
Real economic growth (%)	6.0	-0.9	10.5	4.4
Real economic growth (non-gold, %)	5.7	5.0	5.8	4.5
GDP (US$ million)	6,199	6,605	7,226	7,600
GDP per capita (US$)	1,120	1,182	1,280	1,333
Workers' remittances (US$ million)	1,755	1,998	2,154	2,170
Workers' remittances as % of GDP	28.3	30.2	29.8	28.6
Current balance of payments after grants (US$)	-453	-757	-745	-619
External public debt as % of GDP	48.1	45.9	44.8	46.8
Inflation rate (Consumer price index, 12 month average increase,%)	16.6	2.8	6.6	6.1

Sources, WB Economic Report, April 2014 and IMF cr14/200

2. The Kyrgyz Republic is a small open economy with relatively few resources, heavily dependent on remittances from its citizens working in Russia and Kazakhstan, and on gold mining in the mountains above Lake Issyk-Kul, which accounts for 11 per cent of GDP, 40 per cent of industrial production and nearly 50 per cent of exports. Following the 2010 Revolution, which instituted an essentially parliamentary regime, the Kyrgyz Republic has maintained a cautious fiscal policy, supported by a Three-Year Arrangement under the Extended Credit Facility provided by the International Monetary Fund (IMF). In order to meet the conditions of the Facility, the KR Government has had to reduce its plans for domestically-financed investment, and operate a public sector pay freeze during 2013. The IMF support has helped the KR to withstand economic shocks such as the interruption in gold production in 2012 caused by a major landslide which resulted in an overall contraction in the economy.

3. The Government has prepared a National Sustainable Development Strategy for the years 2013-17 approved by Parliament in December 2013 (also published by the IMF as cr14/247). While this document points to substantial increases already achieved in the share of national resources devoted to education (up from 5.2 per cent of GDP in 2008 to 7.1 per cent in 2012), health services (up from 2.4 per cent in 2008 to 3.7 per cent in 2012) and social benefits (up from 2.5 per cent in 2008 to 5.7 per cent in 2012), it emphasises the continuing problems the country faces: weak public administration, a judicial system which does not function effectively, a large informal economy estimated to amount to 39 per cent of GDP, widespread perception of corruption, degradation of arable and pasture land, wasteful use of scarce water resources, and deteriorating power, roads and public services infrastructure. Although education absorbs a relatively large share of GDP, its performance is poor, while resources will need to be found to improve public health and prevent diseases. The document lists numerous measures to address these different problems, and adopts a rather optimistic assumption of 7.5 per cent a year real growth in the economy as its central case. But it does not identify the timing and costs of the measures needed to achieve its goals. In practice, although large externally financed investments in power generation and roads currently in progress should add substantially to the output of the economy, the Kyrgyz Republic seems likely to face a difficult period as a result of a fall in the price of gold and a reduction in workers' remittances as Russia falls into recession as a consequence of economic sanctions and lower world oil and gas prices.

2.2 Description of Budgetary Outcomes

Fiscal Performance

Table 5: Public Finance Statistics

	Percentages of GDP			
	2011	**2012**	**2013**	**2014 (estimate)**
Total revenue	28.8	31.3	31.5	28.9
Total current expenditure	30.9	31.8	30.5	28.2
Interest payments	1.0	0.9	0.9	0.9
Total capital expenditure	5.5	7.7	7.2	7.5
Domestically financed capital expenditure	0.9	1.1	2.0	2.5
Total current and capital expenditure	36.4	39.5	37.7	35.7
External grants (Budget support and PIP grants)	3.0	2.5	2.5	2.5
Primary balance (including grants)	-3.6	-4.4	-3.1	-3.3
Overall balance	-4.6	-5.3	-4.0	-4.2
External financing (net)	3.3	5.0	5.2	4.2
Domestic financing	1.3	0.3	-1.2	0.0

Source: IMF cr 14/200

4. As the table shows, current expenditure has been declining as a percentage of GDP since 2012, while investment has mainly been sustained by external financing of projects in the power and transport sectors. The overall deficit has been contained in accordance with the IMF programme.

Structure of General Government Expenditure

5. The following table shows the shares in total General Government Expenditure accounted for by the Republican Budget which covers the operations of the central government, by the total of Local Budgets, and by the Social Fund.

Table 6: Composition of General Government Expenditure (GGE) (KGS billion)

	2011 out-turn	**2012 out-turn**	**2013 out-turn**	**2014 original budget**
Republican Budget (RB)	83.1	97.8	92.1	102.9
RB transfers to local budgets	13.0	14.3	8.6	2.0
RB transfers to Social Fund	7.7	10.7	13.0	15.5
Total Local budgets	21.4	23.7	20.7	15.1
Local budgets as % of total GGE	19.6	18.3	16.5	10.9
State Budget (RB plus local budgets)	91.5	107.2	104.3	115.9
Social Fund	25.4	32.8	34.0	37.3
Social Fund as % of total GGE	23.2	25.3	27.2	26.9
Total General Government Expenditure	109.3	129.4	125.2	137.8

Source: MoF Central Treasury

As the table shows, the share of local budgets in total State and General Government expenditure has fallen sharply, as more of the responsibility for education services has been transferred to central government. Central government grants to local government have been reduced accordingly. At the same time the relative importance of Social Fund expenditure increased, particularly through transfers from the Republican Budget to finance minimum levels of social benefit.

Public Debt

6. The total public debt of the Kyrgyz Republic at the end of 2013 amounted to 47.7 per cent of GDP. External debt amounted to 44.8 per cent of GDP and domestic debt to 2.9 per cent of GDP. Because much of the debt is on concessional terms, the present value is lower than the nominal value figures indicate. Debt service payments as a percentage of revenue and grants are relatively modest, apart from a spike in 2013 arising from repayment obligations. There are no outstanding state guarantees of external debts.

Table 7: Debt stock outstanding (as percentage of GDP)

	2011	*2012*	*2013*	*2014 (projection)*
Total public sector debt	49.4	49.0	47.7	51.4
of which external	46.2	45.9	44.8	46.8
of which domestic	3,2	3.1	2.9	4.6
Present value of total public sector debt	34.8	32.4	32.7	32.7
Debt service as a percentage of revenue and grants	7.5	7.0	15.5	4.8

Source IMF reports 12/329, 13/276 and 14/200

Allocation of resources

7. Successive country development strategies (for 2007-10 and 2009-11) have emphasised the strategic priorities: economic development, improved governance and transparency in public administration, human capital development, and environmental sustainability. The National Sustainable Development Strategy 2013-17 builds on earlier versions to improve the quality of life and the standard of living for all citizens of the Kyrgyz Republic. As already noted, there have been substantial increases in the share of public resources devoted to health, education and social protection.

Table 8: Sector shares in total actual expenditure, current and capital (as percentages of total expenditures in the Republican Budget)

Function	**2011 out-turn**	**2012 out-turn**	**2013 out-turn**	**2014 original budget**
General Public Services	25.4	24.1	19.2	11.4
Defence, Public Order	12.5	11.2	13.2	12.3
Economic Activities	23.8	25.3	16.3	20.6
Environmental Protection	0.7	0.5	0.6	0.8
Housing and Utilities	1.7	1.3	1.5	0.9
Health	9.9	10.5	11.7	11.1
Recreation, culture, religion	2.2	1.9	2.4	2.1
Education	7.3	7.6	13.7	18.3
Social Protection (excludes benefits paid from contributions)	16.4	17.4	21.6	23.4
Total Republican Budget (KGS billion)	83.1	97.8	92.1	102.9

Source, MoF Central Treasury

The reduction in the share of General Public Services partly reflects the transfer of education expenditure to the central government, with the education share rising to provide for this. The Economic Activities line, which covers agriculture, energy, transport and communications, is dominated by large expenditure on externally financed investments in power generation and roads. The rising share of social protection expenditure is very clear.

Table 9: State Budget (Republican plus local budgets) expenditure by economic classification (percentages of total expenditure)

	2011out-turn	**2012 out-turn**	**2013 out-turn**	**2014 original budget**
Total current expenditure	82.8	77.8	78.4	76.0
Wages and Salaries	29.5	28.5	27.2	29.0
Goods and Services	29.9	26.5	26.6	20.8
Interest payments	3.0	2.7	2.6	2.9
Transfers and subsidies	12.0	10.1	10.6	10.7
Transfers to Social Fund	8.5	9.9	11.3	12.6
Total capital expenditure	17.2	22.2	21.6	24.0
Domestic finance	2.9	3.2	6.2	7.9
External loans	9.2	14.6	12.8	11.9
External grants	5.1	4.4	2.6	4.2

Source: IMF cr14/200

8. This table confirms the rising share of payments to the Social Fund, and the sharp cut-back in current expenditure in 2014 on goods and services. Expenditure on wages and salaries is probably understated in this presentation, given that some expenditure on health services is classified as a purchase of services from the Mandatory Health Insurance Fund, which in turn spends much of the funding on the pay medical staff.

2.3 Description of the legal and institutional framework for PFM

9. Following the revolution in the spring of 2010 a new Constitution was adopted by Referendum in June of that year. This provides for a President to act as national leader, who may hold office for only one 6-year term. The President is commander of the country's defence forces, and its representative in international relations. He appoints one third of the nine members of the Chamber of Accounts, the country's Supreme Audit Institution (SAI), and also appoints the Chairperson of the Chamber from among the nine. Except for budget and tax legislation, which he must sign following approval by the Parliament, the President can refer a proposed law back to the Parliament (Jogorku Kenesh), which requires a two thirds majority to over-rule him.

10. The strongest role is assigned to the Parliament of 120 members elected every 5 years by proportional representation. No political faction may hold more than 65 of the seats. The Prime Minister is nominated by the faction or factions which can command a majority in the Parliament. New legislation is subject to detailed scrutiny in Parliament during three readings, with detailed discussions in Committees of the Parliament between the readings. The lead in considering the annual Budget Law, and framework legislation governing aspects of Public Financial Management (PFM), is taken by the Parliament's Committee on Budget and Finance. The Chamber of Accounts reports to the President and the Parliament, which uses its reports to question the performance of the Government. The Parliament is in a position to negotiate with the Government in great detail about the contents of the annual Budget Law, but cannot enact or amend legislation which would increase government expenditure unless the Government identifies the source of the necessary finance.

11. The country is divided into 40 rayons (districts) and 484 Local Self-Government units (LSGs). Each LSG has its elected Council, but the rayon offices which supervise LSGs are branches of the central government without any elected element. LSGs receive a proportion of the yield of certain national taxes collected in their areas; the percentages may be adjusted in each year's annual budget law. Most LSGs are villages with little fiscal or administrative capacity, and all their transactions are executed through the offices of the central Treasury in each rayon. The Government decided in 2013 to increase the shares of income and sales taxes assigned to LSGs, and at the same time assumed direct responsibility for the pay of teachers which was previously provided for by "Categorical" (i.e. hypothecated) grants to each LSG. The result is that total LSG budgets are now a substantially smaller proportion of General Government Expenditure than during the years up to and including 2012, while the amounts of government grants to LSGs has been sharply reduced. LSGs are responsible for a limited range of services: mainly local infrastructures including school buildings, roads, public lighting, water supplies and parks and recreational facilities. Apart from some limited flexibility to vary the rate of Land Tax, which no LSG actually uses, LSGs have no discretion in raising revenue except to the extent that they can exploit their assets. Those LSGs with below average fiscal capacity (in terms of revenue per head) receive Equalisation grants, calculated according to a complex formula which takes into account the size and characteristics of the population and measures of their need for services. The City of Bishkek is for the time being in a special position, in that it manages and pays for out of its assigned revenues health and education services which are the responsibility of central government throughout the rest of the country.

12. The Social Fund is responsible for collecting social security contributions due in respect of employees and the self-employed. Contributions at a rate of 27.25 per cent are collected based on the wages of employees (with analogous contributions by the self-employed), 10 per cent from employees and 17.25 per cent from employers. 0.25 per cent accrues to Trade Union funds, and 2 per cent out of the employees' contribution of 10 per cent goes to finance a defined contribution pension scheme. 2 per cent of the employer's contribution of 17.25 per cent goes to the Mandatory Health Insurance Fund to help towards the costs of the guaranteed state benefit package. Subsidies from the Republican Budget cover the costs of assistance to poor families, minimum pension benefits, and payments to certain privileged classes of beneficiaries, which together account for about 40 per cent of Social Fund payments. Unlike central and local government, Social Fund balances are kept in accounts at commercial banks, and transactions do not pass through the Treasury system, although quarterly reports are made to MoF.

13. Article 88(6) of the 2010 Constitution requires the Government to submit its annual budget and its report on budget execution to the Parliament; other sections of this Article provide the basis for the Government's control of the tax system and the exploitation of public property. The arrangements for the budget are governed by the law on Main Principles of Budget Law (the Budget Code), most recently amended in 2011. A new draft Budget Code is currently under discussion in Parliament, which would inter alia strengthen the medium-term element in budgeting, and ensure that Social Fund revenue and expenditure are considered by Parliament in a single framework. Responsibility for the preparation and execution of the budget rests with the Ministry of Finance (MoF); overall Budget preparation rests with the Budget Policy Department under one Deputy Minister, while the Budget Planning and Monitoring Department under another Deputy Minister covers the MoF's detailed relationships with line Ministries and other government agencies, including domestically financed investment which is not part of the Public Investment Programme (PIP). The Deputy Minister in charge of External Aid Coordination and Debt Service is responsible for the largely externally financed PIP and for debt management. The State Secretary supervises the personnel, training and other corporate functions of MoF. The Deputy Minister and Director of the Central Treasury is responsible for cash planning and management, for the receipt of revenue and the execution of payments, for accounting and reporting, and for the development of IT systems. The Public Procurement Department which coordinates public procurement throughout the public sector, unit responsible for internal audit and accountability in the public sector, and also for accounting standards, reports directly to the Minister of Finance. Tax policy is currently assigned to the Ministry of Economy, while revenue collection is the responsibility of the State Tax and Customs Services which function as separate government agencies. Finally the exploitation of state assets, including supervision of State-Owned Enterprises (SOEs) and exercise of shareholder rights in companies in which the government holds shares, is the responsibility of the State Property Fund. The current Organisation Chart of MoF is attached as Annex C to this report.

14. Execution of the budget takes place through the MoF's "Info System Treasury Budget". This system records all revenue and payments, drawing on inputs from Ministries, Agencies and rayon Treasury offices. All information is collected about both revenue and expenditure transactions, so that the system is able to generate monthly budget execution reports using administrative, economic, functional and sub-functional classifications. Revenue is paid into authorized bank-agents and remitted the same day to the Treasury account at the National Bank of the Kyrgyz Republic (NBKR), with all relevant information about the nature of the receipts notified to Treasury and tax authorities. Payments are made through rayon Treasury offices, who transmit the required funds to the bank-agents to be drawn in cash or paid through bank accounts. A long-running project financed by the World Bank had as its objective the installation of an integrated Treasury Management Information System (TMIS), which would have included modules integrating budget preparation with the budget execution system, registering all expenditure commitments, linking the payments process directly to the Treasury records, and setting up a Human Resources Management Information System (HRMIS) linked to the payments module which would have made it possible to establish central supervision over the payment of all government employees. However, the links to the NBKR systems and the TMIS/HRMIS modules did not function as required by the MoF and the State Agency for Human Resources (SAHR), and the project was eventually cancelled in November 2013. MoF are currently (November 2014) reviewing possible alternative solutions to their requirements, drawing on experience of other countries; the objective is to have a new system which meets all the previously identified objectives fully tested and installed by the end of 2016.

15. Internal Audit (IA) is provided for in a law of 2007, while internal control is the subject of a Government Decree of December 2013. Some progress has been made in establishing IA - directed towards the review of systems in accordance with international standards for IA - in a variety of Ministries and Agencies, with coordination by the MoF Central Harmonisation Unit. But nothing has yet been done to follow up the Decree on internal control with specific instructions about the way responsibilities for financial management and control are to be discharged in each Ministry and Agency.

3. Assessment of the PFM Systems, Processes and Institutions

3.1. Budget Credibility

Good practice in public financial management requires effective budgeting in order that that Government policies and plans can be successfully implemented. The budget has to be credible insofar as actual expenditure and revenue need to be close to what was originally intended, planned and approved. The four indicators in this group, therefore, assess the extent to which the budget is realistic and implemented as intended. The first 3 involve the financial years 2011, 2012 and 2013 (the last-named being the latest for which the actual outturn is available).

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

Indicator	**2009 score**	**2014 score**	**Justification for 2014 score**	**Performance change and other factors**
Aggregate expenditure out-turn compared to original approved budget	**C**	**A**	Deviations from original budget were less than 3 per cent in all three years 2011-13	Performance improvement

2. Comparison of actual aggregate primary expenditure against the originally approved budget shows that actual expenditure deviated from the original budget by -2.1% in 2011, -1.3% in 2012 and 0.4% in 2013. The size of the aggregate deviation has improved relative to the 2009 PEFA assessment, suggesting better budget planning and/or tighter expenditure control.

Table 10:Budget execution rate for total primary expenditures[1]

Figures in Million KGS	**2011**	**2012**	**2013**
Originally approved budgeted total primary expenditure	68,625	75,572	82,435
Actual primary expenditure	67,200	74,578	82,799
Difference between actual & originally approved budgeted primary expenditure	-1,425	9,940	364
Difference as % of originally improved budgeted primary expenditure (%)	-2.1%	-1.3%	0.4%

Source; Annual Budgets and Financial Statements supplied by Central Treasury and Budget Policy Department, MOF.

[1]Primary expenditures are defined as total expenditure less debt service payments less donor-funded project/programme expenditure.

PI-2: Composition of Expenditure Out-turn compared to Original Approved Budget (scoring method M-1)

Indicator/Dimension	2009 score	2014 score	Justification for 2014 score	Performance change and other factors
Overall score (M1)	**C**	**D+**		
(i) Extent of the variance in expenditure composition during the last three years	C	D	Variance in expenditure composition exceeded 15 per cent in two of last three years	No change, once allowance is made for the difference in the methodology between 2009 and 2014
(ii) Average amount of expenditure charged to the contingency vote in 2011-13	NS	A	Emergency funds made up less than 0.25 per cent of total expenditure in 2011-13	New dimension since 2009

(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items

3. This indicator comprises two dimensions (unlike in 2009 when there was one dimension only). In terms of the first dimension, the variances in the composition of expenditure at the level of Ministries, Departments and Agencies (MDAs) in relation to the budget (adjusted for the aggregate deviation) were 22.7% in 2011, 9.8% in 2012 and 19.6% in 2013 (a detailed functional analysis table is shown in Annex A). Since the expenditure composition variance exceeded 15% in 2 of the 3 years, the score for dimension (i) is D.

4. The reported variances in the composition of expenditure during the period covered by the previous assessment (2006-08) calculated by reference to the previous methodology were, except for 2008, significantly lower: 8.9%, 4.5% and 30.3% percent respectively. However, it is possible to recalculate the previous assessment's variances using the new methodology. If this is done, the re-stated variances were 14.1%, 16.7% and 32.3%. These variances would also have resulted in a score of D for dimension (i) suggesting there has been no real change in performance between the two assessments

5. A substantial variance in the composition of expenditure may indicate that: (i) the approved budget did not represent an optimum allocation of resources in the first place; and/or (ii) priorities changed during the year, the result being that those MDAs for which priority increased during the year were allocated a greater share of the available resources.

6. Analysis of the main COFOG functions shows that, in 2011, General Public Services received a much larger share of resources than originally approved, whilst education was a big "loser" in terms of spending. The situation was completely reversed in 2013 though this was partly due to the education budget being charged with the cost of teachers' salaries, an item which until mid-2013 had been covered by a categorical grant to local government.

7. An important issue to highlight in 2014 concerns the fact that the published documents contain no explicit disclosure of expenditure on defence and law and order**.** For the purposes of calculating the PI-2 variance, it was only possible to derive a total for the two functions as the residual balancing figure given that the aggregate was known and the figures for the other 8 functions were available. It is probable, therefore, that the calculated variance actually understates the true situation.

(ii) The average amount of expenditure actually charged to the contingency vote over the last three years

8. The Kyrgyz Republic (KR) makes minimal use of a Contingency Fund (only approximately 140 million Som compared to aggregate annual Republican Budget expenditure of approximately 92.1 billion Som in 2013 (see Table 6 in Chapter 2 above). This sum is divided between Emergency Situations, the Presidency, Office of the Prime Minister and Parliament. The actual expenditures for the years 2011-13 were 0.20 billion Som, 0.19 billion Som and 0.18 billion Som respectively. Given the small percentage of expenditure, the dimension score is A

Source: Budget Laws and annual budget performance reports 2011, 2012 and 2103.

PI-3: Aggregate revenue out-turn compared to original approved budget (scoring Method M1)

Indicator	**2009 score**	**2014 score**	**Justification for2014 score**	**Performance change and other factors**
Actual domestic revenue collection compared to domestic revenue estimates in original approved budget	**A**	**A**	Out-turns were between 97 per cent and 106 per cent of budget in all three years	Performance improvement. New (2011) methodology would have resulted in C on figures used in 2009 assessment.

9. This indicator contributes to the assessment of budget credibility by considering the accuracy of revenue forecasting. It involves a comparison of budgeted and actual government revenue. The Republican Budget's revenue performance during the three fiscal year period ended 31 December 2013 is summarised in Table 11 below which shows that, in the three years covered by the assessment, the revenue variances were 1.7 %, -2.5% and -0.2% respectively. Since actual revenue was between 97% and 106% of budgeted revenue in all 3 years, the score is A. Most actual revenues were close to their planned level though 2012 shows some more significant variance across a number of revenue classes.

10. Comparison with the previous assessment reveals that the score in 2009 was A using the old methodology but would have been C if the new methodology was applied and official transfers were excluded from the calculation. The performance on this indicator has therefore in reality improved.

Table 11: Domestic Revenue Performance

	2011	**2011**	***%***	**2012**	**2012**	***%***	**2013**	**2013**	*%*
Million Som	Est.	Actual	***Diff.***	Est.	Actual	***Diff.***	Est.	Actual	*Diff.*
Taxes on income and profit	13,822	13,979	*1.1*	14,147	14,807	*4.7*	12,590	12,213	*--3.0*
Taxes on Goods and Services	24,551	25,000	*1.8*	34,565	32,010	*-7.4*	39,316	38,235	*-2.7*
Taxes on international trade and	6,808	7,146	*5.0*	9,340	9,430	*1.0*	11,587	11,966	*3.3*

	2011	2011	%	2012	2012	%	2013	2013	%
Million Som	Est.	Actual	***Diff.***	Est.	Actual	***Diff.***	Est.	Actual	*Diff.*
operations									
Total Tax Revenue	45,181	46,125	*2.1*	58,051	56,247	*-3.1*	63,493	62,414	*-1.7*
Property revenues and interest	7,472	7,660	*2.5*	8,407	8,510	*1.2*	6,785	7,538	*11.1*
Sales of goods and services	6,176	5,626	*-8.9*	7,030	6,528	*-11.0*	9,020	8,385	*-7.0*
Other non-tax revenues	445	858	*92.8*	280	875	*212.5*	928	1,741	*87.6*
Total non-tax revenue	14,093	14,144	*0.4*	15,717	15,643	*-0.5*	16,733	17,664	*5.6*
Total revenue	59,274	60,269	*1.7*	73,768	71,890	*-2.5*	80,226	80,078	*-0.2*

Source: Central Treasury, Revenue Forecasting Unit, MOF.

Reform Prospects

11. A draft revenue forecasting methodology is currently under consideration by the Government of the Kyrgyz Republic (GKR)

PI-4 Stock and Monitoring of Expenditure Payment Arrears (Scoring method M1)

Indicator/Dimension	**2009 score**	**2014 score**	**Justification for 2014 score**	**Performance change and other factors**
Overall score	**D**	**D+**		
(i) Stock of expenditure arrears and any recent change in stock	D	C	Total outstanding liabilities at end of 2012 and 2013, whether or not in arrears, were 4.4 per cent and 4.5 per cent respectively of total expenditure during these years, i.e. there is no significant downward trend.	Treasury system allows outstanding liabilities to be known, which sets an upper limit to the amount of arrears.
(ii) Availability of data for monitoring the stock of expenditure payment arrears	D	D	No system is in place for monitoring overdue payments	No change

12. The PEFA Framework notes that government may incur expenditure obligations to employees, suppliers, contractors and lenders that are overdue and therefore constitute payment arrears. Such a situation is effectively a form of non-transparent financing of government operations. This indicator has two dimensions to assess and the critical issue is whether government systems support the tracking of expenditure arrears. The first dimension relates to the size of the payment arrears whilst the second focuses on the availability of data for monitoring the stock of arrears. Logically, therefore, it is not possible – without some form of special investigation or the availability of related information, such as liabilities (accounts payable) - to assess with any confidence or reliability the size of the arrears in the absence of a system for monitoring those arrears.

(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock

13. In KR, there is currently no routine system for monitoring arrears – a deficiency that the Central Treasury has recognised. However, the Treasury system does allow the generation of reports on outstanding liabilities though without identifying overdue payments. These reports showed that liabilities at the end of 2012 and 2103 amounted to 4.4% and 4.5% respectively of budgeted central government expenditure. There is no general legislation defining when an outstanding payment becomes an arrear, although there may be provisions in specific contracts. The 2013 Regulation No. 586 requires all contracts to be registered with the Treasury when concluded, and forbids payment when they have not been registered. The Treasury believes that this Regulation is generally observed. Although it cannot be excluded that some budget entities have placed unregistered contracts, it appears very unlikely that these could result in arrears exceeding 10 per cent of total expenditure. But there is no downward trend in outstanding liabilities, and some anecdotal evidence that some payments are delayed. In the absence of assurance that arrears are less than 2 per cent, the score is C.

(ii) Availability of data for monitoring the stock of expenditure payment arrears

14. No ad hoc exercises have been conducted in the last two years and there is as yet no routine monitoring process for payment arrears. Rating: D

Reform Prospects:

15. The Central Treasury accepts the need for introducing into the automated system a facility for recording information concerning

1) The date and amount of the original purchase order (the commitment)
2) The date and number of the invoice
3) The date and amount of any payment
4) The number of days the payment was (if now done) or remains outstanding.

3.2. Comprehensiveness and Transparency

PI-5 Classification of the Budget (Scoring method M1)

Indicator	2009 score	2014 score	Justification for 2014 score	Performance change and other factors
Classification system used for formulation, execution and reporting of the central government's budget	**B**	**B**	Revenue and expenditure are shown according to administrative, economic (consistent with GFS 2001) functional (consistent with UN COFOG) classifications at all stages in budget preparation, execution and reporting	No change

(i) The classification system used for formulation, execution and reporting of the central government's budget

16. This indicator aims to evaluate whether the classification system used for budget formulation, execution and reporting of CG transactions is compatible with international standards. These are the standards in the IMF's Government Finance Statistics Manual (GFSM), 1986 and 2001 versions and, for functional classification, also the UN Classification of Functions of Government (COFOG). The indicator is to be assessed for the last completed FY: which for this Assessment corresponds to FY 2013.

17. In GKR there is full alignment of the classification systems for the budget as presented to Parliament and the Chart of Accounts (CoA) which underlies reporting and accounting for revenue and expenditure. Both incorporate administrative, economic, functional and sub-functional classifications for revenue and expenditure. Budget expenditure is formulated, executed and reported with the same breakdown. This structure is largely reflected in the budget reports produced at all three stages, but the integrity of the classification system is compromised by the practice of attributing much capital expenditure to an Economic Activities "other" sub-function rather than to the specific sub-functions concerned (energy, transport, communications, etc) . The information for reporting purposes with this breakdown is automatically derived from the Treasury system.

18. Revenue is also classified by administrative and economic category for all three stages (formulation, execution and reporting). This is reflected in the Budget Law, and Annual Budget Execution Report. A detailed analysis is provided of tax and non-tax revenue, with tax revenue broken down by tax type. Revenues are also divided into own sources and external grants. In-year revenue reports with the standard classifications are produced.

19. GoKR's budget is also increasingly incorporating a programmatic analysis. This approach was piloted in 2012 covering just 6 MDAs. Since then, the application of programme-based budgeting has expanded to 15 MDAs in 2013, 28 in 2014 and 76 (out of 80) MDAs in 2015. 4 MDAs, including the Presidency and the State Committee on National Security, declined to participate.

Score: B.

PI-6 Comprehensiveness of information included in budget documentation (Scoring method M1)

(i) Share of the 9 elements listed information in the budget documentation most recently issued by the central government (in order to count in the assessment, the full specification of the information benchmark must be met).

Indicator	**2009 score**	**2014 score**	**Justification for 2014 score**	**Performance change and other factors**
Share of the specified information actually included in the budget documentation most recently presented to Parliament	**A**	**B**	5 of 9 elements were provided as part of 2015 Budget proposals	Probably no underlying change

20. This indicator assesses the comprehensiveness of the latest budget documentation made available to the Legislature by the Central Government (CG) on the basis of nine information elements or benchmarks, specified in the summary box below. For the current assessment, this corresponds to the documentation made available to the National Assembly at the time of presentation of the FY 2015 budget proposals.

The position in relation to each element is shown in the following table.

Table 12: Elements of Budget Documentation

Element	In 2009 docs.	In 2014 docs.
(i) *Macroeconomic assumptions, including at least estimates of aggregate growth, inflation and exchange rate*: provided in Explanatory note	Yes	Yes
(ii) *Fiscal deficit according to GFS or other internationally recognized standard:* provided in table of budget resources and expenditures in accordance with GFS 2001	Yes	Yes
(iii) *Deficit financing, describing anticipated composition:* Provided in resources table which shows expected external and internal financing	Yes	Yes
(iv) *Debt stock including details at least for beginning of current year:* Provided in monthly reports to Parliament	Yes	Yes
(v) *Financial assets including details at least for beginning of current financial year:* No information provided in budget documentation (but position at beginning of current year will have been reported in budget execution statements for previous year)	No	No
(vi) *Prior year's budget out-turn in same format as budget proposal:* actual execution of previous year's budget is presented in same format in a Central Treasury document made available before budget proposals are presented	Yes	No
(vii) *Current year's budget (either revised budget or estimated out-turn):* for 2015 revised 2014 budget only provided later during budget discussions	Yes	No
(viii) *Summarised budget data for both revenues and expenditures according to main heads of classifications used, including data for current and previous years:* no convenient comparative tables are provided	No	No
(ix) *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 programmes:* this is provided in the Explanatory Note which prefaces the budget	Yes	Yes

PI-7 Extent of unreported government operations (Scoring method M1)

Indicator/Dimension	**2009 score**	**2014 score**	**Justification for 2014 score**	**Performance change and other factors**
Overall score	**D**	**D+**		**Performance improvement (dimension ii))**
(i) Extent of unreported extra-budgetary operations (other than donor-funded expenditure)	D	D	The level of unreported extra-budgetary expenditure (other than donor-funded projects) constitutes more than 10% of total expenditure	No change
(ii) Extent of income/expenditure information on donor-funded projects included in fiscal reports	D	A	Complete income/expenditure information for 90% (value) of donor-funded projects is included in fiscal reports, except inputs provided in-kind	Performance improvement

21. This indicator assesses the extent to which government operations take place which are not included in budget estimates or expenditure out-turn statements. It is assessed on the last FY for which reliable information exists on actual expenditure by extra-budgetary entities: FY 2013.

(i) Extent of unreported extra-budgetary operations (other than donor-funded expenditure)

22. Unreported operations in GoKR arise from: (i) an extra-budgetary entity in the form of the Social Fund; (ii) quasi-fiscal losses principally arising in the energy sector.

Social Fund

23. In 2013 the Social Fund reported a turnover of approximately 35 billion Som, equivalent to 26% of general government expenditure (State Budget plus Social Fund) or 39% of central government (Republican Budget) expenditure. Although the Social Fund provides full ex ante and ex post reporting to Parliament, this has been a separate process in a different timescale from the main fiscal reports (apart from in 2011 when the budget for 2012 was submitted to parliament along with the State and Republican budgets). The absence of an overall view of central government finances means that this reporting arrangement does not satisfy the test of fiscal reporting. Because the expenditure of the Social Fund is equivalent to about a third of the Republican Budget (see Table 6 in Chapter 2 above), the score for PI-7(I) would in any event be D.

Quasi-Fiscal Losses

24. A recent[2] World Bank Public Expenditure Review on the Power Sector has highlighted the issue of substantial accumulated losses incurred by the state-owned electricity companies as a result of electricity tariffs being set significantly below cost levels. The report notes that from 2007-2012, the sector's actual costs incurred per kilowatt hour of domestic consumption were, on average, 35 percent higher than the average cash collected from domestic end-users. It emphasises that the gap

[2] Dated May 2014

between actual costs and cash collections is a result of tariffs which fail to reflect costs incurred per kWh of gross generation, rather than a shortfall in collections. The actual cost of generating, transmitting and distributing one kWh of power in the Kyrgyz Republic was, on average, 36percent higher than the average end-user tariff from 2007 to 2012.

25. The financial gap has fiscal and quasi-fiscal consequences in terms of financial support by GoKR to the power sector, budgetary loans and grants and the write-off of accounts receivable. The sector is also subsidized by implicit or “quasi-fiscal” means, namely, under-spending on maintenance and capital improvements, and accumulation of accounts payable. These quasi-fiscal means of subsidizing the sector are, in effect, contingent liabilities which will have real fiscal consequences in the future as even larger investment will be required to rehabilitate heavily deteriorated assets. Overall, the World Bank estimates that, in 2012, the sum of fiscal and quasi-fiscal deficits exceeded 8 billion Som, of which by far the largest part was attributable to below-cost recovery tariffs reflecting government policy decisions.

26. Given the size of the Social Fund and the issue of quasi-fiscal losses, the level of unreported operations (as defined by the PEFA criteria) is well in excess of 10% total expenditure. Score: D

(ii) Extent of income/expenditure information on donor-funded projects included in fiscal reports

27. The Public Expenditure Investment Programme (PIP) captures all donor-funded projects and programmes. The PIP is fully reported at both Budget and out-turn stages, so the rating is A. (Further information is provided in Indicator D-2 below.) Only some relatively small technical assistance projects are excluded from the budgeted figures.

PI-8: Transparency of Inter-Governmental Fiscal Relations (Scoring method M2)

Indicator/Dimension	**2009 score**	**2014 score**	**Justification for 2014 score**	**Performance change and other factors**
Overall score	**B**	**A**		**Performance improvement**
(i)) Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations)	C	A	The amounts of almost all resource transfers are determined with reference to rules-based formulae with reasonable transparency.	Performance improvement
(ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year	B	B	Most information on transfers is supplied to local authorities before the start of the budget year	No change
(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to	A	A	Full reporting of fiscal information, broken down by economic and functional classifications, takes place both in-year and at the end of the year.	No change

sectoral categories.				

28. This indicator has been assessed in respect of FY 2013, the last completed year as all necessary information is available for that period. There have been significant changes in the system and financing of sub-national government since the last PEFA assessment in 2009. Since 2012 there have been only two levels of government, central and local, each with its own budget, which, taken together, comprise the State Budget. In total, there are now 484 local authorities, made up of 453 essentially village governments and 31 urban authorities, including the cities of Bishkek and Osh.

29. Financing arrangements have undergone major change. Local authorities now receive 50% of the income tax and sales tax collected in their areas of jurisdiction – a reflection of Government's policy of increasing the financial self-sufficiency of local government. In addition, the previous system of categorical grants – a form of specific grant that covered the cost of teachers' salaries – was abolished in August 2013 with the responsibility being transferred to the Ministry of Education and Science(MOES). The remaining grant transfers to local government are the equalising grant, stimulating grants and, from time to time, grants to cover the financial implications of central government policy decisions such as public sector pay increases or fuel tariff increases implemented after local budgets were set.

(i) Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations)

30. The transfer of financial resources to local authorities is essentially rules-based. In aggregate the 2014 State Budget provided for local authorities to receive about 87 per cent of their total expenditure (13 billion KSG out of total budgets of 15 billion KSG – see Table 6 in Chapter 2 above) automatically through their allocated share of national taxes. Much of the remainder took the form of equalising grants, which are essentially designed to bring all local authorities up to at least a minimum level of service provision. They are allocated on the basis of a published, but rather complex formula that few stakeholders really understand; however, the resulting transfers are rules-based and the results reasonably predictable. In a recent Public Expenditure Review, the World Bank has made a number of recommendations aimed at improving the formula's ability to identify those factors that best explain the difference between local authorities in their need to incur expenditure.

31. Stimulating grants are project-based and operate in accordance with a bidding system. Successful applicants receive funding support to supplement the resources that they themselves are able to provide for the proposed project. Decisions are based on clearly- defined criteria, but the amounts are obviously unknown to the recipient authorities at the time they have to prepare their budgets. However the overall amounts are only about 3 percent of total local government revenue.

32. The share of national taxes receivable by local authorities is clear and approved by Parliament as part of the annual budget law. This revenue is collected by the State Tax Service and administered by the rayon Treasuries, although it does not pass through the national budget. Since the 2013 changes in tax and grant arrangements, local authorities in aggregate receive nearly 90 per cent of their income through their share of tax receipts, with Equalising Grants providing a further 4 per cent. Thus almost all local government receipts are governed by objective and rules-based systems. The score is therefore A.

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

33. Estimates of revenues from equalising grants and the share of national taxes are known before the start of the financial year. The only late notification concerns the stimulating grants where the total is known but the result of the bidding process is not known until several months into the budget year. Budgets have to be prepared without regard to the possible receipt of stimulating grants, which are used to finance projects additional to the ongoing activities of local authorities. Once the allocation of the grants is known, the budgets of the selected local authorities are revised accordingly. However, the total of stimulating grants is small, indicating the score B.

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

34. Alongside the preparation of the Republican Budget MoF collect the budgets of local authorities which are consolidated with the Republican Budget into the State Budget. There is regular, routine reporting of financial information for all local authorities in KR, broken down by economic and functional classifications. Funds are released directly on a monthly basis from the Central Treasury to local authority bank accounts based on the cash flow forecasts submitted by the local authorities when their budgets are approved by the local council. There is almost daily reconciliation of the bank balances of local authorities. The Rayon Treasury tracks the flow of funds and acts as an intermediary should a local authority wish to make a significant change to its spending pattern. Local authorities submit monthly expenditure returns and consolidation of local government spending takes place on a quarterly basis. Each year the central Treasury issues an instruction towards the end of the year fixing the timetable for the submission of returns by each Rayon Treasury office covering both expenditure met from the Republican Budget and that which is met from local budgets. Rayon Treasuries also submit annual financial statements, including a balance sheet. All this information is consolidated into the report on State Budget execution which is completed within 5 months of the end of the financial year. Score A

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

Indicator/Dimension	**2009 score**	**2014 score**	**Justification for 2014 score**	**Performance change/ Other factors**
Overall score (M1)	**C+**	**C+**		
(i) Extent of central government monitoring of AGAs and SOEs	C	C	20 largest SOEs report quarterly to State Property Fund (SPF) on their financial performance, which informs MoF about turnover and profits. But no efforts have so far been made to use this information as a basis for action to improve SOE performance.	More systematic provision of information to SPF, but monitoring remains essentially passive.
(ii) Extent of central government monitoring of local governments' fiscal position	A	A	Local Self-Governments (LSGs) cannot borrow without MoF permission, and in practice only Bishkek City issues bonds to finance infrastructure investment.	No change.

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

35. The State Property Fund (SPF) is responsible under the 2011 Law on Monitoring State-Owned Enterprises (SOEs) for managing the Government's proprietary interests in SOEs and in the 63 Joint Stock Companies in which the Government holds shares. SPF appoints the directors on the proposal of the Ministry which sponsors each SOE, and receives quarterly reports on financial performance from the 20 largest SOEs in a format it prescribes. These are used to provide consolidated reports to the Ministry of Finance about the capital structure, turnover and profits/losses and borrowing of the enterprises concerned. But it does not appear that these reports contain any analysis of the financial results of the enterprises concerned, their implications for fiscal risks, or possible action to improve their profitability and thus their contribution to the budget. SPF represents the Government at the Annual General Meetings of each company, and appoints the directors where the Government holds a controlling interest. It is also responsible for privatisation of state assets under a specific programme approved by the Parliament for the years 2012-14, on which it makes quarterly reports. SPF indicated that only about half of SOEs and companies in which the Government owns shares are profitable, so that the risks of losses are quite widespread.

36. The Chamber of Accounts in Section 4.2 of its Annual Report for 2012 was critical of the arrangements for managing publicly-owned assets. The problems identified were the absence of a clear regulatory framework, the lack of monitoring of management efficiency, the vagueness of the privatisation programme, and the failure to apply International Financial Reporting Standards (IFRS) (in presenting asset values and the accrual of revenue and expenditure) thereby making any financial reporting unreliable. As already noted in PI-7(i) above, the largest fiscal risk arises in the energy sector, where the Quasi-Fiscal deficit at the end of 2012 amounted to 8.7 billion KGS (see World Bank Report on the Energy Sector, April 2014). This long-standing problem arises because electricity is sold at prices controlled by the Government at levels well below what is needed to recover costs, including those of maintaining the generation and distribution facilities in serviceable condition. The power sector absorbed about half the externally-financed Public Investment Programme in 2012-14, accounting for about 10 billion KGS each year. The Government does not guarantee the external borrowing needed to finance these investments, but itself assumes responsibility for the loans which are then on-lent to the enterprises concerned.

37. There are two important Autonomous Government Agencies (AGAs): the Social Fund (SF), and the National Bank of the Kyrgyz Republic (NBKR). NBKR poses no fiscal risk for the Government. SF is required to present a balanced budget to Parliament, but in a timescale later than the Republican (and State) Budget; Article 80 of the Constitution prevents the Parliament from adding further expenditure unless the Government has identified the necessary sources of finance. SF expenditure at 34 billion KGS represented about 26 per cent of total General Government expenditure in 2013; 23.5 billion KGS was financed by social security contributions, with the remaining 10.5 billion KGS provided from the Republican Budget to finance minimum guaranteed pensions and other transfers to the poor.

38. A new draft law is under preparation on the monitoring and management of SOEs which will respond to Chamber of Accounts criticisms; present arrangements are based on a Government Decree. Meanwhile in the absence of any consolidated analytical reporting, the PEFA score for this dimension remains C.

(ii) Extent of central government monitoring of local self-governments' fiscal position

39. Article 46 of the law on the Main Principles of Budget Law requires Local self-governments (LSGs) to present balanced budgets, with any deficit financing treated as part of revenue for this purpose. LSGs are permitted to borrow to finance investment with the consent of MoF, subject to debt service payments not exceeding 20 per cent of the previous year's revenue. In practice only Bishkek City has made any use of this freedom to borrow: the city currently plans to issue about 50 million KSG of bonds each year to finance infrastructure improvements. Score for this dimension, as in 2009: A

PI 10: Public access to key fiscal information

Indicator	**2009 score**	**2014 score**	**Justification for 2014 score**	**Performance change and other factors**
Score (M1)	**C**	**C**		
Elements of information accessible to public	Only one of six elements was made available	Two out of six elements are fully available	Only partial information is made available for three of six elements, and public access to one is doubtful	Full information available about contracts and audit reports, and partial information about budget documentation and execution

40. Since 2009 public access to information has improved substantially, with full publication of the Chamber of Accounts (the Supreme Audit Institution) annual report on budget execution and all contract awards. But expenditure on defence and public order is excluded from the published versions of budget documentation, monthly budget execution reports and annual budget execution report. The review team were told that when MoF began publication of fiscal reports on its website in 2011, the National Security authorities initiated a prosecution of the officials concerned, on the ground that the release of information about expenditure on defence and public order endangered national security, and contravened a 1993 Government Decree.

Element	Available
(i) *Annual budget documentation:* The draft budget, apart from information about expenditure on defence and public order, is published when it is submitted to Parliament (Jogorku Kenesh)	No
(ii) *In-year budget execution reports:* These are published on the MoF (www.minfin.kg) and central Treasury (www.kazna.gov.kg) websites, subject to the same exclusions as (i)	No
(iii) *Year-end financial statements:* These are published on the MoF website, subject to the same exclusions as (i) and (ii), in May each year when they are sent to Parliament and Chamber of Accounts (CoA)	No
(iv) *External audit reports:* The annual report by the CoA is published on its website when the report is submitted to Parliament (www.esep.kg)	Yes
(v) *Contract awards:* All contract awards by MDAs and LSGs above a threshold of 50,000KGS are published on a dedicated MoF website (www.zakupky.okmot.kg) within two days of award	Yes
(vi) *Resources available to primary service units:* There is no systematic publication of this information. Returns to MoF enable this information to be extracted, and citizens should be able to obtain it under freedom of information legislation. But there was no evidence of information actually being made available in this way.	No

41. Full information is published in respect of two of the six elements, and partial information about three more, resulting in the score C. If expenditure on defence and public order were not excluded from publication, score would be A.

3.3 Policy-based budgeting

PI-11: Orderliness and participation in the annual budget process

Indicator/Dimension	2009 score	2014 score	Justification for 2014 score	Performance change and other factors
Overall score (M2)	**B**	**B**		
(i) Existence and adherence to a fixed budget calendar	B	B	A clear annual budget calendar exists, but the time available for MDAs to prepare submissions is only 4 weeks.	No change
(ii) Guidance on the preparation of budget submissions	A	A	A comprehensive and clear budget circular is issued to MDAs, with expenditure ceilings already approved by the Government collectively.	No change
(iii) Timely budget approval by the legislature	D	C	Two of the last three budgets have been approved by the Parliament before the beginning of the budget year, but the third was delayed by more than two months.	Performance improvement

(i) Existence and adherence to a fixed budget calendar

42. The Minister of Finance issues each year a budget calendar based on the Law on the Main Principles of the Budget. In accordance with this, the main steps in the formulation of the Republican (central government) Budget are as follows:

1. By April 9, MDAs provide to MoF financial and economic indicators for the coming three years based on their sector strategies, and line Ministries provide draft MTBF projections.
2. By 30 April, MoF submit budget ceilings for line Ministries taking into account MTBF returns for approval of Coordination Committee (of Ministers principally concerned).
3. By 31 May MoF sends Budget Circular to MDAs with approved ceilings and other instructions for preparing budget submissions.
4. By July 1, MDAs submit draft budgets to MoF.
5. By 15 August, following negotiations between MoF and MDAs, MoF submits draft Republican Budget to the Government.
6. By September 1, Government submits draft Republican Budget to Parliament, where it is discussed in three readings, with detailed Committee discussions between readings in plenary session.

43. The budget calendar also includes instructions to the Social Fund, the Mandatory Health Insurance Fund (whose operations are integrated with those of the Ministry of Health), the rayon (regional) offices of MoF and the LSGs. The budget calendar is generally well adhered to within the government, although some MDAs' budget submissions might not meet the four week deadline for submissions to MoF. The situation has not changed since the 2009 PEFA assessment. Since the timetable does not allow the 6 weeks for the preparation of budget submissions required to meet the PEFA criteria for A on this dimension, score remains B.

(ii) Guidance on the preparation of budget submissions

44. The MoF Budget Circular issued each year before 1 June gives clear instructions on the preparation of budget submissions. It includes ceilings within which each MDA should work, which have previously been endorsed by the Coordination Committee made up of the Ministers principally concerned, together with Parliamentary representatives. Score, as in 2009: A

(iii) Timely budget approval by the legislature

45. The annual budget takes the form of a law enacted by the Parliament and promulgated by the President. Although it formally takes effect only when promulgated by the President, Article 81(2) of the 2010 Constitution prevents the President from making any amendments to it. Since the budget is in effect fixed when approved by the Parliament, the date of that approval – which is also the relevant date in the PEFA criteria – is taken as the relevant date for this dimension. While the 2012 Budget was not approved until March 15, 2012 , the 2013 and 2014 Budgets were approved by Parliament on December 27, 2012 and 30th December of the previous year. Since the delay in approving the 2012 Budget was longer than two months from the beginning of 2012, Score for this dimension is C. This represents a considerable improvement on the position recorded in 2009, when two of the three budgets considered were not promulgated until after the beginning of April of the years concerned.

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

Indicator/Dimension	2009 score	2014 score	Justification for 2014 score	Performance change and other factors
Overall score (M2)	**C+**	**C+**		
(i) Multi-year fiscal forecasts and functional allocations	C	C	Although detailed figures are provided each year for the three years ahead, there is little stability of planning from one year to the next.	More detail is provided for the forward years, but the figures have little traction.
(ii) Scope and frequency of debt sustainability analysis	A	A	DSA is undertaken at least annually in collaboration with IMF	No change
(iii) Existence of costed sector strategies	C	C	Although detailed figures are now produced for all sections of the budget for the three years, they can hardly be seen as strategies, since there is no real accountability for the achievement of performance objectives, and investment planning remains separate from planning of current expenditure.	Coverage is now complete across the budget, and there is a presentation of expenditure in programme format.
(iv) Linkages between investment budgets and forward expenditure estimates	D	D	The largely externally financed Public Investment Programme (PIP) is planned separately from domestically financed investment, and neither is fully integrated with planning of current expenditure.	No change

(i) Multi-year forecasts and functional allocations

46. The three year fiscal projections are prepared within the framework of the Medium Term Budget Forecast (MTBF), which includes revenue projections and projections of expenditure by administrative unit and function. MDAs' MBTF projections are taken into account each year by MoF in preparing the expenditure ceilings within which budget submissions should be prepared for approval by the Coordination Committee (see PI-11 above). But there is little consistency of planning between one year and the next. The following table compares the functional allocation of expenditure in 2015 as foreseen at the time of preparation of the 2013, 2014 and 2015 Budgets.

Table 13: MTBF Presentations for 2015

	MTBF 2012		MTBF 2013		MTBF 2014	
Function	**% of total current expenditure**	**% of total current and capital exp.**	**% of total current expenditure**	**% of total current and capital exp.**	**% of total current exp.**	**% of total current and capital exp.**
General Public Services	10.9	8.5	12.9	11.7	14.3	11.6
Defence & Public Order	17.3	12.9	12.3	9.5	11.9	10.0
Economic Services	9.8	27.6	7.6	20.9	6.5	22.1
Environment	0.5	0.3	0.5	0.4	0.7	0.6
Utility services	3.1	3.3	3.7	4.0	4.7	3.8
Health	12.8	11.3	13.6	11.3	12.5	10.7
Recreation, Culture	2.5	2.2	2.8	2.5	3.1	2.5
Education	23.3	18.9	24.9	22.3	22.1	19.2
Social Protection	19.9	14.8	22.6	17.3	24.2	19.5
Current exp. (KGSm)	107,987	74.6	103,523	76.5	106,019	80.6
Investment (domestic)		12.9		8.5		2.9
Investment (external)		12.4		15.5		16.4
Overall total exp. (KGSm)		144,717		135,399		131,470

Source: MTBF documents

47. As the table shows, plans for domestically-financed investment have been cut back very sharply as 2015 became nearer. Expenditure on social protection has increased both absolutely and as a proportion of the total. Investment has become increasingly concentrated in the economic services category (roads and energy sector), and increasingly reliant on external financing. Current expenditure on education and health looks relatively stable, although squeezed as 2015 approaches, while investment plans in both services have been cut back. Overall the comparisons show the difficulty of stable planning at a time when the economy is operating in an unstable external environment. Dimension score: C

(ii) Scope and frequency of debt sustainability analysis (DSA)

48. DSA has been carried out regularly in the context of consultations at least annually with the IMF and World Bank. The most recent detailed update is contained in IMF Country Report 13/376 which presented the Fifth Review of the 3-Year Extended Credit Facility in December 2013. This confirmed a relatively satisfactory position, provided that amounts of new external debt are prudently contained and contracted on concessional terms. Amounts and analysis of external and domestic debt are published monthly on the MoF website as well as being reported to the President and Parliament. Dimension score, as in 2009: A

(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditures

49. The MTBF now covers the budget as a whole, and a start has been made in presenting the budget in programme format. However, the sector strategies included in the MTBF documents have not so far proved to be consistent with the expenditure ceilings subsequently issued by MoF in the context of the preparation of actual budgets. Detailed figures by administrative and functional classification are now provided for the budget year and two subsequent years. But the expenditure projections for each MDA are not presented together with time-bound objectives which would make it possible to assess whether or not a strategy was being implemented according to plan. Rather the figures for the second and third years are initially derived from adjustments to the previous year's expenditure on each budget line. Score: C

(iv) Linkages between investment budgets and forward expenditure estimates

50. Investment planning remains divided, with different sections of MoF responsible depending on whether investments are financed from domestic or external sources. The choice of projects for the Public Investment Programme (PIP) from the list included in the National Sustainable Development Strategy 2013-17 depends on the interests of donors in financing investments in particular sectors. Neither externally- nor domestically-financed investment is consistently integrated into sector strategies across the whole government which are consistent with prospectively available resources as set out in each year's budget.

Score, as in 2009: D

3.4 Predictability and control in budget execution

PI-13 Transparency of taxpayer obligations and liabilities

Indicator/ Dimension	2009 score	2014 score	Justification for 2014 score	Performance change and other factors
Overall score (M2)	**C**	**B**		
(i) Clarity and comprehensiveness of tax liabilities	C	B	2008 Tax Code simplified arrangements and reduced number of taxes and required returns. But some gaps and uncertainties of interpretation (e.g. transfer pricing) remain.	New Tax Code represents an important improvement
(ii) Taxpayer access to information on tax liabilities and administrative procedures	C	B	State Tax Service (STS) and Customs websites contain much useful information. One-stop shops facilitate tax compliance. But websites only	Improvement in taxpayer services

			updated at intervals.	
(iii) Existence and functioning of a tax appeals mechanism	C	B	Administrative appeals mechanism appears well – established in MoF, with appeals often allowed. But no independent consideration other than through Courts' system..	Appeals procedure set out in detail in new Code, and provision made for further appeals to the Court.

(i) Clarity and comprehensiveness of tax liabilities

51. The 2008 Tax Code currently in force is a big improvement on the previous arrangements. The number of taxes was reduced from 16 to 8, and the scope for differences between interpretations narrowed. The Code sets out arrangements in full detail, so that there is no need for implementing regulations. But the problem of differences of interpretation has yet to be completely overcome, while tax advisers consider that there are still gaps, e.g. concerning transfer pricing and some aspects of customs. Score B

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

52. STS is implementing a tax administration reform programme through IFC (with financial support from DFID and SECO) which includes the e-filing of tax declarations. STS and Customs have made efforts to improve the availability of information, notably through their websites, and the development of 33 "One-stop Shops" for tax information and registration. Customs operate a website which undertakes to answer any question within 14 days. According to STS the number of visitors to its web-site (www.sti.gov.kg) increased from 1 million in 2013 to 2 million to 2014. There was also a 37 percent increase (from 26,000 to 35,600) in calls (which are free of charge) to STS call centres. Tax advisors pointed out, however, that websites were not always up-to-date. This initiative, combined with websites and regular arrangements for STS to consult tax professionals, indicates the score: B

(iii) Existence and functioning of a tax appeals mechanism

53. Appeals are regulated by Articles 146-152 of the 2008 Tax Code. A taxpayer has 30 days to appeal against any decision by the tax authorities, who must respond within 30 days if they reject the appeal. If a taxpayer is not satisfied with the response of the tax authorities, he may appeal to the Courts, which was not possible under the previous Code. An appeal suspends the decision of the tax authorities until it is decided, and penalties and interest are based only on amounts considered to be correct once the appeal has been decided. Tax advisors appear reasonably satisfied that appeals are properly considered by senior STS staff, with 38 per cent of appeals by value (22 per cent of 314 appeals) in 2013 decided in favour of the taxpayer. The success rate for appeals was much lower in 2012, 11 per cent only of 336 appeals and 4 per cent by value going in favour of the taxpayer, but in 2011 36 per cent of 196 taxpayers were successful, with 46 per cent by value being determined in their favour. The amount in dispute in 2013 amounted to about 6 per cent of STS collections. Only 8 taxpayers' appeals to Customs were referred to the Courts during 2012-2013, with only a small amount of revenue (16mKGS) in dispute. Appeals to the Courts are very protracted, and it is doubtful whether the judges have sufficient understanding of business operations; in the view of tax advisors a better approach would be to establish an independent body to hear tax appeals staffed by appropriately qualified people. Because there is no provision for administrative appeals to a body independent of STS and Customs, score is B.

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

Indicator/Dimension	2009 score	2014 score	Justification for 2014 score	Performance change and other factors
Overall score (M2)	**C+**	**B**		
(i) Controls in the taxpayer registration system	C	B	STS has a single database covering all taxpayers and taxes for which it is responsible. There are links to the business and social contributions registers.	Previously the STS database consisted of separate elements in each rayon office without links to other databases.
(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	B	B	Interest is charged at 32.8 percent a year where payment is delayed, with fines of up to 100 per cent of the amount of under-declarations, depending on the amount and whether or not under-declarations were deliberate.	Arrangements for interest and penalties have been simplified under the 2008 Tax Code.
(iii) Planning and monitoring of tax audit and fraud investigation programmes	C	B	STS taxpayers are selected for audit by reference to risks as measured by software provided by ADB. Customs select traders for inspection based on their previous records.	Previously there was no risk-based approach to the selection of taxpayers for audit.

(i) Controls in the taxpayer registration system

54. Since 2009 the separate records in each rayon tax office have been integrated into a single database. Registration of a business automatically results in registration for tax, with a unique Taxpayer Identification Number (TIN) used for all taxes. Customs has a separate database of traders' customs declarations,, and provides STS with information about VAT it collects on imports. Individuals liable for Social Fund (SF) contributions have Personal Identification Numbers (PIN) assigned by the National Statistics Committee (NSC), which also serves as their TIN. Self-employed people have to register with both STS and NSC. Bank accounts cannot be opened without a TIN/PIN. STS has access to the SF database, and a pilot project is currently operating as the first stage in amalgamating the collection of income tax and SF contributions due in respect of employees and the self-employed. Dimension score: B

(ii) Effectiveness of penalties for non-compliance with registration and tax declaration

55. Penalties for non-registration are low (of the order of US$100). But delay in payment results in interest being charged on the outstanding balance at a rate of 32.85 per cent a year. In addition a penalty of up to 100 per cent of the amount of any under-declaration may be charged, as well as the amount of tax owed. Thus a taxpayer who deliberately withholds payment for a year may have to pay well over twice the original amount due. In addition STS can enforce payment by freezing bank accounts, and has been making increasing use of this power: whereas 330 bank accounts were frozen in 2013, 695 had already been frozen before the end of November 2014. The number of cases where STS have frozen bank accounts, after other collection efforts had not produced results, suggests that there remains a significant incidence of non-compliance .Penalties for failure to pay the correct amount of customs duties are being increased at the time of the accession of KR to the Eurasian Economic Union, while the Concept Document for the development of Fiscal Policy 2015-20 envisages increases in penalties associated with taxes collected by STS. Meanwhile it appears that the sanctions are effective in securing eventual compliance; tax arrears are relatively low, and the bulk of them are collected during the following year (see PI-15(i) below). Customs can normally enforce payment before the goods are allowed into the country. Dimension score: B

(iii) Planning and monitoring of tax audit programmes

56. Since May 2013 firms throughout the country have been identified for tax audit by an automated risk analysis programme provided by the Asian Development Bank. This system selects taxpayers for audit on the basis of 19 criteria. This approach applies to VAT and company income tax, and can be modified to include further criteria in the risk analysis. Customs use their database of traders' records to target those with previous attempts to avoid payment. Dimension score: B

PI -15 Effectiveness in the collection of tax payments

Indicator/Dimension	**2009 score**	**2014 score**	**Justification for 2014 score**	**Performance change and other factors**
Overall score (M1)	**D+**	**B+**		
(i) Collection ratio for gross tax arrears	D	B	Arrears are about 7 per cent of collections. STS calculate that collection ratio exceeds 80 per cent.	Improvement in performance
(ii) Effectiveness of transfer of tax collections to the Treasury	A	A	Revenue is paid directly to Treasury through correspondent banks, with details passed on to tax authorities on a daily basis.	No change
(iii) Frequency of complete accounts reconciliations between tax assessments, collections, arrears records and receipts by the Treasury	A	A	STS, Customs and Treasury cash collection records are reconciled monthly, including a reconciliation of the positions of individual taxpayers, and taxpayers are notified monthly if there are discrepancies in their records.	Performance improvement through integration of records

(i) Collection ratio for gross tax arrears

Table 14: Analysis of payment arrears collections for 2012-2013 (million KGS)

	2011	**2012**	**2013**
Arrears at the beginning of the year	**1427.7**	**1506.9**	**1493.1**
Amount collected of initial arrears	**1261.8**	**1236.4**	**1313.9**
Percentage of initial arrears collected	**76.0**	**82.0**	**88.0**

Source: STS

57. Customs arrears were shown to be less than one per cent of collections. STS stated that arrears represent about 7 per cent of collections. While the amount of arrears is significant, i.e. over 2 per cent of collections, the average collection ratio for 2012-13 was over 80 per cent, which qualifies for the score: B

(ii) Effectiveness of revenue transfers to the Treasury

58. Tax payments are made into commercial banks in prescribed formats, which enable the identification of the taxpayer and the tax concerned. The funds are remitted to the Treasury the same day as part of the clearance process, and reconciled by local tax offices to the integrated database using copies of the payment forms provided by the recipient banks. Score as in 2009: A

(iii) Reconciliation of tax assessments, collections, arrears records and receipts by the Treasury

59. Daily reconciliation is carried out by the Treasury between STS and Customs records of revenue remitted and funds reaching the Treasury account at the National Bank. Taxpayers' accounts are updated as funds are received. A reconciliation statement is produced each month showing revenue in accordance with each tax. The integrated database enables STS to review each taxpayer's account each month, and send notifications to taxpayers where there are discrepancies between amounts owed and amounts paid. Score as in 2009: A

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

Indicator/Dimension	**2009 score**	**2014 score**	**Justification for 2014 score**	**Performance change and other factors**
Overall score (M1)	**D**	**C+**		
(i) Extent to which cash flows are forecast and monitored	D	A	A cash flow plan is prepared at the beginning of the year, and thereafter updated monthly.	Some refinement of analysis since 2009, but 2014 score is based strictly on the cash flow monitoring process rather than on the extent to which it facilitates the commitment of expenditures .
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	D	C	Funds are released to MDAs one month at a time.	Even one month's assurance of the availability of funds was not provided at the time of the 2009 PEFA assessment.
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs	D	C	There are numerous adjustments to budget allocations which are decided by MoF and eventually approved by Parliament.	Annual budget laws have given MDAs a little more scope to reallocate expenditure within functional totals than was available in 2009.

(i) Extent to which cash flows are forecast and monitored

60. Once the Budget has been approved MoF asks MDAs to provide quarterly forecasts of their total approved expenditure by function and economic classification. MoF Budget Department and Treasury then prepare an annual financial plan setting out quarterly allocations to each MDA, taking into account the expected seasonal pattern of revenue, the majority of which is normally received during the second half of the year. MDAs then have to work within these quarterly allocations, although they may apply to MoF to bring particular expenditures forward during the year. A cash flow forecast is then prepared for the year, which is updated monthly in the light of experience of actual revenue and expenditure flows. The main elements of these arrangements have not changed much since 2009, with the score then given based on the absence of a cash flow plan which would give MDAs sufficient assurance of cash availability for them to manage their expenditure efficiently and economically. Dimension score in 2014, reflecting the judgment that the extent of MDAs' assurance of funds availability within their approved budget totals is more relevant to dimension (ii): A

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

61. MDAs have assurance that funds will be provided for protected items of expenditure (wages, transfers, social benefits, food and medicines which generally account for 50 per cent or more of their total expenditure) as they become due. Other expenditures (purchases of goods and services, utility costs, maintenance expenditure, capital expenditure) have to be planned within the quarterly allocations, with actual cash availability notified a month in advance in accordance with decisions by the MoF Management Committee chaired by the Minister of Finance. These arrangements, which remain much as they were in 2009, may lead to delays in placing orders, and inefficient use of available funds, with expenditure bunched at the end of the year when funds are finally released. Dimension score: C

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

62. Article 15 of the law on the Main Principles of Budget Law governs the extent of reallocations of budget provision within the approved totals for main functions. Allocations for protected items may not be reduced, but MDAs may reallocate other expenditure on sub-functions, or the same type of expenditure between sub-functions with MoF permission. Reallocations of expenditure between quarters require the approval of MoF. Other reallocations between functions or between MDAs require the approval of the Budget and Finance Committee of Parliament, and subsequent confirmation in a revised budget. As is clear from the divergences between budget and out-turn analysed in PI-2(i) above, there are extensive reallocations which are approved by Parliament, in many cases after the event (there was only one amendment to the budget in 2013, which was approved by Parliament in December of that year and again there is only one recently drafted in 2014) and sometimes without prior approval of the Parliament's Budget and Finance Committee.

Dimension score: C

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

Indicator/Dimension	2009 score	2014 score	Justification for 2014 score	Performance change and other factors
Overall score (M2)	**B**	**A**		
(i) Quality of debt data recording and reporting	A	A	A computerised debt recording system is in use, and there are no doubts about the quality of information on both external and domestic debt	No change
(ii) Extent of	C	B	Most government balances are held in	Previously there

consolidation of government cash balances			accounts at the National Bank which are reconciled daily. Funds associated with externally-financed projects (mainly in foreign currencies) are held in commercial banks. The Social Fund balances are in commercial banks.	were numerous unauthorised accounts in commercial banks.
(iii) Systems for contracting loans and issuing guarantees	B	A	There are no government guarantees. New external borrowing requires the approval of MoF and Parliament. 2014 law requires nominal value of all debt not to exceed 100 per cent of GDP, and of external debt not to exceed 60 per cent of GDP. Policy requires all external loans to have a 35 per cent concessional element.	Improvement in score reflects Debt Sustainability Analysis (with IMF and World Bank) regularly undertaken, and clear policy limits placed on debt.

(i) Quality of debt data recording and reporting

63. External debt data are held in a Debt Tracking System developed by the US Treasury and provided by Latvia in 2000. The system calculates all the interest and principal repayments due. The database of domestic debt has all information about government securities, coupon dates, etc and there are weekly reports on the securities market, the results of auctions and the debt profile. The present debt management strategy aims to extend the maturity of domestic debt: thus there were two 5-year bond issues and one 3-year bond issue in 2014. New external borrowing is only undertaken if there is a 35 per cent grant element. There are monthly reconciliations of data from Treasury, National Bank and Public Debt Division data, and monthly publication of the debt stock. Dimension score, as in 2009: A.

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

64. All Republican and local government transactions take place through the Treasury accounts at the National Bank. Drawings on funds held in separate commercial banks associated with externally financed PIP projects do not pass through the Treasury accounts but information is provided monthly in order to ensure that they are reflected in the government's reports. Domestic co-financing of mainly externally-funded projects goes through the Treasury accounts. The Government proposed to donors that all PIP project accounts should be transferred from commercial banks to the Treasury, but hitherto this has not proved acceptable to donors. Social Fund transactions remain wholly outside the Treasury system. The unauthorised MDA bank accounts reported in 2009 are no longer in operation. There are plans to bring the Social Fund within the Treasury system as well as PIP projects (externally financed part) when the Treasury Management Information System is fully implemented. Dimension score: B

(iii) Systems for contracting loans and issuing guarantees

65. No new government guarantees have been issued since 2000; where finance is provided for major SOE investments, notably in the power sector, the government takes the loan, and on-lends the funds to the enterprise concerned. Bishkek City has issued 100m KGS bonds to finance investment, under the control of the Ministry of Finance, but without any formal government guarantee. New Government borrowing has to be authorised by Parliament as part of the annual budget law. A 2014 amendment to the law on Government and non-Government Loans of the Kyrgyz

Republic (June 2, N 86) sets an overall limit of 100 per cent of GDP on the nominal value of total government debt; the nominal value of external debt is to be kept within 60 per cent of GDP. External borrowing is only undertaken where the grant element is equivalent to 35 per cent of the amount of any new loan. Dimension score: A.

PI-18: Effectiveness of payroll controls

Indicator/Dimension	**2009 score**	**2014 score**	**Justification for 2014 score**	**Performance change and other factors**
Overall score	**D+**	**D+**		
(i) Degree of integration and reconciliation between personnel records and payroll data	D	D	The pay system remains manual and highly decentralised with no systematic reconciliations at MoF or MDA level.	The State Civil Service Agency (SCSA) has embarked on a programme to bring order into the payroll across the government, but this will take years to implement.
(ii) Timeliness of changes to personnel records and the payroll	D	A	All MDAs consulted asserted that pay is adjusted without delay when changes take place.	2009 assessment had no evidence on this point.
(iii) Internal controls of changes to personnel records and the payroll	C	C	MDAs confirm adequacy of hierarchical supervision of changes to personnel records, but no assurance of detailed controls over individuals' pay.	No change
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	D	B	Chamber of Accounts (CoA) carried out an audit specifically directed at the payroll across the government, which was reported in 2013.	CoA audit made recommendations for improvement in the payroll system.

66. No self-evaluation evidence was presented to the review team in relation to PI-18. Interviews were held with the Finance sections of the Ministries of Education and Health, the State Tax Administration, MoF and the State Agency for Human Resources (SAHR).

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

67. Payroll is decentralised to the level of public service delivery units reporting to rayon offices or directly to the relevant ministry. Financial control is exercised by reference to approved staff numbers in different grades. Provided a budget user's request for payroll funding is within this envelope, the required amount will be transferred to the MDA concerned. No analyses are carried out to ensure that the pay of particular individuals (including all the special allowances of different kinds established as part of the payroll) is fully justified. Officials of both the Ministries of Health and Education and Science considered that this situation can lead to the pay of individuals being increased to absorb amounts attributable to vacant posts. Where allocated funding has not been spent, MDAs can apply to Government for permission to distribute the balance in bonus payments to staff. 2012 Public Expenditure Tracking Surveys found large variations between actual pay of people doing similar jobs in different parts of the country. The Chamber of Accounts (ChoA) has repeatedly found substantial amounts of salary amounts paid contrary to applicable legislation in the course of its annual audits of budget execution. The 2013 report lists overpayment of wages in excess of 600mKGS. SAHR, MoF and the Ministry of Labour, Migration and Youth, with the assistance of the World Bank Capacity Building for Economic Management programme, have prepared plans for a unified approach to pay and allowances which was endorsed by a Government Decree in June 2014. An inter-Ministerial Committee is co-ordinating the implementation of comparable reforms in the defence and law and order sectors. The intention is to bring all government pay within a grid which takes account of grade, age, experience and qualifications of individuals for different posts, but this can only be achieved over a period of time, given the need to avoid pay reductions where the people concerned have been less well situated. Dimension score: D

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

68. All the MDAs consulted considered that arrangements for adjusting payrolls to reflect changes in individuals' circumstances worked well enough. There was no sign that significant delays could be expected before pay was re-evaluated to reflect changed circumstances, and therefore little experience of such delays The timing of changes to the payroll does not appear to have been the subject of ChoA criticism.. Dimension score: A

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

69. MDAs stated that their arrangements for hierarchical supervision of staff grading were generally adequate. These have not been the subject of criticism by ChoA. But as in 2009 there are no arrangements to check that changes in pay are correctly warranted. SCSA has recognised the need to bring order into the arrangements for pay, and one element of the Treasury Management Information System (TMIS) project which was terminated in November 2013 would have established a government-wide Human Resources Management Information System database to serve as an essential element in ensuring that the pay of all government employees correctly reflects their position, qualifications and experience. In the event this system did not perform as intended, and the planned new approach to the provision of a satisfactory TMIS will need to incorporate a module capable of being linked to new centralised arrangements for the operation and control of the payroll throughout MDAs. Meanwhile, Dimension score, as in 2009: C

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

70. ChoA undertook an audit of payroll arrangements throughout the government in 2012, which was reported in 2013. This audit, which has not been published, confirmed the need to bring the payroll under firm control, and made recommendations for action along the lines being pursued by MoF, ,SAHR and the Ministry of Labour, Migration and Youth. Since a government-wide audit of the payroll has been carried out within the last three years, Dimension score is B.

PI-19: Competition, value for money and controls in procurement *(Scoring Method M2)*

Indicator/Dimension	2009 score	2014 score	Justification for 2014 score	Performance change/ Other factors
Overall score (M1)	**D+**	**B**		
(i) Transparency,		B	Legal and regulatory	Changed

comprehensiveness and competition in the legal and regulatory framework.			framework meets 4 out of 6 requirements	methodology; not comparable
(ii) Use of competitive procurement methods		B	Competitive procurement methods are used in the majority of cases. Departures from this are normally justified.	Changed methodology; not comparable
(iii) Public access to complete, reliable and timely procurement information		A	There is comprehensive website access to key procurement information apart from the results of procurement complaints.	Changed methodology; not comparable
(iv)Existence of an independent administrative procurement complaints review system		D	There is no independent complaints mechanism	Changed methodology; not comparable

71. This indicator was revised in 2011 and now contains four dimensions. It is scored using the M2 methodology.

(i) Transparency, comprehensiveness and competition in the legal and regulatory framework

72. New legislation covering public procurement is currently being considered by Parliament, and has been the subject of public hearings. The draft legislation is said to have been developed on the basis of, and be consistent with international practice. Once the law has been passed, subordinate legislation will be developed for approval by Government. The broad aim of the new legislation is to increase transparency.

73. The current and proposed regulatory framework applies to all procurement using government funds other than where funding is provided by donors[3]. It has precedence over any other legislation in terms of procurement issues. The draft legislation provides for the establishment of an inter-agency Committee on Complaints, compared to the current situation where complaints are decided by the Public Procurement Department of the Ministry of Finance alone. The aim is to increase the independence of the complaints mechanism, especially by including representatives of civil society nominated by the Union of Entrepreneurs. However, there is a question about the viability of the proposed new arrangements, since there is no provision for payment of independent Committee members who may be required to spend appreciable amounts of time hearing complaints. Administratively, the procurement process is managed and monitored by the Department of Public Procurement of the Ministry of Finance. This was established by a Government Decree dated 3 February 2014 and became operational on 1 July 2014. Previously there had been first a unit of the MOF and then a separate agency.

74. The current (2004) Law on Purchases already provides (in Article 17(2)) for open competitive tender to be the default method of public procurement. Exceptions to this above a threshold are subject to agreement with MoF Public Procurement Department which now carries responsibility for enforcement of government policy. But public confidence in the management of the tendering process and the award of contracts remains rather low. The proposed new law will address this by

[3] See D-3 on the use of national procedures

providing for a more effective complaints mechanism, which should make it more difficult for purchasing authorities to subvert the process by manipulating the conditions for tenders. At the same time intensive efforts are likely to be needed to provide the instructions and training needed to ensure that officials engaged in procurement throughout the government act in accordance with both the letter and the spirit of the new legislation. Assessment of this dimension involves consideration of six criteria, as shown in Table 15 below:

Assessment Criterion for Legal and Regulatory Framework	Criterion satisfied?
1. Organised hierarchically with clear precedence	Yes
2. Accessible to public through appropriate means	Yes
3. Apply to all government funds	Yes
4. Make open competitive procurement the default method and define clearly the situations in which other methods can be used	Yes
5. Provide for public access to defined information	Yes. Information is published on the web-site about procurement plans, tender opportunities, contract awards and the results of procurement complaints.
6. Provide for an independent administrative procurement review process	No

Score: The legal and regulatory framework meets 5 of the 6 requirements. Score: B.

(ii) Use of competitive procurement methods

75. The MoF Department of Public Procurement (DPP) controls the practical implementation of the legal and regulatory requirements regarding the use of procurement methods and ensures they are adhered to in practice. In cases where the value of the procurement is less than 1.5 million Som, three quotations are allowed. Annual limits exist on the use of single-source procurement. Information supplied by the Department showed that, in each of the last four years, more than 80% by value of the contracts issued had been the subject of competitive procurement (see Table 16 for 2013 data)

Table 16: Statistics on Procurement Bidding Methods 2013

	Number	Amount (000 Som)	%
Open competition		22,396,000	87.6
Restricted		19.888	0.1
Two-stage tender		98,000	0.4
Request for quotations		2,387,666	9.3
Single Source		659,904	2.6
Total	4448	25,561,458	100

Justification for the use of non-competitive procurement was stated to be required in every case. Comprehensive statistics are now being collected by DPP. In 2013 only 3.1 per cent of contracts by value were let other than by competition. Score: B, to recognise that the system is still being developed and strengthened.

(iii) Public access to complete, reliable and timely procurement information

76. All public procurement information is accessible to the public online through the website. www.zakupki.okmot.kg. A review of the website found it to be up to date and highly informative on procurement plans, tender opportunities, contract awards and the results of procurement complaints. Score: A

(iv) Existence of an independent administrative procurement complaints review system

77. As stated earlier, provision has been made in the draft law for a new complaints review mechanism in the form of an inter-agency Committee on Complaints which would include independent members as well as officials not involved in the specific procurements, which are the subject of complaints. For the time being, however, the current arrangements for consideration of complaints by the MoF Department of Public Procurement (DPP), which is also responsible for policing the system and approving exceptions to open competition, do not meet the essential PEFA criteria for the existence of a satisfactory independent administrative complaints mechanism. Although DPP has authority to suspend the procurement process, and does not charge fees, there is no provision for independent participation in the review, while DPP is directly involved in the procurement process. Score: D

78. **Performance change**: This cannot be assessed precisely because of the changed methodology. However, there have been improvements since 2009 in public access to information, and it appears that the control arrangements are effectively limiting the use of less competitive procurement methods.

PI-20: Effectiveness of internal controls for non - salary expenditure **(Scoring Method M1)**

Indicator/Dimension	**2009 score**	**2014 score**	**Justification for 2014 score**	**Performance change/ Other factors**
Overall score (M1)	**D+**	**C**		
(i) Effectiveness of expenditure commitment controls	D	C	Expenditure commitment controls partiallly effective	Performance improvement
(ii) Comprehensiveness, relevance and understanding of other internal controls and processes	C	C	Development of PIFC control framework in its early stages	No change
(iii) Degree of compliance with rules for processing and recording transactions	C	C	Generally controls complied with but significant irregularities noted in reports of COA	No change

(i) Effectiveness of expenditure commitment controls

79. Expenditure payment controls are exercised mainly through the Info-System Treasury Budget developed since the 2009 assessment, but there are also manual transfers of data where the system is not yet fully automated. The Treasury System's functionality ensures that funds must be confirmed to be available before payments can be made. All district (Rayon) treasuries are online; but information does have to be taken there for processing from more remote budgetary institutions. It seems probable, therefore, that a large majority of expenditure is covered by the automated system. Thus the payment controls successfully limit expenditure by reference to both cash availability and approved budget allocations. Arrangements have recently been instituted whereby contract commitments above a threshold have to be registered with the Treasury. While this represents an improvement, in that it enables the Treasury to refer back any proposed contract which would exceed the remaining provision on the relevant budget lines, it does not enable the extent to which the remainder of budget organisations' annual allocations have already been committed to be systematically tracked. Since control is exercised only at the payment/liability stage, and not at the order/commitment stage, the score cannot be higher than C

(ii) Comprehensiveness, relevance and understanding of other internal controls and processes

80. The internal control framework in KR is very much a work in progress and inadequately documented. There is currently limited central direction provided by the Ministry of Finance and the general policy seems to be (or at least to have been until very recently) to allow MDAs the freedom to set their own internal financial control framework. However, there are signs that a more coherent and modern control framework is being developed and introduced.

81. In December 2013 GKR issued a decree ordering the implementation of the Public Internal Financial Control (PIFC) Framework used in the European Union, The PIFC Framework in KR comprises three elements, namely PIFC instructions/regulations issued by the MOF, internal audit (see PI-21) and a central unit in the MOF responsible for harmonization of methodology. Each MDA is required to follow the principles and instructions contained within these three elements of the framework. Implementation methodology is intended to be developed that comprises 5 principles under the overall PIFC banner concept – management and internal financial control; risk management; control activities; information and communication; and monitoring. Much of the work of Internal Audit sections in the Ministries concerned (see PI-21 below) can be seen as "monitoring" in the PIFC concept, but there is as yet no central effort devoted to ensuring that all elements of the 2013 Decree are actually implemented.

82. A recent development was the approval on 8 May 2014 of MOF Order Number 84 entitled "Instruction on Procedures for Opening Treasury Accounts and obtaining Treasury permission and making financial transactions during the execution of the Consolidated Budget of the KR" This instruction comprises 10 chapters covering the full range of Treasury transactions. This can be seen as a step towards implementation of the new internal control framework.

Score: C.

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

83. The level of compliance with these rules is considered by the Treasury to be generally fairly high. Compliance with the procedures required for the operation of the present Info-System Treasury Budget already ensures a considerable degree of discipline. However, reports by the Chamber of Accounts have repeatedly highlighted concerns of "irregularities", In the 2013 report, the Chamber of Accounts noted that, during the 2679 audits it conducted, it discovered financial irregularities amounting to1,585 millionsoms as well as identifying "irrationally used funds" (waste) in the amount of 1,519.5million. soms. Score: C.

***PI-21: Effectiveness of internal audit (*Scoring Method M1)**

Indicator/Dimension	2009 score	2014 score	Justification for 2014 score	Performance change/ Other factors
Overall score (M1)	**D**	**C**		
(i) Coverage and quality of the internal audit function	D	C	Internal audit in developmental stage in terms of scope and	Performance improvement

			standard, but outlook for continuing improvement is promising.	
(ii) Frequency and distribution of reports	D	C	Wider circulation of all reports required to achieve a higher score on this dimension.	Performance improvement
(iii) Extent of management response to internal audit findings	D	C	Experience of responses to audit findings is as yet limited, but there is already evidence of action being taken in a number of Ministries.	Performance improvement

84. Internal audit plays a critical role in well–functioning PFM systems in terms of alerting management to any weaknesses in internal control and other operating systems.

(i) Coverage and quality of the internal audit function

85. Internal audit in the KR began functioning in 2009 after the Law on Internal Audit was adopted in February of that year, but its progress initially was slow. However, since 2012 the situation has improved, so that at the time of the assessment there were functioning internal audit units in 18 MDAs covering all the main activities of government plus a central unit in MOF. The period to date can be seen primarily as a phase of capacity development while staffs are trained and procedures developed and gradually implemented. As changes have been taking place in the wider internal financial control framework, so Internal Audit has been adapting to those changed circumstances. Internal audit has established a cooperation agreement with the ChoA and an amended law was approved on 7 February 2014.

86. In terms of audit practice, government decrees have been issued regarding audit standards (3 June 2013) and ethical standards (31 December 2013). These are based on international internal audit standards. Internal audit guidelines are being developed; these are currently (December 2014) being circulated across MDAs for comment with the intention of receiving approval by an order of the Minister of Finance,

87. Internal audit units report to the top management of their respective organisations, for example to the Minister in the case of Ministries. The Central IA Department in the MOF has overall responsibility for government internal audit methodology and reports directly to the Minister of Finance. Internal audit works independently of routine payment and accounting systems. Another development has been the establishment of a Council on Internal Audit, chaired by the Minister of Finance. This body was established by law and is responsible for developing recommendations on internal audit strategy. It met for the first time on 28 November 2014 and includes a representative of a private audit firm.

88. While the legal and policy framework for IA has been developed in an appropriate way, it appears that some of the work continues to consist of compliance testing of transactions similar to the work undertaken under previous "control" systems (see PI-20(ii) above).However, there is evidence from a number of Ministries showing that audits have been directed towards the performance of systems: several Ministries have sought to improve their public procurement systems and their management of assets, while audit recommendations in the Ministry of Social Development have resulted in changes in 2014 in the laws relating to social benefits. The Ministry of Labour, Migration and Youth has sought to review the efficiency and impact of the provision of vocational training. .Since internal audit has only been functioning to a significant extent since 2012, there is as yet limited experience of recommendations about the functioning of systems. Score, pending further experience: C.

(ii) Frequency and distribution of reports

89. Internal audit reports are produced for each individual assignment for consideration by top management. Individual reports are not distributed to the MoF or the COA though they are available to the MOF on request. Instead an annual report on the activities of internal audit departments is submitted to the MOF, which consolidates these into an annual report to the Government (Office of the Prime Minister).

Score: C

(iii) Extent of management response to internal audit findings

90. There is some evidence that action has been taken to implement internal audit recommendations. For example, the Ministry of Health is said to have implemented 121 out of 143 recommendations. As noted in (i) above, internal audit work in the Ministry of Social Development has resulted in changes in the law about social benefits, while a number of Ministries have received recommendations concerning the efficiency of their operations or their management of assets. However, the experience so far of responses to internal audit recommendations is relatively limited, which would indicate the score C.

Performance Change: There has been a performance improvement since the last assessment in 2009.

3.5 Accounting, Recording and Reporting

PI-22: Timeliness and regularity of accounts reconciliation (Scoring Method M2)

Indicator/Dimension	**2009 score**	**2014 score**	**Justification for 2014 score**	**Performance change/ Other factors**
Overall score (M1)	**A**	**A**		
(i) Regularity of bank reconciliations	A	A	Bank reconciliation takes place at least monthly within one month of end of period	No change
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	A	A	Reconciliation takes place both monthly and quarterly	No change

91. This indicator comprises two dimensions and is assessed using the M2 scoring method based on the situation as at the time of the assessment.

(i) Regularity of bank reconciliations

92. Bank reconciliation has not yet been introduced in a fully automated way into the Treasury system, so it is currently carried out daily on a manual basis by comparing Treasury records with a daily statement received from the Government's bank agent (the Settlement Savings Company which is a state-owned bank). Tax transactions are reported daily and entered into the system the following morning. Reconciliation with the State Tax Service and Customs Service occurs daily.

Score: A.

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

93. The procedures for accounting for advances are governed by the Financial Regulations on the Organisation of Accounting in Budgetary Institutions 2011. Each institution has its own rules; for example, advances for travel have to be retired within 3 days of return, while other allowances may be allowed one month. All advances are reconciled on a monthly basis at the level of the budgetary institution. A further quarterly reconciliation occurs when budgetary institutions submit their quarterly reports for analysis by the sectoral departments of the MOF.

94. According to the Treasury, only small amounts are held in suspense accounts. Reconciliation of accounting records occurs at both the regional and central treasury levels. The former is undertaken monthly while the latter is done quarterly.These reconciliations act as a check that the budgetary institutions are reporting all their spending to their central ministry as well as showing that all expenditure has been fully accounted for. 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 in suspense. The 2011 Regulations on Treasury operations require all initially unidentified receipts to be cleared within two months, with any such receipts in December subject to clearance before the end of the year, or brought to account as "Other non-tax receipts".

Score: A. Performance change: no change in performance

PI-23 Availability on Information on Resources received by Service Delivery Units (scoring method M1)

Indicator/Dimension	2009 score	2014 score	Justification for 2014 score	Performance Change Other factors
Overall score (M1)	**D**	**A**		
(i) Existence of routine information collection system providing for measurement of resources reaching primary service units	D	A	Routine data collection systems provide reliable information on resources received from which reports are generated	Performance improvement

(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front- line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units.

95. The automated Treasury system contains a facility for generating two reports that, taken together, provide full information on the revenue and expenditure of each individual budgetary institution (school, health clinic, etc.). Each institution makes a monthly return (before the end of the following month) to the Treasury of its expenditure: Form 2 details expenditure from budgetary resources while Form 4 covers expenditure financed from special means (i.e. from own revenues such as charges for services). It may also be noted that, during the three-year period under review, DFID financed a Public Expenditure Tracking Survey (PETS) in education and health, which confirmed that resources were reaching primary service units as intended.

Rating: A.

PI-24 Quality and timeliness of in-year budget reports *(Scoring method M1)*

Indicator/Dimension	2009 score	2014 score	Justification for 2014 score	Performance change/ Other factors
Overall score (M1)	**C+**	**C+**		No change at indicator level
(i) Scope of reports in terms of coverage and compatibility with budget estimates	C	C	Comparison with the budget is fully available but information on commitments is not captured	No change
(ii) Timeliness of issue of the reports	A	A	Reports are prepared monthly and well within a month of the period end.	No change
(iii) Quality of information	C	B	Information is substantially reliable	Performance improvement

96. This indicator covers in-year budget execution reports of CG and refers to the last completed fiscal year. As reliable data were available in this case for the whole period, the indicator has been assessed with respect to FYs 2012 and 2013.

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

97. Detailed monthly budget execution reports are produced that are entirely compatible with the budget estimates, administratively, economically and functionally but as yet not programmatically. Reports are circulated by the Central Treasury to the Minister of Finance, National Statistics Service, National Bank, Office of the Prime Minister and the IMF Resident Representative. MDAs have online access to the reports. The reports capture expenditure at the payments stage but not at the commitment stage.

Rating: C.

(ii) Timeliness of issue of the reports

98. Monthly and quarterly reports are produced by MDAs and rayon Treasuries in accordance with a timetable for each submission issued by the Treasury just before the beginning of each year, which enable consolidated reports to be produced generally by the end of the following month.

Rating: A.

(iii) Quality of information

99. For the most part the quality of the information contained in the reports is reliable. A series of Treasury controls at various levels of the Government ensure the integrity of the processing of data entered into the system. However, while the system is not yet fully automated and it is necessary for some data to be inputted manually, the development since 2009 of the "Info-System Treasury Budget" has resulted in a considerable improvement in the reliability and consistency of the information, since the reports are subject to reconciliation with the payments data already held by the Treasury through daily reporting.

Rating: B.

PI-25: Quality and timeliness of annual financial statements (Scoring Method M1)

Indicator/Dimension	2009 score	2014 score	Justification for 2014 score	Performance change/ Other factors
Overall score (M1)	**D+**	**C+**		
(i) Completeness of the financial statements	B	A	Annual financial statements contain all required information	Performance improvement
(ii) Timeliness of the submission of the annual financial statements (AFS)	A	A	Submission for audit is within 6 months of year end	No change
(iii) Accounting standards used	D	C	No formal adoption of international accounting standards yet, but form and content are clearly defined in legislation..	Performance improvement

(i) Completeness of the financial statements

100. The Central Treasury produces an annual set of financial statements plus appropriate annexes covering budgetary central government. The statements are comprehensive, covering revenue, expenditure, financial liabilities, financial assets and non-financial assets (totalling 57 billion Som as at 1-1-2014). The inclusion of information about liabilities and financial assets represents an improvement since 2009, when the statements provided information about revenue and expenditure only. Score: A.

(ii) Timeliness of the submission of the annual financial statements (AFS)

101. In accordance with legal requirements the annual financial statements are submitted for audit within five months of the end of the financial year. The statements for 2011, 2012and 2013 were submitted to the Parliament and Chamber of Accounts on 11 May 2012, 14 May 2013 and 13 May 2014 respectively. Score: A.

(iii) Accounting standards used

102. The basis of accounting and classification of accounts used by the GoKR is GFS 2001. The financial statements are produced in accordance with the relevant legislation and regulations, and have been prepared consistently over time. The form and content is currently defined by Government Regulation 224 of 16 May 2011 on Accounting in Budgetary Institutions. A decision has been taken to adopt all International Public Sector Accounting Standards (IPSASs) which provide for accounting on an accruals basis. A phased approach is planned beginning with 10 IPSAS. However, in the period under review, no specific international accounting standards had been adopted. Score: C.

3.6 External Scrutiny and Audit

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

Indicator/Dimension	2009 score	2014 score	Justification for 2014 score	Performance change and other factors
Overall score (M1)	**D+**	**C+**		
(i) Scope and nature of audit performed	D	C	75 per cent or more of central government entities are audited every year, and audits identify systemic issues. But	Audit has been substantially developed since 2009, and main

			performance audit and financial audit are only just beginning.	reports are published.
(ii) Timeliness of submission of audit reports to the legislature	B	B	The annual report on the previous year's budget execution is submitted in October each year, within 5 months of the receipt of the budget execution report from the Government.	No change
(iii) Evidence of follow-up on audit recommendations	D	A	The 2012 and 2013 annual reports contain clear evidence of follow-up by the Chamber of Accounts of its previous prescriptions.	The Chamber of Accounts works more systematically, and its role is more generally respected.

103. Article 107 of the 2010 Constitution assigns the duty of public audit to the Chamber of Accounts, but does not set out how it should be composed, how it should work, or how it should be financed. Its operations are based on the 2004 Law on the Accounts Chamber of the Kyrgyz Republic. While its expenditure (despite the fact that budget estimates for the following years should be sent directly (i.e. not through MoF) to the Government and the Budget and Finance Committee of Parliament) and staffing are subject to the same budgetary procedures as the rest of government expenditure, the relative strengthening of the position of Parliament in the 2010 Constitution has also strengthened the position of the Chamber of Accounts (ChoA) which primarily reports to the Parliament (the ChoA also reports to the President, but his/her powers are much more circumscribed than in the previous Constitution in force at the time of the 2009 PEFA assessment). The Parliament now uses the ChoA reports on budget execution and its reviews of the Government's budget proposals to press for changes in the way the budget is formulated and executed.

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

104. The ChoA has since 2009 sought to extend its work beyond compliance testing to identify systematic deficiencies in the way public finance is managed in the Kyrgyz Republic. Thus it points to wasteful as well as irregular expenditure, and has made recommendations for improvements in the management and control of payroll, and for the more effective management of state property, including the operations of State-Owned Enterprises (SOEs). It aims to apply international standards of public audit (ISSAIs) in all the work it does. These standards cover all aspects of audit work, starting from basic principles of public audit, and setting out how different types of audit (financial, compliance, performance) are to be organised and conducted. It reckons to audit about 80 per cent of central government bodies each year, although the annual coverage of local self-governments is much lower. It also audits aspects of the operations of SOEs and companies in which the government has shareholdings. It does not yet give an Audit Opinion on the financial statements for the budget as a whole or for individual MDAs. It has been extending its audit from compliance testing towards performance audit with the assistance of other (Pakistan and Poland) Supreme Audit Institutions (SAIs) as well as being the subject of a peer review by the SAI of the Russian Federation, and plans to use a new grant from the World Bank to undertake the systematic financial audit of the Republican Budget, assessing the extent to which the Government’s financial statements conform to International Public Sector Accounting Standards (IPSAS); a pilot audit had recently been undertaken of the Ministry of Culture, in which all the ChoA staff had participated. Meanwhile SOEs were not applying International Financial Reporting Standards (IFRS), with the result that their financial reporting remains unreliable. Since there was little in the way of performance and financial audit during 2011-13, dimension score is C.

(ii) Timeliness of submission of annual audit reports to the legislature

105. The Government's budget execution statements are required to be submitted to the Parliament and ChoA by 15 May of the following year. For the last two years ChoA has then submitted its report to the Parliament by the middle of October, i.e. within 5 months of receiving the statements which are the subject of the report. Dimension score, as in 2009: B

(iii) Evidence of follow-up on audit recommendations

106. Audited bodies are expected to implement ChoA's specific recommendations ("prescriptions") for correcting mistakes and improving procedures, although where these are general and addressed to the Government as a whole action can only take place over an extended period. The ChoA reports for 2012 and 2013 demonstrate the close attention the Chamber now gives to following up whether or not its prescriptions have been implemented. Thus the 2013 report indicates that of 1447 prescriptions arising from 2012 audit work, 657 (45.4 per cent) had been fully implemented, 278 (19.2 per cent) partially implemented, 157 (10.9 per cent) not immediately applicable and 355 (24.5 per cent) not implemented. The MDAs with the worst compliance records are listed. The strong interest and support of Parliament for its work no doubt encourages MDAs to take its work more seriously. Dimension score: A

PI-27: Legislative scrutiny of the annual budget law

Indicator/Dimension	**2009 score**	**2014 score**	**Justification for 2014 score**	**Performance change and other factors**
Overall score (M1)	**C+**	**C+**		
(i) Scope of the legislature's scrutiny	B	B	The legislature is consulted about the main priorities and the Government's fiscal stance before MoF issues expenditure ceilings. The detailed consideration of the budget proposals covers the year immediately ahead, but little attention is paid to the medium term.	Although figures are now provided covering the two years following the budget year, and information is provided in programme format, the legislature's approach has not changed.
(ii) Extent to which the legislature's procedures are well-established and respected	A	A	The Budget and Finance Committee takes the lead in the scrutiny of the Government's proposals, which results in significant amendments between the first and second readings of the draft annual budget law.	No Change
(iii) Adequacy of time for the legislature to respond to the Government's proposals	A	A	The Parliament has up to four months to consider the Government's proposals before the beginning of the budget year.	No change
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature	C	C	The annual budget law provides for changes to be made in the budget, subject to the prior agreement of the Budget and Finance Committee, and to ex-post ratification in a revised	No change

			budget. But it does not appear that the many in-year changes are fully subject to this procedure.	

(i) Scope of the legislature's scrutiny

107. The Parliament takes part in the initial formulation of the government's fiscal stance through the participation of its representatives in the Coordination Committee which approves the budget ceilings issued by MoF to MDAs at the end of May each year. Thereafter Article 40 of the Main Principles Budget Law requires the Government's proposals to be submitted to Parliament by 1 September each year. Public hearings are held before First Reading of the Government's proposals, where the discussion principally concerns the revenue estimates and the prospects for deficit financing. The Parliament also receives a report from ChoA analysing the Government's proposals and commenting on the prospects for revenue as well as the allocation of expenditure. The proposals are considered in detail by 12 specialist Parliamentary Committees, the process being coordinated by the Budget and Finance Committee which takes the lead in negotiation with the Government. After First Reading consideration is given to the allocation of expenditure, thereby providing the basis for amendments to the budget at Second Reading. Article 42 of the Budget Law requires the Parliamentary stages to be complete by 1 December, although this has never been achieved in the last ten years. While expenditure (and revenue) for the budget year immediately ahead are the focus of close attention, there has so far been little interest in the medium term or in programme budgeting. Dimension score, as in 2009: B

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

108. The procedures whereby the Government's proposals are reviewed by specialist Committees as well as by the Budget and Finance Committee are well-established and respected. Three readings are required in plenary sessions before the budget is enacted. Dimension score, as in 2009: A

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

109. As noted in relation to dimension (i) above, budget proposals have to be submitted to Parliament by the Government on or before 1 September each year. Parliament then has until 1 December to complete its scrutiny of the proposals, although it has never met this deadline in recent years. Since the time available for consideration of the draft budget is more than two months, the score for this dimension, as in 2009, is A.

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

110. Article 15 of the Main Principles Budget Law governs the extent of changes which may be made to functional or administrative unit budget allocations by the Ministry of Finance without the prior approval of the Parliament. In addition provision is made in annual budget laws for more extensive changes to be authorised by the Parliament's Budget and Finance Committee, subject to subsequent ratification in a revised budget approved by Parliament. The ChoA report for 2012 records 219 orders increasing expenditure by 4.45 billion KGS, 343 reductions totalling 5.63 billion KGS, and 1215 reallocations from one quarter to another. It does not appear that the increases and reductions were fully notified to the Parliament in advance of their implementation, although they will have been approved ex-post in revised budgets. Dimension score, as in 2009: C

PI-28: Legislative scrutiny of external audit reports

Indicator/Dimension	2009 score	2014 score	Justification for 2014 score	Performance change and other factors
Overall score (M1)	**D+**	**C+**		

(i) Timeliness of examination of audit reports	D	C	Parliament has in 2014 completed its consideration of ChoA annual report within 6 months of its submission, but in 2013 this took 9 months.	Performance improvement
(ii) Extent of hearings on key findings undertaken by the legislature	C	B	In addition to its annual report on budget execution ChoA makes reports about particular MDAs which are the subject of hearings by Budget and Finance and/or specialist Committees attended by representatives of audited bodies.	Performance improvement
(iii) Issuance of recommended actions by the legislature and implementation by the executive	D	B	Parliament endorses ChoA recommendations/prescriptions in a Resolution sent to the Government at the end of its consideration of each annual budget execution report. ChoA reports assess the extent to which the executive responds to prescriptions (see PI-26 (iii) above). In its Resolution of 18 June 2014 Parliament asked the Government in its next report on budget execution (due in May 2015) to report to it on measures taken in response to ChoA prescriptions.	Performance improvement

(i) Timeliness of examination of audit reports

111. ChoA submits its annual report on the previous year's budget execution to the Parliament in October each year. Consideration of the report is led by the Committee on Budget and Finance, and the work concludes with a Resolution approved in plenary session, in which the Parliament has generally endorsed the ChoA prescriptions/recommendations and asked the government to implement them. The work on the report for 2012 (submitted in October 2013) was completed on 27 March 2014. But consideration of the previous year's report was not completed until June 2013, 8 months after its submission. (The report on 2010 was not treated in the normal way in the aftermath of the 2010 revolution.) Overall this represents a substantial improvement on the position recorded in 2009, when approval of the ChoA report was stated to have taken 12 months or more. Dimension score: C

(ii) Extent of hearings on key findings

112. Ministry of Finance representatives are required to attend hearings of the Budget and Finance Committee's consideration of the ChoA annual report on budget execution, and representatives of auditees are required to attend hearings by specialist Committees on ChoA reports about the affairs of particular MDAs which have been the subject of audit criticism. The review team were told that a considerable number of such hearings take place. This aspect of the Parliament's work appears to have developed considerably since the 2009 PEFA assessment. Dimension score: B

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

113. The Parliamentary Committee on Budget and Finance from time to time makes recommendations to the Government based on reports by ChoA. An example was provided where ChoA had at the request of the Committee audited the 2009 and 2010 operations of the National Bank of KR. The audit which was completed in 2012 identified a number of deficiencies in the consolidation of the accounts of the Bank's subsidiaries, and proposed a number of corrections to financial transactions between the government and the Bank. These were endorsed by the Committee in its own conclusions and recommendations to the government and the Bank. The

Parliamentary Resolutions addressed to the Government in recent years at the conclusion of the Parliament's consideration of ChoA annual reports on budget execution have generally endorsed ChoA prescriptions. The extent of the executive's response has then been tracked in subsequent ChoA reports (see PI-26(iii) above). Following the most recent ChoA annual report, the Parliament in its Resolution of 18 June 2014 specifically requires the Government to set out in its annual report on its performance in 2014 (due in May 2015) the action taken in response to the ChoA's prescriptions in its audit report for 2012. Dimension score: B

3.7 Donor practices

D1: Predictability of direct budget support

Indicator/Dimension	2009 score	2014 score	Justification for 2014 score	Performance change and other factors
Overall score (M1)	**NS**	**D+**		
(i) Annual deviation of actual budget support from the forecast provided by donor agencies	A	C	Direct budget support (DBS) fell more than 15 per cent below the budgeted amount only in 2011. In 2012 and 2013 receipts exceeded budget.	DBS seems to have been more unpredictable in 2011-13 than in 2006-08.
(ii) In-year timeliness of donor disbursements	NS	D	Timing of receipts from some major donors was so unpredictable as to make the necessary calculation meaningless.	No information was available in 2009.

Table 17: Direct budget support 2011-13 (in US$ million)

		2011			2012			2013	
Institution	Forecast	Actual	%	Forecast	Actual	%	Forecast	Actual	%
IMF	-	29.7	-	30.0	29.2	97.3	29.7	29.1	98.0
ADB	166.7	40.6	24.4	36.5	20.0	54.8	-	-	-
EU	62.5	16.3	26.1	13.3	9.8	73.7	9.4	12.0	127.7
WB	30.0	29.4	98.0	13.5	-	-	30.0	25.9	86.3
Turkey	10.0	20.0	200.0	-	10.0	-	40.0	62.5	156.3
Russia	-	-		-	25.0		25.0	50.0	200.0
Others	14.1	12.4	87.9	4.0	8.3	245.0	11.0	9.6	87.3
Total Grants	134.6	85.3	63.4	48.6	66.6	137.0	49.7	79.5	160.0
Total Loans	148.7	63.1	42.4	48.7	39.2	80.5	95.4	109.6	114.9
Total	283.3	148.4	52.4	97.3	105.8	108.7	145.1	189.1	130.3

Source: MoF, External Aid Coordination Dept.

(i) Annual deviation of actual budget support from the forecast provided by donor agencies

4 As table 17 shows, there are wide variations between the forecasts and out-turns for some donors, while support provided by others is often reasonably close to forecast. Shortfalls from one donor may be offset by unforecast receipts from another. In 2011 the out-turn fell nearly 50 per cent below budget, because an expected drawing from ADB did not take place. In the other two years the aggregate out-turn exceeded the budget forecast. Dimension score: C

(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)

115. While the timing of most receipts from IMF, WB and EU was reasonably predictable, although also affected by the extent of KR compliance with the conditions in the case of the EU, the timing of some substantial payments by other donors was so unpredictable as to make this calculation meaningless. Thus receipts of $106.7 million (loan) from ADB and $39.0 million (macro-economic assistance) from EU were expected in the fourth Quarter of 2011, but in the event receipts were zero. A grant of $10 million from Turkey was expected and received during the first Quarter of 2011, but a further unbudgeted grant of $10 million was received in the fourth Quarter. A $25 million Russian loan was expected in the first Quarter of 2013, but in the event $25 million was received during the fourth Quarter of 2012, and further amounts of $20 million and $30 million were received during the third and fourth Quarters of 2013. Loan receipts from Turkey of $10 million in each Quarter were budgeted for 2013, but in the event $10 million was received during the fourth Quarter of 2012, $38.5 million in the second Quarter and $22 million in the fourth Quarter. Default dimension score: D

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

Indicator/Dimension	**2009 score**	**2014 score**	**Justification for 2014 score**	**Performance change and other factors**
Overall score	**D+**	**A**		
(i) Completeness and timeliness of budget estimates by donors for project support	D	A	Figures for external funding of projects are agreed with donors in July each year for inclusion in the following year's budget.	Budget now includes full coverage of externally-funded PIP projects (together with any domestic co-financing).
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support	C	A	KR Agencies executing PIP projects provide monthly reports to both government and donors .	Information is consistent with classification requirements for budget execution reporting.

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

116. The financing of each Public Investment Programme (PIP) project is agreed with the donor concerned at the outset. MoF and donors agree each July on the amounts to be included in the following year's budget. Annex 7 to the Budget law each year provides full detail of the externally financed PIP, broken down by administrative and economic classifications consistent with those in the rest of the budget. Actual expenditure on PIP projects in 2011, 2012 and 2013 was 13.2 billion KGS, 20.4 billion KGS and 17.4 billion respectively and represented 93.4 per cent, 95.3 per cent and 93.0 per cent of the budget estimates. Dimension score: A

(ii) Frequency and coverage of reporting by donors on actual donor flows for project support

117. Execution of externally-financed PIP projects is essentially under the control of KR Ministries and agencies. Monthly reports are made to both the government and donors according to the administrative and economic classifications used in the Budget.. Execution of the PIP is coordinated by a Ministerial Committee chaired by the Prime Minister, to which reports on progress are made by the 5th of the following month.. Dimension score: A

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

Indicator	**2009 score**	**2014 score**	**Justification for 2014 score**	**Performance change and other factors**
Overall score	**D**	**D**		
Overall proportion of aid funds to central government that are managed by national procedures	D	D	Direct budget support which by definition uses national procedures accounts for only about a third of total external financing of the budget. Project/programme aid uses donors' procedures for procurement, reporting, payment/ accounting and audit, and remains majority of external funding.	No change

Table 18: Direct Budget Support and Project/Programme Aid, 2011-13 (KGS million)

	2011	2012	2013
Total Direct Budget Support	8,013.6	5,713.2	10,211.4
Total External Project Funding	13,159.5	20,360.2	17,440.5
Total External Funding	21,173.1	26,073.4	27,651.9
Direct Budget Support as percentage of external funding	37.8	21.9	36.9

118. Direct Budget Support by definition uses national procedures for procurement, payment/accounting, audit and reporting, but donors continue to insist on the use of their own procedures for procurement, payment/accounting, reporting and audit for externally funded projects. Because project funding constitutes the majority of external funding, the proportion using national procedures remains below 50 per cent, the threshold for a score higher than D.

4. Government reform process

4.1 Recent and ongoing reforms

The President of the KR approved by decree (N° 396 dated 22.10.2009) a Medium-Term PFM Reform Action Plan for the period 2009-13, the broad aims of which were to reform the public finance management system and improve the budget process.The Ministry of Finance was required:

a) in cooperation with other ministries, state committees, local self-governments and other state organs of the Kyrgyz Republic to ensure the implementation of activities within deadlines set in the Action Plan; and

b) to submit each quarter to the Coordination Council on Macroeconomic and Investment Policy at the Government of the Kyrgyz Republic information on the Action Plan implementation.

Essentially the Action Plan was developed following the 2009 PEFA assessment.

2. In 2012, upon the initiative of the MoF, the Medium Term Action Plan for PFM reform was updated (GoKR Decree N° 675 dated 03.10.2012). A new Medium-Term Action Plan for PFM reform for 2012-2015 is quite ambitious and covers a wide range of measures aimed at strengthening financial management and transparency, improving public debt management, revenue administration, intergovernmental relations and transfers, public procurement procedures and investments, accounting and auditing. The Action Plan also includes measures to strengthen the role of the MoF in PFM, updating the organizational structure and MoF Treasury operations.

3. The reform agenda is strongly supported by the international development community. In accordance with the Agreements between the Government of the Kyrgyz Republic and the Governments of the United Kingdom of Great Britain and Northern Ireland, Sweden, Switzerland and the European Union "On the grant of the Multi-Donor Trust Fund", dated September 16 of 2009 and December 16 of 2010 the Multi-Donor Trust Fund was established to implement the “Capacity Building in Public Finance Management” Project.

4. The CB PFM aims to support reforms in public financial management by strengthening the budgetary process, internal audit and control functions, institutional and human capacity. The main areas covered by the CB-PFM: are (i) Legislative and Methodological framework of the budget process; (ii) Intergovernmental Relations; (iii) Public Procurement; (iv) Public Investment; (v) Medium-Term Budget Framework; (vi) Internal Audit and Control; and (vii) Capacity building.

5. In its latest biannual progress report, the Project notes the following progress in PFM:

I. A new draft Budget Code (to replace the present law on Main Budget Principles and law on Treasury) has been approved by Parliament at its first reading (but still needs two further readings before it becomes law); it is expected to be enacted by mid-2015, in time for the 2016 budget.

II. Programme based budgeting is being introduced:

a) Expanded coverage of government agencies involved in the program budgeting -the MTBF for 2015-2017 contains 20 sectoral development strategies;
b) A methodological and regulatory framework for programme budgeting, covering execution and monitoring has been prepared including the introduction of programme classification for expenditure:
    i. The Budget Circular covers programme budgeting as well as other aspects of budget preparation;
    ii. Methodological guidance has been given on the development of the Medium-Term Budget Expenditure Strategy taking account of medium term fiscal projections;
    iii. Instructions have been given on the setting of performance indicators which will make possible the measurement of progress towards defined objectives;

III. Budget transparency is being further enhanced:

a) MoF now regularly publishes eight key budget documents;
b) b.The practice of regular preparation of a summary of the main elements in the budget for civil society has been introduced;
c) Public hearings on the draft budget are held on an annual basis.

IV. Improving public procurement procedures:

a) E-public procurement system is being implemented in order to improve the efficiency and transparency of the procurement process and its accessibility to the public;
b) A Strategy for the development of Public Procurement is being implemented;
c) The legal and methodological framework is being improved - a new draft Law on Public Procurement and implementing regulations have been prepared which will provide, inter alia for an independent mechanism to consider complaints;

V. In order to ensure that citizens can exercise their right to access information held by public bodies, as well as to achieve information transparency, MoF has set up a web site www.okmot.kg, which includes portals "Open Budget", "Electronic Public Procurement”,” Economic Map".

VI. Development of the system of internal audit and control:

a) An internal audit service has been introduced (which now operates in 19 state bodies and institutions of the Kyrgyz Republic);
b) The legislation in the field of internal audit has been improved;
c) A programme for the installation of EU style Public Internal Financial Control in the public sector of the Kyrgyz Republic for 2014-2017 is being developed.

VII. Strengthening of human and technical capacity of the MoF:

a) Creation of a methodological and technical framework for the MoF Training Centre;
b) Development of a Strategy and distance learning system and preparing the technical resources for the introduction of distance and on-line learning.

6. In addition to these initiatives reported in the context of the CB-PFM project, steps are also being taken to improve the fiscal system. A framework for the development of the fiscal system 2014-20 has been prepared. As well as further development of IT applications, this envisages further simplification of the system, including amalgamating the machinery for collecting income tax and social security contributions (already being implemented on a pilot basis), and the abolition of the cascade sales tax which is still levied alongside VAT.

7. Perhaps the most disappointing aspect of PFM reform in the past decade has been the failure of the World Bank project to support the implementation of a fully automated Treasury Management Information System (TMIS) as well as a Human Resources Management Information System. After 10 years or so, the project was finally abandoned at the end of 2013. Introducing a TMIS remains a key priority in PFM reform that is recognised by the GoKR which is currently in discussions with the Governments of Estonia and Turkey in order to draw on their experience in implementing comparable systems. The Government has prepared an Action Plan which envisages a decision on the way forward for the Treasury system before the end of 2014.

4.2 Institutional factors supporting reform planning and implementation

8. Over the last two years, and with the support of the IMF and other development partners, the KR Government has demonstrated its strong commitment to PFM reform. KR will continue to need the support of the international community, both in its reform efforts and in meeting the external challenges it faces, which are likely to be intensified by the impact on the country of events in Russia. There are good prospects that the donor community will be prepared to finance a successor to the current CB-PFM programme, which will support the initiatives already under way to improve PFM in the Kyrgyz Republic.

Annex A to PEFA Assessment of Kyrgyz Republic Dec 2014

Method: The original budget figure for each function is adjusted by the overall percentage difference between original budget and actual out-turn. The differences between these figures and the actual out-turns for each function are then summed and the percentage calculated which this sum represents of the actual out-turn total.

Function	**2011**				**2012**				**2013**			
	Budget	**Adj**	**Actual**	**Diff**	**Budget**	**Adj**	**Actual**	**Diff**	**Budget**	**Adj**	**Actual**	**Diff**
General Public Services	12,710	12,443	17,832	5,389	19,549	19,295	20,413	1,117	19,182	19,259	14,665	4,593
Defence, Public Order	9,935	9,726	10,289	562	10,090	9,959	10,879	921	11,264	11,309	12,098	790
Economic Services	9,767	9,562	7,877	1,684	9,453	9,331	5,974	3,356	10,702	10,745	8,900	1,845
Environment	420	412	585	173	407	402	526	124	454	456	561	106
Housing, Utilities	749	734	1,418	684	745	735	1,334	598	845	849	1,416	568
Health	8,867	8,681	8,020	661	9,753	9,626	9,997	371	10,519	10,561	10,629	68
Recreation, Culture, Sport	2,367	2,318	1,816	501	1,791	1,768	1,938	170	2,028	2,036	2,179	143
Education	10,782	10,555	5,737	4,619	6,764	6,676	7,024	349	6,804	6,831	12,485	5,654
Social. Protection	13,026	12,752	13,626	874	17,018	16,797	16,491	306	20,637	20,720	19,864	856
Total	68,625		67,200	15,147	75,572		74,578	7,312	82,435		82,799	14,623
% Difference			-2.1%	22.5%			-1.3%	9.8%			+0.4%	17.7%

Source: MoF

Annex B: List of People Met

Name	Position
Ministry of Finance	
Mr Almaz Bakataev	Deputy Minister, Director of Central Treasury
Ms Zuura Bayamanova	Permanent Secretary, MoF
Mr Arzybek Kojoshev	Deputy Minister, Line Ministries Budgeting
Mr Almaz Azimov	Deputy Minister, Budget and Revenue Policy
Ms Irina Kim	Head of economic Analysis and Public Programmes Dept, leader of PEFA Working Group
Mr Bekbolot Aliev	Head of State Revenue Forecasting Dept
Mr Marlen Amandykov	Deputy Director of Central Treasury
Mr Zootbek Kydyraliev	Head of Budget Planning and Monitoring Dept
Mr Ulan Danikeev	Head of Public Procurement Methodology and Analysis Dept.
Ms Jamilya Kadyrova	Head of Internal Audit and Accounting Dept
Mr Bakyt Sydykov	Head of Public Debt Management Dept
Mr K. Murzaev	Head of State Investments and Technical Assistance Dept
Ms Asea Tynybekova	Head of Unit on Medium Term Budget Framework
Mr T. Balbakov	Head of MoF Internal Audit Unit
Mr B. Ainabaev	Head of Accounting Methodology Unit
Mr U. Amanbaev	Head of Treasury Report Consolidation Unit
Ms.Ch. Kenjebaeva	Head of Foreign External and Technical Assistance Unit
Ms Zamira Omorova	Head of Internal Audit Methodology Unit
Ms J. Duisheeva	Head of Stimulating Grants Unit
Mr K Namazov	Head of Unit, Public Sector Expenditure Planning Dept
Mr U. Ozumbekov	Public Procurement Methodology and Analysis Dept
Mr E. Maitpasov	Economic Sector Expenditure Planning Dept
Ms Elmira Kerimalieva	CB PFM Project Manager/MoF focal point on PEFA

	assessment
Kyrgyz Republic Parliament	
Mr Almasbek Abytov	Head of Department, Budget and Finance Committee
State Tax Service	
Ms Chinara Mamyrbaeva	Head of Revenue Records and Tax Declaration Processing Dept
Mr Zamirbek Mamytov	Head of Tax Arrears Control Dept
Ms F. Kazatova	Head of Unit for Collection of Tax Arrears
Mr Ruslan Sultankulov	Head of On-site Inspections and Tax Audit
Ms G. Makarova	Head of Unit for Control of Non-compliance with Declaration Obligations
Mr Asylbek Duisheev	Head of Taxpayers' Complaints Unit
Ms R. Sadybakunova	Head of Financial Unit
State Customs Service	
Ms J. Algojoeva	Chief Inspector, Finance Dept
Mr A. Asakeev	Chief Inspector, Law Enforcement Dept
Ms A. Halikova	Chief Inspector, Customs Payments Dept
Mr R Aitbeev	Inspector, Legal Dept
Chamber of Accounts	
Ms Elmira Ibraimova	Chairperson of Chamber
Mr S. Kyljiev	Head of Secretariat
Mr U. Narmanbetov	Chief Inspector
Ministry of Education and Science	
Mr M. Baimurzaev	Head of Budget Planning Dept
Ministry of Health	
Mr M. Atakulov	Head of Financial Planning Unit
Mr B. Sariev	Accounting and Reporting Unit
Social Fund	

Ms J.S. Chokenova	Head of Financial Dept
Ms S. Omurkulova	Deputy Head of Budget Dept
Mr B. Ishenaliev	Head of Internal Audit Dept
State Property Fund	
Mr Chyntemir Ibraimov	Dept. for Monitoring SOEs
Ms Apel Kubanychbekova	Dept for Monitoring Joint Stock Companies
State Civil Service Agency	
Ms Shirin Toktash	Head of Financial Unit
Bishkek City Administration	
Mr Ernes Zarlykov	Head of Finance Dept
Alamedin Rayon	
Mr Tilek Batyrkanov	Head of Rayon Financial Unit
Mr Mirlan Toichubekov	Head of Kara-Jigach LSG
Ms Damira Kumuchbekova	Head of Econ. And Financial Unit, Kara-Jigach LSG
NGOs	
Mr Marat Sharshekeev	President Kyrgyz Republic Chamber of Commerce and Industry
Ms Gulnara Yuskenbaeva	Chairperson of Association of Accountants and Auditors
Ms Tatiana Kim	Chairperson of Chamber of Tax Consultants
Mr Asylbek Chekirov	Development Policy Institute
Ms Nadejda Dobretsova	
Mr Adilet Azimov	Partner, Precedent Group
Ms Anara Dautlieva	Public Procurement and Anti-Corruption issues
Ms Marat Zulfiya	
Donors	
Mr David Nummy	Project Manager and World Bank Representative
Mr Zhanbek Ybragim uulu	

Mr Johannes Stenbaek Madsen	Head of Operations Section, Delegation of the European Union
Ms Gulnara Botobaeva	Project Manager, Delegation of the European Union
Ms Aida Akmatalieva	Head of UK DFID programmes in KR
Mr Remy Duiven	Deputy Head of Mission, Swiss Embassy
Mr Damir Bisembin	National Programme Officer, Swiss Embassy

Annex C: Ministry of Finance Organisation Chart