



Ex-post evaluation of Macro-Financial Assistance operation to the Kyrgyz Republic over the period 2013 - 2016

Final Report (Annexes)

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1 Evaluation Framework

Judgement criteria	Quantitative analysis	Qualitative analysis	Sources of information
Evaluation criteria: 'Relevance'			
<i>Evaluation Question 1: To what extent was the MFA operation design (including adequateness of financing envelope, focus of conditionality) appropriate in relation to the outputs to be produced and objectives to be achieved?</i>			
<ul style="list-style-type: none"> The size of the financial assistance was adequate in relation to Kyrgyzstan's financing needs Form of support was appropriate given Kyrgyzstan's debt position and income status MFA conditionalities were consistent with and relevant to Kyrgyzstan's needs and EU's and other donors' programmes and realistic given the short-term nature of the instrument The MFA package was generally regarded as relevant to Kyrgyzstan's needs by stakeholders, local economists, media etc. 	<ul style="list-style-type: none"> Financing needs in 2012-13 and how these were met Analysis of financing needs in 2015- 2016 (as done by IMF) and the role of MFA in meeting these needs Comparison between projected and actual financing needs – reasons for deviations and relevance and appropriateness of MFA in light of any changes Analysis of how Kyrgyzstan meets criteria defining eligibility to grants and of EU budgetary constraints Debt sustainability analysis 	<ul style="list-style-type: none"> Degree of consensus among key stakeholders/ key informants regarding the relevance and importance of the MFA (in absolute and relative terms) Stakeholders and local economists' assessment of the use of a mix of loan and grant and focus of the conditionality Examination of whether the focus of MFA conditionality was relevant and appropriate in Kyrgyz context bearing also in mind the characteristics of the MFA instrument Analysis of synergies with the IMF ECF programme / other EU programmes 	<ul style="list-style-type: none"> Documentary analysis: <ul style="list-style-type: none"> Ex-ante evaluation of MFA to Kyrgyzstan Memorandum of Understanding (MoU) and Loan and Grant Agreements Reports and supporting documentation submitted by the Kyrgyz authorities to the European Commission on the fulfilment of the structural reform criteria; Commission's assessment of compliance with conditionality requirements (i.e. after mission reviews) IMF reviews Other reports including on the progress of PFM reforms accompanied with performance indicators/metrics (e.g. 2015 PEFA report for Kyrgyzstan) Semi-structured interviews: <ul style="list-style-type: none"> EC officials: DG ECFIN, DG DEVCO

Judgement criteria	Quantitative analysis	Qualitative analysis	Sources of information
			<ul style="list-style-type: none"> - EEAS - Key representatives of Member States - IMF/ WB officials; - Kyrgyz authorities including also Ministry of Finance and Central Bank of Kyrgyzstan - EU Delegation in Kyrgyzstan - Civil society representatives • Focus group with other development partners
Evaluation criteria: 'Effectiveness'			
<i>Evaluation Question 2: To what extent have the objectives of the MFA operation been achieved?</i>			
<ul style="list-style-type: none"> • Macroeconomic impact <ul style="list-style-type: none"> - There has been an improvement in Kyrgyzstan's macroeconomic situation including, external financial sustainability - The role and contribution of MFA can be identified - MFA had a positive social impact - The evidence suggests 	<ul style="list-style-type: none"> • Analysis of trends in key indicators (National accounts, Balance of payments statistics, Government finance statistics, Monetary statistics, External sustainability before, during and after MFA • Analysis of data on lending conditions available for Kyrgyzstan (focusing on financing available from bilateral / 	<ul style="list-style-type: none"> • Counterfactual analysis • Stakeholders and local economists' views on the specific contribution of MFA to short-term macroeconomic stabilisation of Kyrgyzstan • Stakeholders and local economists' assessment of the contribution of MFA including structural reforms; • Assessment of alternatives available to fill the financing gap if MFA (and IMF) resources had not 	<ul style="list-style-type: none"> • Document and data review <ul style="list-style-type: none"> - Macroeconomic data sourced from IMF/WB and national sources; - MFA documentation - IMF reviews and country reports; - Credit rating agency reports (i.e. Moody's) - Academic and grey literature on the Kyrgyz economy; - Data on public borrowing (scale/ maturity/ costs) and prevailing market conditions at the time of MFA/IMF programmes • Semi-structured interviews

Judgement criteria	Quantitative analysis	Qualitative analysis	Sources of information
<p>that Kyrgyzstan would have been worst off in absence of the MFA</p> <ul style="list-style-type: none"> • Structural reforms <ul style="list-style-type: none"> - There is evidence of reform e.g. INTOSAI standards applied at Chamber of Accounts - There is evidence to suggest that MFA accelerated, reinforced or promoted reform in certain areas e.g. the financial sector - There is general consensus among stakeholders that the MFA contributed positively to macroeconomic stabilisation and Kyrgyzstan's reform effort 	<p>multilateral donors and to some extent from national capital markets)</p> <ul style="list-style-type: none"> • Debt sustainability analysis • Social impact analysis – evolution of key indicators relating to unemployment, poverty etc. 	<p>been provided</p> <ul style="list-style-type: none"> • Stakeholders' perceptions on other impacts 	<ul style="list-style-type: none"> - EC officials: DG ECFIN - IMF/ WB officials - Kyrgyz authorities, in particular, Ministry of Finance - EU Delegation in Ukraine • Inputs from local experts - Focus Group with key bilateral/ multilateral donors
<p>Evaluation criteria: 'Efficiency'</p>			
<p><i>Evaluation Question 3: Was the disbursement of the financial assistance appropriate in the context of the prevailing economic and financial conditions in the beneficiary country?</i></p>			
<p><i>Evaluation Question 4: In what way has the design of the MFA assistance conditioned the performance of the operation in respect to its cost and its objectives?</i></p>			

Judgement criteria	Quantitative analysis	Qualitative analysis	Sources of information
<ul style="list-style-type: none"> MFA disbursements were timely given Kyrgyzstan's financing needs 	<ul style="list-style-type: none"> Timing of disbursements in relation to key macroeconomic developments and Kyrgyzstan's financing needs 	<ul style="list-style-type: none"> Analysis of the timing of disbursements of both MFA and IMF and factors affecting disbursements Time taken between Kyrgyz authorities request for MFA assistance and approval/ disbursement of MFA 	<ul style="list-style-type: none"> Document and data review: <ul style="list-style-type: none"> MFA documentation IMF/ WB documentation Semi-structured interviews <ul style="list-style-type: none"> EC officials: DG ECFIN, DG DEVCO EEAS IMF/ WB officials Kyrgyz authorities EU Delegation
<ul style="list-style-type: none"> There were favourable entry conditions for the MFA operation e.g. political commitment; public buy-in, capacity to implement reform The design of the MFA operation was flexible and it adjusted to changes in context and/or feedback mechanisms There was effective dialogue between the European Commission and Kyrgyz authorities There was effective monitoring of the MFA operation Donors were well coordinated 	<ul style="list-style-type: none"> Not applicable 	<ul style="list-style-type: none"> The extent of liaison between the European Commission and Kyrgyz authorities; and between the European Commission and IMF/ other donors The communication channels used and media treatment received Whether there was effective monitoring of the MFA operation Stakeholders' feedback on what could have been done differently with the benefit of hindsight Analysis of the choice of conditionality – see also relevance Analysis of synergies with the IMF ECF programme / 	<ul style="list-style-type: none"> Document and data review: <ul style="list-style-type: none"> Macroeconomic data sourced from IMF and national sources MFA documentation Semi-structured interviews: <ul style="list-style-type: none"> EC officials: DG ECFIN, DG DEVCO EEAS IMF/ WB officials Kyrgyz authorities EU Delegation Focus group

Judgement criteria	Quantitative analysis	Qualitative analysis	Sources of information
		other EU programmes – see also relevance <ul style="list-style-type: none"> • Identification of good practice / lesson learned from the design and implementation of MFA operation in Kyrgyzstan 	
Evaluation criteria: 'EU added-value'			
<i>Evaluation Question 5: What was the rationale for an intervention at EU level and to what extent did the MFA operation add value compared to other interventions by other international donors?</i>			
<ul style="list-style-type: none"> • Financial added value over intervention at MS level • Evidence that MFA reinforced the Government's commitment to socio-economic reform • There is demonstrable evidence of signalling and confidence building effect of MFA operation – building investor and private sector confidence • EU had a discernible influence on the design and application of conditionalities • There is clear financial 	<ul style="list-style-type: none"> • Trends in confidence indicators and proxy indicators of confidence such as interest rates for T-bills and longer-term bonds denominated in local currency and key indicators of the foreign exchange market 	<ul style="list-style-type: none"> • Qualitative assessment of links between wider fluctuations in confidence indicators and EU assistance • Mapping of conditionalities (see also relevance) • Stakeholders' views on the role and influence of EU in the design and application of support package 	<ul style="list-style-type: none"> • Document and data review: <ul style="list-style-type: none"> - Macroeconomic data sourced from IMF and national sources; - MFA documentation; - IMF reviews and country reports; - Academic and grey literature; - Credit Rating Agencies reports - Financial markets data • Semi-structured interviews: <ul style="list-style-type: none"> - EC officials: DG ECFIN, DG DEVCO; - IMF/ WB officials; - Other key bilateral/ multilateral donors; - Kyrgyz authorities; - EU Delegation in Kyrgyzstan; - Civil society organisations

Judgement criteria	Quantitative analysis	Qualitative analysis	Sources of information
<p>added value of EU support – national authorities would have struggled to meet their financing needs in absence of the EU MFA</p>			<ul style="list-style-type: none"> • Focus group - Insights from study experts
<p>Evaluation criteria: 'Coherence'</p>			
<p><i>Evaluation Question 6: To what extent was the MFA operation in line with key principles, objectives and measures taken in other EU external actions towards the Kyrgyz Republic?</i></p>			
<ul style="list-style-type: none"> • The MFA was fully in line with EU objectives and reinforced EU action deployed via other instruments 	<ul style="list-style-type: none"> • Not applicable 	<ul style="list-style-type: none"> • Stakeholders assessment of the coherence of the MFA with other EU external actions • Qualitative assessment of the adequacy of the conditionality, potential synergies/ overlapping with other EU instruments 	<ul style="list-style-type: none"> • Document and data review: <ul style="list-style-type: none"> - MFA documentation including ex-ante evaluation of MFA to Kyrgyzstan; - Identification of relevant programmes/ actions and review of their documentation; • Semi-structured interviews: <ul style="list-style-type: none"> - EC officials: DG ECFIN, DG DEVCO; - EEAS - EU Delegation in Kyrgyzstan; - Kyrgyz authorities - Other interviews including civil society organisations. • Focus group

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- Various statistics from the National Bank of the Kyrgyz Republic
- Various IMF datasets, and Country Reports on the Kyrgyz Republic

3 Tailored draft data collection tools

Double-click on the icons

Topic guide – EU officials (DG ECFIN)



Interview_Guide -
Scoping Interviews - E

Topic guide – EU officials (DG DEVCO)



Interview_Guide -
Scoping Interviews - I

Topic guide – EU officials (EEAS)



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EEAS (2).docx

Topic guide – EU Delegation in Kyrgyzstan



EU Delegation - Topic
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Topic guide – Ministry of Finance of Kyrgyzstan



Ministry of Finance -
Topic Guide.docx

Topic guide – Office of the Prime Minister



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Topic guide – National Bank of Kyrgyzstan



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Interview Guide -
World Bank.docx

Topic guide – Civil society



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Workshop note and interview guide



MFA to Kyrgyzstan
Workshop - Backgrou

4 List of stakeholders

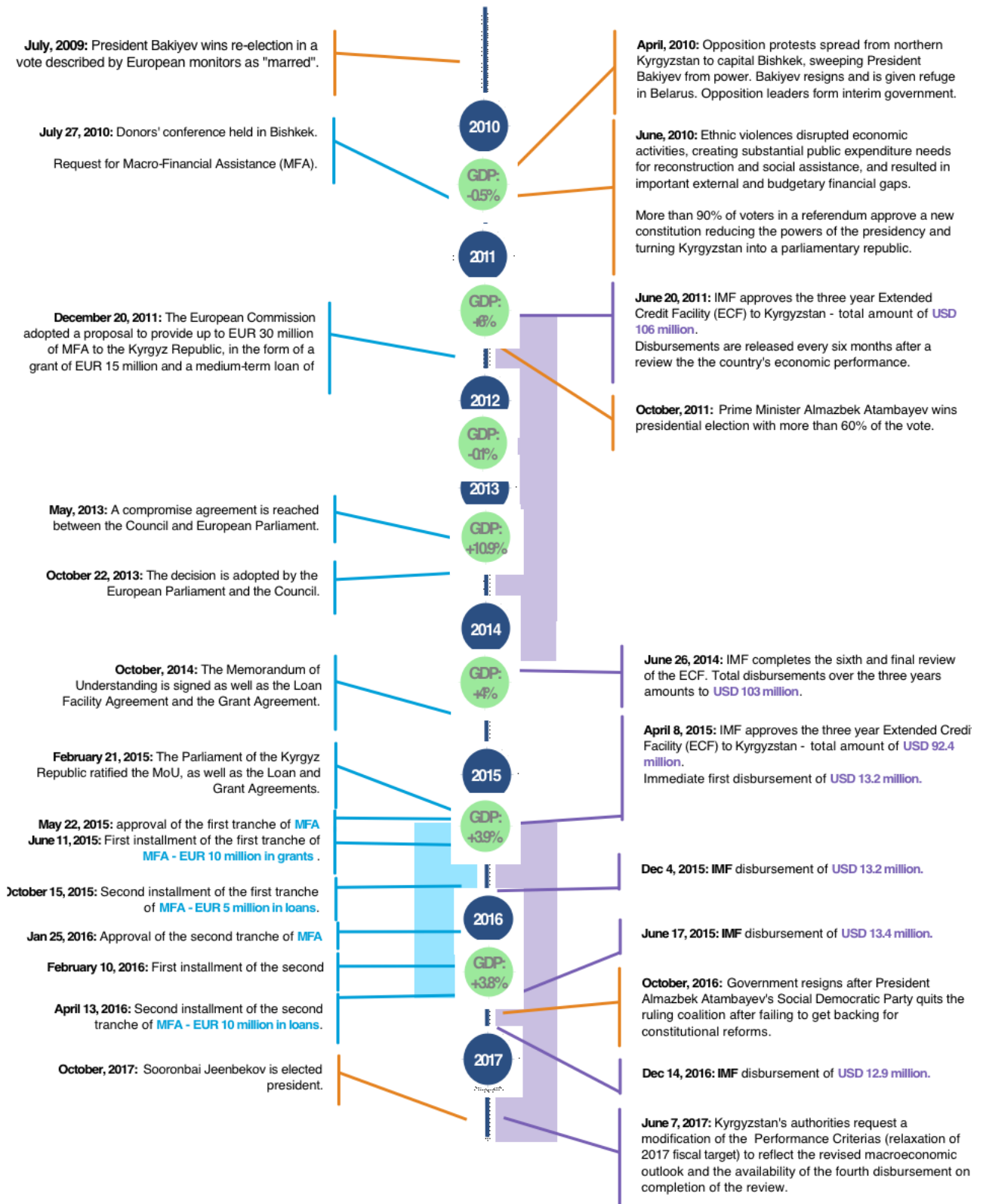
Institution	Contact person	Role	Date
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DG ECFIN	Dirk Lenaerts	Head of sector – Neighbourhood countries Macro Financial Assistance	Monday, 19 th of March, 2018
DG ECFIN	Gintautas Baranauskas	Desk officer for Kyrgyzstan	Monday, 19 th of March, 2018
DG ECFIN (former)	Agnes Le Thiec	Former desk officer for Kyrgyzstan <i>Current: DG FISMA</i>	Monday, 12 th March, 2018
DG ECFIN	Nicolas Lilienthal	Legal Officer - Legal and inter-institutional matters	Monday, 19 th of March, 2018
DG ECFIN	Giedrius Sidlauskas	Policy Coordinator <i>Participated to first mission to Bichkek to assess the needs for an MFA operation in 2011 and Operational Assessments mission in 2012</i>	Monday, 12 th March 2018
DG ECFIN	Thilo Sarre	Financial/ Borrowing and Lending Officer, DG ECFIN	Wednesday, 23 rd May, 2018
DG DEVCO	Oleg Hirbu	Economic and Policy Analyst <i>Former: Budget Support operations in the Western Balkans and Neighbourhood countries.</i> <i>Current: Budget support and PFM operations in the Asia-Pacific region.</i>	Thursday, 19 th April 2018
DG DEVCO	Eric Deschoenmaeker	Policy Officer <i>Current: Budget Support, Public Finance Management and Domestic Revenue Mobilisation</i>	Thursday, 19 th April 2018
EEAS	Petra Gasparova	Desk Officer Kyrgyzstan, regional security issues	Thursday, 31 st May, 2018

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IMF	Mr Edward Gemayel Mr Christian Josz Mr Wei Shi Ms Iulia Ruxandra Teodoru	Chief Mission for the ECF 2015, in operation until 2018 Chief Mission from 2018 Economist Economist	Tuesday, 12 th of June 2018
World Bank	Kamer Karakurum Ozdemir	Economist, Co-lead on DPO-2 and Competitiveness and Governance DPO	Tuesday, 12 th of June 2018
German Embassy in Bishkek	Casjen Ohnesorge	Head of Development Cooperation at the German Embassy in Bishkek	Monday, 2 nd July, 2018
Mission to Kyrgyzstan and follow-up			
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Ministry of Finance	Bakyd Sadykov	Head of the Debt Department	Monday, September 17 th , 2018
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Institution	Contact person	Role	Date
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Eurasian Development Bank	Elvira Kurmanalieva	Former Economist/ Project Group on EFSD Budget Support Loans	
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Independent	Ryskeldi Satke	Local expert in social and political affairs	
ICF	Angina Jugnauth	Project Manager	
ICF	Oskar Andruszkiewicz	Core Researcher	

5 Timeline for approval and disbursement of IMF and MFA support



6 Overview of main PFM priorities identified in the Operational Assessment

PFM SYSTEM AND PFM REFORMS	BUDGET PREPERATION PROCESS	BUDGET EXECUTION	EXTERNAL AUDIT	DEBT MANAGEMENT
<ul style="list-style-type: none"> • PFM reforms: Finalise and approve the PFM Reform Action Plan 2012-2015 • PFM legal framework: Carefully review and improve the draft Budget Code and finalise/approve. • Structure of the Ministry of Finance: Conduct a comprehensive functional and organisational review of the MoF • Fiscal transparency: Extend MoF mandate to include SOE monitoring 	<ul style="list-style-type: none"> • Legal framework: Finalise the Budget Code • Budget consolidation: Prepare and finalise the integration of the Social Fund into the Republican Budget and the Treasury • Macroeconomic forecasting: Consider mechanisms to prevent political interference and optimism bias • MTBF: e.g continue work on extending and improving the MTBF • Budget circular: Introduce an annual budget circular, reflecting MTBF directions • Fiscal risk analysis:Extend fiscal risk analysis to the expenditure part of the budget • Public capital investments:e.g establish a Public Investment Committee under Prime Minister 	<ul style="list-style-type: none"> • Expenditure process and internal controls: e.g create centralized payroll database • Cash Planning: Ensure automatic link between commitment registration module and cash management module in the new TMIS. • Treasury Coverage: e.g include PIP execution in the treasury system • IT systems in the Treasury: Implement the recommendations of IT auditors to address the weaknesses in IT security • Treasury Single Account: Ensure introduction of TSA within the planned timeframe 	<ul style="list-style-type: none"> • Independence: The budget of the CA should be directly presented to the <i>Jogorku Kenesh</i> bypassing the approval of the MoF • Certification: Introduce certification scheme for external auditors • Expert involvement: Adopt regulations for involvement of external experts • Audit planning: Introduce risk based audit planning 	<ul style="list-style-type: none"> • Institutional arrangements : Enhance the capacity of the department • Debt management and budget planning: Strengthen coordination between Budget Planning Department and Public Debt Management department • Domestic Debt: Publish issuance calendar for government securities • IT Systems: Introduce modern IT systems for public debt management
<p>PUBLIC INTERNAL FINANCIAL CONTROL AND INTERNAL AUDIT</p>			<p>PUBLIC PROCUREMENT</p>	<p>NATIONAL BANK OF KYRGYZ REPUBLIC</p>
<ul style="list-style-type: none"> • Legal framework: Include in the new Budget Code a clear description of internal control and IA • Internal Audit in the MoF: Re-establish a separate IA unit in the MoF • Certification of internal auditors: Develop a mechanism for the certification of internal auditors • Capacity building: Training programme on internal control and audit 			<ul style="list-style-type: none"> • Institutional arrangements: Reconsider current institutional arrangements and staffing • Data collection and analysis: Introduce a data collection system to allow for timely analysis and reporting • E-procurement: Introduce the e-Procurement system on a pilot basis 	<ul style="list-style-type: none"> • IT systems: Implement the recommendations of the IT audit to strengthen the system security • Liquidity forecasts: Strengthen cooperation between the NBKR, Treasury, Public Debt Management Department and Budget Planning Department in the area of cash management

7 Policy focus of EU Budget Support Operations in the Kyrgyz Republic (2011-2016)

	Dates (start-end)	Commitment (EUR million)	Disbursement rate	Areas targeted by the conditionalities	Precise formulation of PFM conditions linked to the variable tranche(s) and related indicators (if applicable)
Sector Policy Support Programme: Social Sector (CRIS 22484)	2011-2012	12.25	Almost 100%	<ul style="list-style-type: none"> public finance management social protection sector strategy social assistance system management of vulnerable families and children in difficult situations 	<p>Adoption of the 2012-2014 --MTBF by the Government, including the medium term expenditure planning for the social protection sector (linked to fixed tranche)</p> <p>Improved public access to fiscal information</p> <ul style="list-style-type: none"> Official publication of the appropriated annual Republican Budget and annexes -- Formal printed publication of the appropriated budget with annexes is made available <p>Internal control and audit improved</p> <ul style="list-style-type: none"> All audits performed by the Internal Audit Department of the Ministry of Social Protection conducted according to the IA standards and recommended methodology by the government
Sector Policy Support Programme in Social Protection and Public Finance Management (CRIS 22884)	2012-2014	12.25	Almost 100%	<ul style="list-style-type: none"> public finance management improved targeting of social assistance improved management of social protection sector improved social services 	<p>Reforms in medium-term expenditure planning, internal audit and national statistics continuously consolidated</p> <ul style="list-style-type: none"> Adoption of the 2014 -2016 MTBF by the Government, including the medium term expenditure planning for the social protection sector Continued publication of reliable statistics on social protection related indicators Audits undertaken by the Internal Audit Departments of at least three ministries including the Ministry of Social Development and the Ministry of Education conducted according to the Internal Audit Standards

Dates (start-end)	Commitment (EUR million)	Disbursement rate	Areas targeted by the conditionalities	Precise formulation of PFM conditions linked to the variable tranche(s) and related indicators (if applicable)
			delivered.	<p>and recommended methodology adopted by the Government</p> <p>Improved annual budget preparation process</p> <ul style="list-style-type: none"> MoF issues the 2014 budget circular which includes a programme structure, methodology for performance budgeting and hard budget constraints (ceilings) for 12 line ministries. These ministries receive ceilings divided by (i) salaries and social contribution, (ii) other recurrent expenditures, (iii) PIP, (iv) domestic capital expenditures and (v) special means. 12 line ministries submit their 2014 budget requests by budget programmes and budget measures for 2014 line ministries apply a performance framework to their 2014 budget requests. The performance framework consists of a two-tier level: outputs attached to budget measures and outcomes attached to budget programmes (non-financial indicators and their targets). MoF drafts Public Investment Management guidelines that ensure a coherent process of identification and selection of investment projects, prior to inclusion of the investment projects into the state budget.
Support to the reform of the education sector in the Kyrgyz Republic (CRIS 23373)	2013-2015 17	Almost 100%	<ul style="list-style-type: none"> public finance management maintenance of schools, vocational education, 	<p>Reforms in medium-term expenditure planning, internal audit and budget transparency continuously consolidated</p> <ul style="list-style-type: none"> Adoption of the 2014 -2016 MTBF by the Government, including the medium term expenditure planning for the education sector

Dates (start-end)	Commitment (EUR million)	Disbursement rate	Areas targeted by the conditionalities	Precise formulation of PFM conditions linked to the variable tranche(s) and related indicators (if applicable)
			<ul style="list-style-type: none"> curricula teacher training and decision making system of the sector 	<ul style="list-style-type: none"> Audits undertaken by the Internal Audit Departments of the Ministry of Youth, Labour and Employment and the Ministry of Education conducted according to the Internal Audit Standards and recommended methodology adopted by the Government At least 15% of schools are equipped with board of trustees and/or board of management that ensure better transparency, accountability, and targeting of parental contributions to schools (APED 2.6.5) <p>Improved annual budget preparation process</p> <ul style="list-style-type: none"> MoF issues the 2014 budget circular which includes a programme structure, methodology for performance budgeting and hard budget constraints (ceilings) for 12 line ministries. These ministries receive ceilings divided by (i) salaries and social contribution, (ii) other recurrent expenditures, (iii) PIP, (iv) domestic capital expenditures and (v) special means. 12 line ministries submit their 2014 budget requests by budget programmes and budget measures for 2014 line ministries apply a performance framework to their 2014 budget requests. The performance framework consists of a two-tier level: outputs attached to budget measures and outcomes attached to budget programmes (non-financial indicators and their targets). MoF drafts Public Investment Management guidelines that ensure a coherent process of identification and selection of investment projects, prior to inclusion of the investment projects into the state budget.

	Dates (start-end)	Commitment (EUR million)	Disbursement rate	Areas targeted by the conditionalities	Precise formulation of PFM conditions linked to the variable tranche(s) and related indicators (if applicable)
Sector reform contract Social Protection Kyrgyzstan (CRIS 25021)	2015-2017	26	Ongoing, 53% for the first tranche	<ul style="list-style-type: none"> • social protection • public finance management 	<p>Strengthened link between sector policy and budget execution (PEFA Area 3, PI- 12 (iii)).</p> <ul style="list-style-type: none"> • Programme classification developed and agreed; • Comprehensive programme budget performance indicators directly reflecting sector strategy/MTSS targets/outcomes published and reported upon for all programme related ministries (MoSD, MoES, MoH, MoA) • Full and timely financing of programme related activities (SPSP). <p>Increased effectiveness of internal audit (PEFA, Area 5, PI-21)</p> <ul style="list-style-type: none"> • Capacity of MoF CHU enhanced to enable fulfilment of its responsibility to assess the quality and compliance with standards, development of methodology, training system and certification / MoF CHU conducts assessment of the quality and compliance with standards of follow up of internal audits by ministry IA units • Number and quality of personnel and budgets of IA units in social ministries enhanced. Procedures for certification of internal auditors across all ministries approved. / 5 .2 Quality of personnel increased through appropriate selection procedures, continuous training, and exchange of information/experience between ministries to support development • Senior management and ministers of social ministries are trained on the function and use of IA, including on the options for actions to be taken in response to findings / 5 .3 Management take prompt

	Dates (start-end)	Commitment (EUR million)	Disbursement rate	Areas targeted by the conditionalities	Precise formulation of PFM conditions linked to the variable tranche(s) and related indicators (if applicable)
					comprehensive action in response to IA findings and recommendations (PI-21 (iii)); regular reporting to senior management, copied to MoF, on action taken on IA findings;
Education Sector Reform Contract (CRIS 37809)	2016-2018	30	Ongoing	<ul style="list-style-type: none"> • policy-making capacity • public finance management • quality of pre-school education, school management, vocational education teachers training • alignment of education and labour market needs 	<p>Fully operational system of programme budgeting and public internal financial controls established</p> <ul style="list-style-type: none"> • The annual and multi-annual budget submissions from the MoES are fully compliant with MoF Guidelines on the use of the programme budget approach and the programme classification system and progressively meets accompanying performance indicators. • The use of IA processes and tools produces a measurable improvement in financial management and business processes within the MoES and its subordinate institutions • Further progress in the Per-capita (normative) funding • At least 90%- financing of Education Action Plan related activities (APED 2016-2017).
Strengthening Democracy through Electoral Reform – Sector Reform Contract (CRIS 38149)	2016-2018	11	Ongoing	<ul style="list-style-type: none"> • electoral reform 	Not applicable

8 Evolution of IMF policy conditionalities over time



IMF conditions_for
IR.xls

9 Evidence base – counterfactual analysis

Alternative 1: had no MFA been available (based on partial findings only)


Counterfactual analysis

Summary for Alternative 1 (had no MFA been provided): The insights gathered during the brainstorming session with key inputs provided by the local expert indicated that the most plausible option had MFA not been there would have been business as usual (see counterfactual 1a). In other words, there would have been no material changes in policies pursued by the authorities. Second alternative that seemed plausible, although to lesser extent, was an increased funding from Russia (see counterfactual 2a).

Yet, views expressed by the IMF and WB staff interviewed during the mission in the US and through the interview with the IMF Representative who is based in Kyrgyzstan did not fully corroborated with the findings from the session. Firstly, an increased envelope from Russia compared to what it had already provided back in 2015 (USD 30 mln) was seen by the Fund staff as somehow unlikely, primarily given a dire economic situation in late 2014 and 2015 triggered by the invasion on Ukraine and subsequent fall in confidence and international sanctions, as well as due to the requirement of the *Duma's* approval for the budget support exceeding USD 30 million. In turn, the IMF and World Bank reckoned that a combination of cuts in public expenditure (counterfactual 10a), use of some government funding deposited at the NBKR account (counterfactual 11a) coupled perhaps with some issuance of T-bills on the domestic market (counterfactual 9a) would have been more likely.

Nonetheless, there has been some clear-cut conclusions regarding negligible likelihood of several other scenarios i.e. financing from China (counterfactual 3a), Turkey (counterfactual 4a), privatization (7a) and alternative financing from the international markets (counterfactual 8a). While IMF staff expressed strong scepticism about the possibility to top up its commitment had MFA not been there (counterfactual 5a), the interviewed member of the WB was somehow less sceptical about the possibility of greater WB commitment.

Counterfactual 1a: business as usual

Brainstorming session	Interviews with IMF and WB¹	Other relevant data/ information
<ul style="list-style-type: none"> The revenue and expenditure side has been traditionally very volatile in Kyrgyzstan. Revisions in state budget are typically substantial, even above 10% of total republican budget revenue and/or expenditure (see  Republican budget initial and final 2011-2) while MFA was circa 0.25-0.3% of annual GDP in 2015 and 2016. So from the government's perspective, the absence of the MFA in 2015 and 2016 would not have had a 	<ul style="list-style-type: none"> Unlikely in view of the IMF given that Kyrgyzstan had to observe strict fiscal targets under the ECF 2015 programme. 	<ul style="list-style-type: none"> For instance, the MFA corresponded to ~0.3 per cent of the GDP in 2015 (the deficit stood at 1.2 per cent of GDP that year) There was a marked increase in both, principal and interest rates repayment obligations due in 2015 and 2016. See the data:

¹ Interviews with the IMF and WB staff during the mission to the US between June 11 and 13th as well as the interview with the IMF Representative that took place in June 13th in Brussels

Counterfactual analysis

major importance (unlike as in 2010/2011 given the state of affairs back then);

- Although this still needs to be confirmed, the MFA was not most likely factored in the budget plan for 2015, unlike for the previous years. This would therefore suggest that there was no firm anticipation of the MFA among Kyrgyz authorities and hence its absence would not have had a material implication for the Ministry of Finance. If so, the budget for 2015 could naturally constitute the counterfactual scenario [to be explored through: (i) interview with the MoF, Central Bank and the EU Delegation in Bishkek, and (ii) the review of available budget documents i.e. monthly Treasury reports]



Repayment obligations - KGZ.xlsx

- Yet, in the past on many occasions IMF provided waivers to the government for non-compliance with IMF programme's conditions

Counterfactual 2a: financing from Russia

Brainstorming session

- Until June 2014, the US held the military base in Kyrgyzstan (Transit Centre at Manas) for which the government used to receive regular annual payments (circa USD 60 million p.a.). The base was vacated in July 2014. And payments (provided as budget support were stopped.
- Although relatively small in size, Russia has continued to provide the budget support, in the amount of some ten million USD p.a.
- It was also suggested that one of the possibilities in the absence of MFA could have been to rely more on the write off of the existing debt by Russia that took place from 2012 to 2018. Basically, the governments of Russia and Kyrgyzstan concluded an agreement

Interviews with IMF and WB

- Russia as a source of potential assistance was indicated, yet in 2015 the country already received USD 30 million while any larger amount would require the approval from *Duma*. Dire economic situation in late 2014 and early 2015 in Russia was indicated as another contextual factor that could have worked as an impediment.

Other relevant data/ information

- In 2016, Kyrgyzstan was no.2 recipient of Russia's foreign financial assistance after Cuba (OECD.Stat).
- End 2014, the Russian Kyrgyz Development Fund (RKDF) was set up to cover transition costs of Kyrgyzstan's accession to the Eurasian Economic Union². Initially, the RKDF meant to comprise USD 500 million grant and additional USD 500 million of funding that would be raised from the market (the latter part has never materialised). So far, the RKDF disbursed USD 276.2 million [as of 01 May 2018,

² Formally, the set up of the RKDF had nothing to do with the airbase closure

Counterfactual analysis

on 20 September 2012 on the resolution of the issue of the Kyrgyz debt to Russia. According to this agreement, USD188.9 million had been written-off immediately upon signing the agreement. The agreement also relieved Kyrgyzstan from payment of any interest on the remaining part of the debt. This remaining part (USD300 million) was planned to be written off gradually for ten years starting from 16 March 2016 (i.e. 10% of the amount each year). According to the schedule, USD60 million have been written-off in 2016-2017. Remaining USD 240 million have been written-off in February 2018. So, there is no more government debt of Kyrgyzstan to Russia. This debt relief is part of Russia's ODA. It seems that apart from the development assistance logic, the rationale for the debt relief was purely political.

- In terms of political context: parliamentary elections in October 2015 did not bring any material changes in terms of the relationship between Kyrgyz Republic and Russia. All main stakeholders and parties have had very good relationships with Russia. Also, foreign policies are still very much the business of the president in Kyrgyzstan. Presidential elections only took place in 2017.

www.rkdf.org], largely in the form of direct business loans and financing provided to Kyrgyz banks that then have been relending on the market (but not budget support).

Importantly, while no conditions have been attached to this assistance, the RKDF does not provide any budget support. The pace of disbursement is driven by the demand from business (i.e. project financing) and not by the political imperatives³;

- In 2015, in addition to RKDF, USD 200 million Russian grant was envisaged to help implement the road map to join the custom union. The money was intended to modernize the customs and laboratory infrastructure of Kyrgyzstan to ensure it fits standards of the EAEU. This money never was a part of the Kyrgyz public finance as the Russian government paid Russian companies directly to implement the modernization of the Kyrgyz customs posts and the like.
- Kyrgyzstan joined Eurasian Economic Union in August 2015, a development that triggered also a greater financial commitment from Russia.

Counterfactual 3a: financing from China

³ There are some spending priorities in terms of selecting sectors or project locations set by the Kyrgyz and Russian governments who manage the fund, and in this sense there is some policy guidance for the RKDF, but it is not related to direct government budget needs.

Counterfactual analysis		
Brainstorming session	Interviews with IMF and WB	Other relevant data/ information
<ul style="list-style-type: none"> As of 2011, the financial assistance coming from China was relatively small. This has, however, changed very much since then and by 2016, China was one of the most important bilateral donors; China did not provide the budget support though. Virtually all financing came in the form of infrastructural loans. China has been the single largest financier of the Public Investment Programme (PIP). Many projects have been delivered by Chinese contractors. 	<ul style="list-style-type: none"> Bulk of Chinese loans were going directly to infrastructure projects (road, energy, power, refineries), those were 'concessional' in IMF terms. While there were some budget support grants, these were still earmarked to specific areas i.e. security, police, military). 	<ul style="list-style-type: none"> There is no exhaustive list of projects which relied on Chinese financing, but few recent examples include: Part of alternative North-South road – USD 297.9 million (signed in 2015); Energy transmission line Datka-Kemin – USD 389.8 million; Reconstruction of the Heat and Power Plant in Bishkek – USD 386 million. NB: For the loan on Datka-Kemin, the terms are the following: 2% interest rate + 0.5% loan management and issuance commission fee per annum. Duration – 20 years, grace period – 9 years (very similar conditions as for the North-South Road)
Counterfactual 4a: financing from Turkey		
Brainstorming session	Interviews with IMF and WB	Other relevant data/ information
<ul style="list-style-type: none"> Turkey was possibly providing some budget support type assistance prior to 2015, but some deterioration of the political relations between the countries observed in 2016 (it was related to the coup d'état in Turkey) would have made this source rather unlikely. In addition, the economic situation in Turkey has worsened, which makes financial support still less plausible. 	<ul style="list-style-type: none"> Given other potential options, neither IMF nor WB indicated is as a plausible alternative. 	<ul style="list-style-type: none"> The list of externally funded investment projects in 2014-2015 provided at MoF's web-site does not mention any projects financed by Turkey

Counterfactual analysis

Counterfactual 5a: greater commitment from the WB and/or IMF

Brainstorming session	Interviews with IMF and WB	Other relevant data/ information
<ul style="list-style-type: none"> The local expert expressed the view that there was probably limited flexibility on the WB and IMF side. Budget support from the WB has been typically provided in the form of Development Policy Operations (DPOs), but those also include some conditionality. Given the upcoming elections (parliamentary elections in October 2015) and reluctance of the authorities to embark on challenging reforms, it seems less plausible that the authorities would have been willing to strike the deal: more money for more reforms, leaving aside the actual possibility to increase the financial envelope by the WB/ IMF. 	<ul style="list-style-type: none"> Rather unlikely in view of the IMF. While there was potentially some margin to scale up the programme by ~USD 10 mln, this would require the exceptional willingness from the team side (which was not justified), and the consensus of the Board. In addition, no support from other donors is not a reason for IMF to increase its envelope. WB representative stated that if the additional financing had been requested, the WB could have potentially considered it as there were no formal obstacles. Yet, she was not convinced about the outcome had this request been filled. 	<ul style="list-style-type: none"> Since gaining independence in 1991, Kyrgyzstan has been heavily dependent on foreign aid. The country has continuously received more than USD 9 billion in foreign loans (72 percent of all aid) and grants (28 percent) for development in the last 25 years. World Bank, Asian Development Bank, International Monetary Fund and the European Union, as well as some foreign states such as China, Japan or Germany have been main providers of grants (see relevant Figure in the main body of the report). As of 2016, concessional (grants + soft loans) financing stood for approximately 6.8 per cent of Kyrgyz GDP. Grants only stood at 2.2 per cent of GDP. Nearly 50% of financing of total borrowing channelled into Public Investment Program in 2014 (USD ~220 million) came from China in the form of concessional infrastructure loans.

Counterfactual 6a: greater commitment from the ADB

Brainstorming session	Interviews with IMF and WB	Other relevant data/ information
<ul style="list-style-type: none"> The pre-conditions for the ADB budget support are 	<ul style="list-style-type: none"> IMF staff indicated that there 	<ul style="list-style-type: none"> See budget support provided by ADB

Counterfactual analysis		
<p>apparently not much different than for budget support from the WB, or other international donors. ADB has policy conditionality and it is prohibited from taking political stance. Unplanned/extraordinary ADB support, similarly to the IMF and WB support, typically requires some emergency while the situation in 2015/16 was certainly much less serious than in 2010/11.</p>	<p>would have been some potential opportunity there, but was not familiar enough with the ADB position back in the time to make more specific judgement.</p>	<p>(main report)</p>
Counterfactual 7a: privatisation		
Brainstorming session	Interviews with IMF and WB	Other relevant data/ information
<ul style="list-style-type: none"> Market prices in 2015/ 2016 did not seem favourable to the authorities and there was no clear plan of any major privatization that could be pursued by the government back then. 	<ul style="list-style-type: none"> No specific comments from the WB and IMF here. 	<ul style="list-style-type: none"> The privatisation process in Kyrgyzstan began after independence in the early 1990s. Between 2012 and 2014, privatization proceeds fell considerably, from 153 million soms (in 2012) to 13 million soms (in 2014). The decrease was explained by the fact that very large enterprises in strategic sectors still remained under state ownership. More recently, that has been no substantial changes. Government showed some intentions to privatize certain assets (e.g. one of mobile operators in the country and some smaller enterprises), but has been seeking a high price and trusted investor.
Counterfactual 8a: alternative financing from the international financial markets		
Brainstorming session	Interviews with IMF and WB	Other relevant data/ information
<ul style="list-style-type: none"> Not seen as plausible option given no issuance of bonds on the international markets before, the potential cost of debt that would have been realistic, and arguably no intention and absence of concrete 	<ul style="list-style-type: none"> WB staff member excluded this option. She also pointed to relatively weak capacity, in her view, of the Debt Management 	<ul style="list-style-type: none"> Moody's assigned Kyrgyzstan its first credit rating of B2 in December 2015. Data on the recent issuance of Eurobonds by the neighbouring

Counterfactual analysis

discussions at the government to explore the feasibility of this route back in the time.

Team at the Ministry as another reason as the issuance of debt on the international markets would require a major effort and sufficient expertise of the Ministry staff.

- IMF staff excluded the possibility of this option. While it acknowledged that Kyrgyz authorities noted the successful issuance of the Tajikistan, the Fund staff noted also that there was no intention and the hypothetical costs would have been prohibitive anyway.

country, Tajikistan. Yield on these 10-year bonds is 7.125% per annum. Tajikistan has a slightly lower Moody's rating than Kyrgyzstan (B3 for TJK vs. B2 for KGZ).

- Some other successful issuance from emerging markets around the world in 2016 and 2017 i.e. Argentina sold USD 16.5 billion of sovereign bonds (four time oversubscribed) on yields varying between 6.25% to 7.6% depending on maturity⁴ in April 2016 while Ukraine regained the access to international markets after several years in September 2017 issuing USD 3 billion with maturity of 15 years and the yield of 7.35%
- JP Morgan Global Bond Index-Emerging Markets (GBI-EM)⁵ and overall outlook for 2015 was challenging⁶.
- Morgan Stanley 2016 outlook for emerging markets slightly better in 2016 than in 2015, though still significant downside risks⁷.
- High currency volatility may discourage some of the investors in

⁴ Reuters, April 2016. Argentina returns to global debt markets after 15 years. Available at: <https://www.reuters.com/article/us-argentina-bonds-bids-idUSKCN0XG2W0>

⁵ tracks total returns for traded external debt instruments (external meaning foreign currency denominated fixed income) in the emerging markets. The regular EMBI index covers U.S.dollar-denominated Brady bonds, loans and Eurobonds

⁶ JP Morgan, 2015. Emerging Market debt outlook. Available at: https://am.jpmorgan.com/blobcontent/1383212490929/83456/Emerging_market_debt_outlook_2015_US.PDF

⁷ https://www.morganstanley.com/im/publication/insights/investment-insights/ii_emoutlook_en.pdf

Counterfactual analysis

emerging markets as affecting potentially the real rate of return (i.e. marked appreciation of USD against Euro in Q1 2015 and depreciation of som versus USD).

- The foreign currency reserve of the NBKR shrank markedly in Q4 2014 and Q1 2015 because of its market intervention to prop up weakening som

Counterfactual 9a: alternative financing from the domestic market

Brainstorming session

- Shallow and underdeveloped domestic market would have made this option unlikely in view of the participants.

Interviews with IMF and WB

- According to the law, the Parliament needs to obtain the forecast on the level of securities issued by the government for the subsequent year – in 2015 the government intended to borrow KSG 9.4 billion. The level of outstanding T-bills and T-bonds as of 2015 was KGS3.35 billion and KGS10.84 billion respectively.
- The IMF staff has been of a view that even though the market was shallow indeed, at least partial fulfilment of the MFA gap would have been a feasible option.

Other relevant data/ information

- As of early 2016, the stock of government securities was 3 percent of GDP, of which banks held 1.3 percent of GDP and institutional investors (social fund and deposit protection agency) held 1.4 percent⁸.
- There has been substantial and continuous fall in yields on 2 years bonds from mid-2016 (peaked at 18% in May 2016) onwards as a result of, inter alia: (i) improvement in forex after 2014/15 shock, (ii) slowdown of inflation, (iii) new regulatory regime on foreign currency operations introduced by NBKR in 2016 lifting up demand for the domestic bonds/T-bills.

Counterfactual 10a: cuts and/or revenue increase

⁸ IMF, February 2016. Country Report.

Counterfactual analysis		
Brainstorming session	Interviews with IMF and WB	Other relevant data/ information
<ul style="list-style-type: none"> See counterfactual 7b – the difference would be, however, the magnitude of the cuts (lower under Alternative 1 than Alternative 2) 	<ul style="list-style-type: none"> See counterfactual 7b – the difference would be, however, the magnitude of the cuts (lower under Alternative 1 than Alternative 2) 	<ul style="list-style-type: none"> See counterfactual 7b
Counterfactual 11a: drawing on the government funds deposited at the account of the Central Bank		
Brainstorming session	Interviews with IMF and WB	Other relevant data/ information
<ul style="list-style-type: none"> Not discussed. 	<ul style="list-style-type: none"> Seen as very likely source of recourse by the IMF under both, Alternative 1 and 2. IMF informed that as of early 2015, there were circa 15 billion soms on this account, or circa USD 200 million on this account, or circa 3% of GDP. 	

Alternative 2: Had not MFA and IMF been available (based on partial findings only)

Counterfactual analysis

Summary for Alternative 2 (had no MFA and IMF been provided): The insights gathered during the brainstorming session with key inputs from the expert suggest that the combination of public cuts (counterfactual scenario 7b), some potential borrowing from Russia (counterfactual scenario 4b) and/or perhaps rising financing from international markets (counterfactual scenario 3b), though less plausible option as of now, could have been most likely counterfactuals had no IMF and MFA been available.

It was pointed out during the session that apart from the absolute value of the IMF assistance (ECF 2015 amounted to USD 94 million) the *signalling effect* of the IMF programme is crucial and may impact the action of other donors e.g. smaller donors heavily rely on the assessment of the IMF and could have annulled/ delayed their assistance. It was therefore suggested that the impact of no IMF and MFA could have been greater than the sum of both programmes. In the same vein, no IMF package would have also resulted in absence/ delay of some structural reforms implying potentially, inter alia, some negative consequences for the fiscal sustainability and growth over the mid/long-term horizon.

The interviewed staff from the IMF and WB also found the plausibility of the public cuts very high (counterfactual scenario 7b), combined with the use of the government finding deposited on the NBKR (counterfactual 8b) and potentially some support from Russia (counterfactual 4b) given the

Counterfactual analysis

exceptional circumstances that the absence of the MFA and IMF would have created.

Counterfactual 1b: greater commitment from the WB

<i>Brainstorming session</i>	<i>Interviews with IMF and WB</i>	<i>Other relevant data/ information</i>
<ul style="list-style-type: none"> • There may be some formal rules governing the WB commitment without the IMF assistance <i>[to be explored through desk research and during the interview with the WB staff]</i>. • 	<ul style="list-style-type: none"> • IMF expressed the view that WB support would have been either cancelled, or delayed, as stable macroeconomic framework is a precondition for the WB budget support under DPO. 	<ul style="list-style-type: none"> • The WB budget support requires stable macroeconomic framework

Counterfactual 2b: greater commitment from the ADB

<i>Brainstorming session</i>	<i>Interviews with IMF and WB</i>	<i>Other relevant data/ information</i>
<ul style="list-style-type: none"> • See counterfactual 6a. Under Alternative 2 though, substantially less likely given signalling effect of the IMF package. 	<ul style="list-style-type: none"> • See counterfactual 6a. Under Alternative 2 though, substantially less likely given signalling effect of the IMF package. 	<ul style="list-style-type: none"> • See counterfactual 6a

Counterfactual 3b: borrowing on commercial terms from the international markets

<i>Brainstorming session</i>	<i>Interviews with IMF and WB</i>	<i>Other relevant data/ information</i>
<ul style="list-style-type: none"> • The imperative of the IMF program is the prohibition of the commercial borrowing taking place during its implementation. Therefore, absence of the IMF programme would have opened this option, at least formally; • There were minor episodes of commercial borrowing by Kyrgyzstan in 1990s (loans from the EBRD, Export Credit Fund of Denmark, and German Hermes fund/company) and there has been no habit to go the market and issue the Eurobonds in Kyrgyzstan. Yet, Kyrgyzstan has been rated by Moody's from 	<ul style="list-style-type: none"> • See counterfactual 8a 	<ul style="list-style-type: none"> • See counterfactual 8a

Counterfactual analysis

December 2015 (and temporarily by S&P as well). The local expert confirmed that there were some discussions back in 2015/2016 about the possibility of accessing the international markets by Kyrgyzstan. There was also an example of successful issuance of Eurobonds in the region when Tajikistan rose USD 500 million in 2017 at 10 years maturity and 7.125% yield [https://www.bloomberg.com/news/articles/2017-09-11/junk-fever-hits-new-high-as-tajikistan-narrows-bond-sale-spread];

- Yet, the recent government borrowing strategy that was adopted in 2017 [“Main Directoins of the Fiscal Policy in the Kyrgyz Republic for 2018-2020” approved by the GoKR Decree No. 423 dated 5.07.2017] is relatively conservative and in this respect close to the IMF stance [some above strategy items: keeping grant element at the level of at least 35% for all new borrowing; refraining from borrowing on foreign markets in foreign currency; permanent control of the debt sustainability situation etc.].

Counterfactual 4b: financing from Russia

Brainstorming session

- While Russia seems to be plausible source of financing, its national economy was hit by foreign sanctions in 2015 and some loss in investors’ confidence followed that in turn affected key macro indicators. The scale down of the RKDF from USD 1 billion to USD 500 million was partly a consequence of deteriorating economic situation in Russia. There could have been therefore some constraints in terms

Interviews with IMF and WB

- IMF expressed the view that in case of Alternative 2 that would have implied much more severe consequences, Russia would have potentially stepped in, at least to some degree. It noted that in 2017, when IMF/ WB and ADB financing were suspended, Russia increased ins assistance in the form of budget

Other relevant data/ information

- See counterfactual 2a

Counterfactual analysis

of providing sizable financing at the preferential terms that would resembling the one offered by the MFA and IMF combined.

support from USD 30 mln to USD 56 mln.

Counterfactual 5b: financing from China

Brainstorming session

- See counterfactual 3a

Interviews with IMF and WB

- See counterfactual 3a

Other relevant data/ information

- See counterfactual 3a

Counterfactual 6b: financing from Turkey

Brainstorming session

- See counterfactual 4a

Interviews with IMF and WB

- See counterfactual 4a

Other relevant data/ information

- See counterfactual 4a

Counterfactual 7b: cuts and/or revenue increase

Brainstorming session

- Overall, based on the available evidence, it appears that the cuts of some expenditures rather than rise in revenue (i.e. through tax hikes and privatization) would have been much more plausible.

Expenditure side:

- There are some expenditure categories that were prohibited to be cut by the existing laws ('protected categories'). Before 2016, the Law on Main Principles of Budget Legislation established the following expenditure categories as protected (i.e. not subject to any budget cuts based on insufficiency of resources): salaries, contributions to the Social Fund, purchase of medicines, food products, social benefits, pensions, and stipends). After adopting the Budget Code in 2016, the same list of protected items is still provided in the annual

Interviews with IMF and WB

- IMF and WB view is that the authorities would have pursued some cuts. Most plausible direction of cuts would have been domestic investment (some categories would not have affected the external lending). IMF and WB pointed also to some areas which almost certainly would not have been cut i.e. (i) social transfers, and (ii) wages in public sector
- IMF and WB were of a strong view that there were no additional revenue measures that the government would have taken i.e. increase in VAT or corporate tax rate, even though those rates were

Other relevant data/ information

- IMF report from May 2015 on tax revenue: 'Given the weakening economic environment and the upcoming parliamentary elections, the authorities sought to postpone tax policy measures until next year and focus on tax and customs administration measures'.
- IMF report form May 2015 on political pressure: During the discussions, the authorities advocated an increase in teachers' salaries by a total of 50 percent—with a full-year effect of 1.3 percent of GDP—starting with an increase in September, noting

Counterfactual analysis

<p>Law on the Republican Budget.</p> <ul style="list-style-type: none"> - While the energy subsidies are substantial and reflected in low gas and electricity tariffs (NB: there is only one direct subsidy for heating provided to residents from small towns), this would be probably very sensitive and politically unacceptable move [to be explored during the interview with Kyrgyz authorities, IMF and WB]. - Domestic financing for PIP (the government capital investment programme implemented with donor financing) is a matching requirement according to the agreements with international donors, so cutting it is highly undesirable (while happened in the past). - What seems likely though is that the government would have reduced some domestic financing non-related to PIP (note that there are also purely domestic capital investments which are not consolidated into the PIP). GoKR has full discretion over this government expenditure item. In 2015-2016, these capital expenditures were KGS 5.4 billion (ca. USD84 million) and KGS 8.4 billion (USD120 million), respectively (source: explanatory notes to the reports on republican budget implementation in 2015 and 2016, MoF KR, http://www.minfin.kg/ru/novosti/godovoy-otchet-ob-ispolnenii-byudzheta.html). - In addition, some cuts in expenditures on goods and services could have taken place [travel expenses, communication expenses etc. <p>Revenue side:</p>	<p>comparatively low. The main reason was the advanced political cycle (election in 2015) and the time required to amend the taxation law (the process requires a very difficult consensus).</p>	<p>that these salaries had been frozen since 2011. Staff considered that ad-hoc salary increases, particularly just ahead of parliamentary elections, would open the door for similar requests by other civil servants, and encouraged the authorities to draw an action plan for the reform of public sector staffing and remuneration policies to reduce wage bill as a share of GDP (SB, December 2015) based on the recently completed World Bank public expenditure review. Regarding the teachers' salary increase, the authorities agreed to make the increase budget neutral by taking offsetting fiscal measures'</p> <ul style="list-style-type: none"> • In its report from May 2015, the IMF anticipated that the: '<i>fiscal consolidation will pause in 2015 but will be resumed in 2016-17</i>⁹. • Public debt grew in 2014 to 53% of GDP and it was anticipated by the IMF to increase substantially to 61% in 2016 (it eventually rose to 65 per cent in 2015). NB: 95 per cent of debt in 2016 was denominated in foreign
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⁹ <http://www.imf.org/en/Publications/CR/Issues/2016/12/31/Kyrgyz-Republic-Request-for-a-Three-Year-Arrangement-Under-the-Extended-Credit-Facility-42894>

Counterfactual analysis

- The tax rates in Kyrgyzstan has been historically low (i.e. as of 2015, Kyrgyzstan VAT rate was 12%, like in Kazakhstan, the immediate neighbour. In Russia, it is mostly 18% with lower rates for some goods). The local expert indicated that the likelihood of raising taxes, also due to the period of parliamentary elections (October 2015) and some past political turbulences caused by tax/utility tariffs increases, would have been small.
- In addition, the increase in taxes requires changes in law that may typically take time. More precisely, GoKR has to submit an amendment to the Tax Code to the Parliament; then Parliament should have three readings of the law, then Presidents signs it. All these steps are not just mechanical: MoF may not easily get support of the Government, tax amendment bill submitted to the Parliament has to be defended there (unlike typical parliamentary democracies, no mechanical support by the majority parliamentary coalition is guaranteed for this kind of bill), the President may also return the adopted bill to the Parliament in case of disagreement. All in all, this requires many months if not years to pass the bill.
- The effort to intensify the tax collection could have taken place though (NB: Kyrgyzstan had some success with it in 2015 and 2016).
- Substantial increase in privatization, given potential difficulties of the government to ensure attractive price for the state assets, would have been unlikely. Privatization recipes in 2015 and 2016 stood at KSG 179 million and KSG 0 million respectively. In addition, some cuts in expenditures currencies (mostly in USD).
- Overall, however, fiscal balance improved very markedly in 2014 (compared to 2013) where the deficit shrank from -3.7% in 2013 to surplus of 1% in 2014. So, some fiscal space?
- In its report from February 2016, the IMF observed that there is a considerable scope to cut current expenditures: 'There is plenty of scope to current expenditures. Both wages and goods and services rank high compared to the sample countries (9% of GDP compared to average 6% in regional comparators). The issue is not only the level of expenditures but also inefficiency as it is not supportive of growth'
- The existing debt stock is in around 90 per cent held by non-resident multilateral and bilateral creditors, with a very long maturity and low interest payments. Debt-servicing costs are very low relative to peers. Interest payments amounted to only 3.3 per cent of general government revenue in 2015 while media for B rated sovereigns is above 9 per cent.

Counterfactual analysis

- on goods and services could have taken place [travel expenses, communication expenses etc].
- NB: In 2015 (the year of actual expenditures' major deviation from the planned ones), according to the MoF treasury report, domestic capital investments were KGS6.7 billion lower than planned, purchases of various goods and services (unspecified items, but also electricity, heating) were KGS0.8 billion lower than planned, subsidies to state-owned enterprises were KGS0.2 billion lower than planned.

Counterfactual 8b: drawing on government funds deposited at the NBKR

Brainstorming session

- Not discussed.

Interviews with IMF and WB

- See counterfactual 11a – the amount withdrawn would be bigger though

Other relevant data/ information

- See counterfactual 11a

Counterfactual 8b: borrowing from domestic market

Brainstorming session

- See counterfactual 9a

Interviews with IMF and WB

- See counterfactual 9a

Other relevant data/ information

- See counterfactual 9a

10 Assessment of conditionalities

Preliminary considerations for the PFM area

PFM – conditions 1-4

Relevance	<p>The reinforcement of the public finance management is one priority area for reforms to be promoted via the MFA instrument as per the 2013 Joint Declaration.</p> <p>The PFM conditions were coherent with the national policies: PFM reforms were subject of the government's PFM Reform Action Plan 2012-2015. The OA from 2012 stated also that '<i>Improving the country's PFM system, which had scored poorly in the PEFA 2009, was found to be one of the new Government's reform priorities</i>'¹⁰.</p> <p>In general, OA indicated the level of priority of the reforms in PFM as 'high'.¹¹</p> <p>The specific conditions chosen focused on real weaknesses as confirmed via the 2014 PEFA assessment: condition 1 on multiyear budget perspective, condition 3 on TMIS ("one of the key elements still lacking to ensure the coherence of the PFM infrastructure"), condition 4 on external audit.</p>
Effectiveness	<p>Overall, there has been very substantial improvement between 2009 and 2014 when PEFA assessments were undertaken.</p> <p>Kyrgyzstan' Score on Open Budget Index Ranking also increased from 20 in 2012 (meaning Kyrgyzstan was belonging to a <i>group of countries whose budget transparency were classified as 'scant or no information'</i>¹²) .to 55 in 2017¹³.</p> <p>But progresses seem to have been concentrated on sub-sectors and weaknesses remain notably in relation to the following areas (with scores of D or C in 2014 PEFA assessment): realism in expenditure budget composition (PI-2); stock of expenditure payment arrears (PI-4); extent of unreported government operations (PI-7); oversight of fiscal risks (PI-9); multiyear budget perspective (PI-12); predictability of commitment funding (PI-16); effectiveness of payroll controls and internal audit (PI-18, PI-21), the quality of in-year budget reports and timing of annual financial statements (PI-24, PI-25) and external audit and legislative scrutiny of budget laws and audit reports (PI-26, PI-27, PI-28).</p>

¹⁰ EC, 2012. Operational Assessment of the financial circuits and procedures in the Kyrgyz Republic

¹¹ EC, 2012. Operational Assessment of the financial circuits and procedures in the Kyrgyz Republic.

¹² IBP, 2018. Open Budget Index Ranking. Available at: <https://www.internationalbudget.org/open-budget-survey/open-budget-index-rankings/>

¹³ IBP, 2018. Open Budget Index Ranking. Available at: <https://www.internationalbudget.org/open-budget-survey/open-budget-index-rankings/>

PFM – conditions 1-4

As summarised by the WB in its DPO-2 assessment: *'...The agenda of public financial management reform has advanced slowly over the years, as it has long been plagued by capacity weaknesses and by insufficient institutional priorities being accorded to such reforms, though encouraging results can be seen for example in internal audits and procurement, once resources and priority are given to such reforms (...) 'The Ministry of Finance has played the role of the overall coordinator of reforms supported by DPOs. But it lacks the full capacity to take the strategic approach to reform design, identifying and prioritizing the critical sub-set of reforms contained in the national development plan that could be supported by DPOs. It seems to have insufficient weight to hold line ministries and public institutions, some of which enjoy considerable autonomy, to their reform undertakings'.¹⁴*

In the same line, the IMF has also seen the PFM related reforms in the Kyrgyz context as challenging. The IMF pointed to some decrease in propensity to forward the reforms under PFM theme after the initial months of the ECF 2015 programme¹⁵. Unlike WB, however, it did not consider the capacity of the key implementing agent at the authorities (MoF) as an issue.

The EU was also flagging that despite MoF's commitment to PFM reform, "it is clear (...) that the assistance provided by donors and through the MD TF in particular is regarded as the main vehicle for the implementation of reforms".

In this context the difficulties encountered with the launch of MDTF 2 (as reported by the IMF, needs to be further explored with the Swiss partners) need to be analysed – to see if they further put a halt to progresses made.

MFA to Kyrgyzstan – Condition 1, PFM

Condition 1: With a view to ensuring strategic direction and predictability of the budget process as well as fiscal sustainability, the government of the Kyrgyz Republic prepares a Medium-Term Budget Framework in line with the law "On fundamental principles of budgetary legislation in the Kyrgyz Republic". In order to guarantee a timely and high-quality preparation of the budget, the government of the Kyrgyz Republic will approve a draft resolution on organisational measures for the preparation of the Medium-Term Budget Framework 2015-2017 and the draft republican budget of the Kyrgyz Republic for 2015-2017. The resolution will require consistent budget ceilings in those documents.

¹⁴ WB, 2017. DPO assessment. Available at: <http://documents.worldbank.org/curated/en/764021467981483577/Kyrgyz-Republic-Programmatic-Governance-and-Competitiveness-Development-Policy-Operation-Project>

¹⁵ Based in the interviews with the IMF staff in Washington DC and IMF Representative to Kyrgyzstan that took place in Brussels

Criterion	Assessment
Implementation / assessment of compliance	The government of the Kyrgyz Republic adopted Resolution No. 96-r dated March 19, 2014 on organisational measures to prepare the Medium-Term Budget Framework and draft republican budget for 2015-2017, and the Coordination board passed its decision "On Medium-Term Budget Framework for 2015-2017." This Resolution, as foreseen in Condition 1, set out organisational measures for preparation of the draft republican budget of the Kyrgyz Republic for 2015-2017 and required ensuring consistent budget ceilings in those documents. The corresponding decision for the period of 2016-2018 was adopted in the spring 2015. As a result of its assessment during the mission to Kyrgyzstan in November 2015, DG ECFIN found this condition as met. ¹⁶
Relevance	This condition was outdated at the time of signature of MoU (but its relevance was medium to high back in 2013 during the negotiations).
<i>Importance in light of identified weaknesses and priorities for reform</i>	Operational Assessment from 2012 concluded: ' <i>The MTBF should be improved by earlier communication of expenditure ceilings to line ministries, and by harmonising its structure to that of the annual budget</i> '. ¹⁷ WB assessment that preceded the DPO-2 pointed to, inter alia: ' <i>low transparency in budget planning and execution, a lack of consistency between annual budgets and mid-term budget frameworks, and a weak system of internal control and internal audit in public institutions were identified as key issues in the PFM</i> '. The link between the MTBF and the subsequent budgets was also assessed as weak in 2009 PEFA assessment report (PI-12-is cored a 'C'). It was not possible to gauge how keen the authorities had been back in 2013 to approve timely.
<i>Level of challenge given the nature of the instrument</i>	Slightly challenging. The condition targets an area marked by continuous weaknesses. However, the condition only requires the adoption of drafts and no specific deadline is included.
<i>Complementarity with national and other</i>	Improvement of the Medium-Term Budget Framework (MTBF) has been one of the four components of the PFM Multi Donor Trust Fund, the common initiative of the World Bank (i.e. WB GTAC), DfID, Swiss Cooperation Office and the European Commission ¹⁸ .

¹⁶ EC, November 2015. Mission Report.

¹⁷ EC, 2012. Operational Assessment of the financial circuits and procedures in the Kyrgyz Republic.

¹⁸ EC, 2012. Operational Assessment of the financial circuits and procedures in the Kyrgyz Republic

EU/international donors priorities MTBF issues have been covered by all the EU budget support programmes. At the same period of time than the MFA, the SRCs in the fields of education and social protection were for instance requiring the adoption of the 2014-2016 MTBF and incentivising the MoF to communicate expenditure ceilings to line ministries.

Effectiveness

Evidence of de facto implementation (no implementation deficit) In the strict sense, as per the text of the condition, there was no implementation deficit.

Domestic ownership The ownership level, notably at the Ministry of Finance that led on the reform, was appropriate.

Evidence of short term benefits In its assessment of DPO-2, WB stated that '*the passage of the Budget Code in 2016, of which MTBF is an integral part, was a major step towards PFM reforms strengthening budget planning, implementation and monitoring, and enhancing fiscal discipline and transparency*'. Not possible to attribute the exact weight of specific reforms embedded in the MFA to this progress (also, refer to 'relevance').

Evidence of actual or expected longer-term impacts (direct and indirect) Not possible to attribute the exact weight of specific reforms embedded in the MFA to this progress (also, refer to 'relevance').

Additionality – evidence of political / operational reinforcing effect stemming from MFA condition No evidence.

MFA to Kyrgyzstan – Condition 2, PFM

Condition 2: The goal of the Public Expenditure and Financial Accountability (PEFA) Programme is to strengthen the ability of partner countries, donor agencies and international financial institutions (i) to assess the condition of country public expenditure, procurement and financial accountability systems, and (ii) to develop a practical sequence for reform and capacity-building actions. The Kyrgyz Republic has already undertaken two PEFAs, namely in 2005 and in 2009. The government of the Kyrgyz Republic intends to undertake the next PEFA in 2014 and will, as a first step, agree on the Terms of Reference of the PEFA

Criterion	Assessment
Implementation / assessment of compliance	The ECFIN mission report from November 2015 informed: 'In 2014, the PEFA assessment was performed by the consulting company 'Linpico' and a final presentation of the report was made in May 2015. The 2014 assessment shows a considerable improvement as compared with the 2009 PEFA study, 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. Overall the picture shows considerable improvement, in particular of the PFM infrastructure since 2009, but some key elements to ensure the coherence of the structure are still lacking ¹⁹ . The date of publication of the Terms of Reference is not clear – one of the mission reports indicates that the Terms of Reference (TOR) was expected to be agreed with the Government beginning of 2014. The report, in turn, was written over the course of 2014, and the final version was submitted in March 2015 ²⁰ .
Relevance	This condition was outdated at the time of signature of MoU (but relevant back in 2013 during the negotiations).
<i>Importance in light of identified weaknesses and priorities for reform</i>	A PEFA was planned for 2013/14, with a view to update the one from 2008/09 (which had become outdated since major reforms had been undertaken in the meantime). According to ECFIN staff, the launch of the PEFA study was at risk of encountering delays. More precisely, the assessment report from the DG ECFIN mission that took place in November 2015 informed: <i>'The last PEFA studies in the Kyrgyz Republic were undertaken in 2005 and 2009. Since then, the country has gone through a major crisis and then embarked on substantial PFM reforms supported by the international donor community. Therefore, a new PEFA study would be useful for the European Commission and also for the other donors for a comprehensive assessment of the public expenditure, procurement and financial accountability systems of the Kyrgyz Republic. The findings of this PEFA study will also help donors to develop plans for reforms</i>

¹⁹ EC, November 2015. Mission Report.

²⁰ <https://pefa.org/sites/default/files/assements/comments/KG-Mar15-PFMPPR-Public.pdf>

and capacity building actions.²¹

Level of challenge given the nature of the instrument Not challenging.
Tendering a PEFA does not commit the authorities to any reform action, especially in a context where the PEFA is financed by external donors.

Complementarity with national and EU/ international donors' priorities Relevant in the content of the government's PFM Reform Action Plan 2012-2015.
Since the PEFA was to be financed by the Trust Fund (to which the EU is a main donor), it was consistent to push for that condition. WB DPO-2 focused on some areas targeted by the PEFA, with references to specific PEFA indicators i.e. controlling the composition of expenditure out-turns compared to original approved budget. (PEFA PI-2) and increasing the Effectiveness of internal audit (PEFA PI-21²²).

Effectiveness

Evidence of de facto implementation (no implementation deficit) No implementation deficit related to be signalled with respect to this condition.
The TOR and PEFA were published over the course of 2014.

Domestic ownership Doing a PEFA implies some external scrutiny of PFM practices in the country and can be seen as a sign of good will for the undertaking of reforms. The new PEFA was conducted in a timely fashion and provided a comprehensive assessment of the public expenditure, procurement and financial accountability systems of the Kyrgyz Republic.

Evidence of short term benefits The PEFA was viewed as very helpful information by the WB (i.e. PEFA was used as benchmark indicator for some Policy Actions under DPO-2) and the IMF (i.e. PEFA informed the focus of the ECF 2015 programme)²³.
However, some stakeholders (e.g. DG DEVCO) have stressed that PFM reforms take time to materialise (especially if reforms are not sustained over the longer term). The benefits associated with a PEFA, for instance, depends on the extent to which it will be used to advance further reforms.

Evidence of actual There was no substantive evidence pertaining to longer-term change/benefits stemming from this condition.

²¹ EC, November 2015. Mission Report.

²² <http://documents.worldbank.org/curated/en/359281504289700003/pdf/ICR00004018-05192017.pdf>.

²³ Based on the interviews with WB and IMF staff conducted in June 2018 in Washington DC.

or expected longer-term impacts (direct and indirect)

Additionality – No evidence.
evidence of political / operational reinforcing effect stemming from MFA condition

MFA to Kyrgyzstan – Condition 3, PFM

Condition 3: In order to improve the accuracy and quality of the public finance management system of the Kyrgyz Republic, it is important to successfully reform the accounting and reporting systems of the Kyrgyz Republic according to international standards and to develop a single chart of accounts. A significant milestone towards this objective will be the endorsement by the Government of the Kyrgyz Republic of the following normative legal acts and methodological documents: (i) Accounting policy of the public administration sector; (ii) Regulation for preparation of financial reporting; and (iii) Regulation for the organization and maintenance of accounting and book-keeping.

Criterion	Assessment
Implementation / assessment of compliance	As per ECFIN mission report, the Order 'On the Adoption of Normative Legal Acts and of Accounting and Reporting Guidelines for Budget-funded Institutions' was issued by the Ministry of Finance on 30 December 2013. This included the adoption of the Accounting Policies of the Public Administration Sector, the Regulation on Preparation of Reporting of the Public Administration Sector and the Regulation on Organization of Accounting of the Public Administration Sector. They will enter into effect at the date of introduction of a Single Treasury Account and of a Single Account Plan. Thus, the legal framework for the introduction of a Single Treasury Account and of a Single Account Plan (containing a single chart of accounts) has been in place for some time and the policy condition foreseen in the MoU has been met ²⁴
Relevance	This condition was outdated at the time of signature of MoU (but relevant back in 2013 during the

²⁴ EC, November 2015. Mission Report

negotiations).

Importance in light of identified weaknesses and priorities for reform According to the MF: '*...Chart of Accounts it is possibly the most critical element or lynchpin of a well-functioning PFM system*'²⁵, while the Operational Assessment from 2012 concluded: '*The introduction of Treasury Single Account should be implemented within the planned timeframe*'.

The 2014 PEFA assessment concluded that the TMIS is one of the key elements still lacking to ensure the coherence of the PFM infrastructure.

Putting in place the legal framework mentioned in the MFA condition was an intermediary step to remedy the situation

Level of challenge given the nature of the instrument Moderately challenging.

The reform area is a challenging one but putting in place the legal framework, however, does not per se imply changes on the ground. Kyrgyzstan was also able to draw on Technical Assistance in this area.

Complementarity with national and EU/ international donors priorities Coherent with the PFM Reform Action Plan 2012-2015

Many IFIs/ donors have been active in relation to this area, including

- The IMF in both its 2011 and 2015 ECF programmes tackled this aspect. In 2015, the IMF was for instance introducing milestones to enhance the cooperation with TIKA.
 - the World Bank's comprehensive TMIS TA project from 2003/4 to 2013
 - the MDTF CB-PFM also had as an objective to establish a budget information system (BIS) integrated with Treasury Management Informational System
 - 2015 cooperation with TIKA regarding TMIS software
-

Effectiveness

Evidence of de facto implementation (no deficit) ECFIN mission report concluded that despite the legal framework being in place, "*substantial additional progress in this area remains to be made. In particular, 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, as well as the possibility to conduct payments and receipts through the National Bank, represents a major setback. The Government has committed itself to a PFM Action Plan whereby a decision should be taken on arrangements for achieving the*

²⁵ IMF, 2011. Chart of Accounts: A Critical Element of the PFM Framework. Available at: http://blog-pfm.imf.org/files/tnm_2011-03_web-1.pdf

*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 the Ministry of Finance, which covers budget execution, reporting and accounting*²⁶

In its assessment from 2017, the WB, referring to the backtracking in the PEFA variable relating to the composition of expenditure outturns compared to the original approved budget (PEFA PI-2), stated: '*...The failure to make adequate progress on the single treasury account is in part responsible for this development' and 'Further action has to be taken in making the single treasury account truly effective'.*

Failure to establish a budget information system (BIS) integrated with Treasury Management Informational System was also seen as the main shortcoming of the MDTF – CB PFM²⁷.

The IMF also confirmed reforms around the issue of TMIS / FMIS²⁸ have failed to materialise.

Domestic ownership According to interviews with the IMF, this is an area which suffers not only from lack of capacity but also lack of ownership / lack of willingness to undertake the reforms: this led to several examples of TA programmes in this area failing / being discontinued without the progresses having been made (the World Bank TA for the TMIS was initiated in 2003/4 and discontinued in 2013²⁹, cooperation with the Turkish Cooperation and Coordination Agency re the FMIS software initiated end 2015 which ended after a disagreement over the selection of the provider.

Evidence of short term benefits None, no tangible progress in this area.

Evidence of actual or expected longer-term impacts (direct None, no tangible progress in this area.

²⁶ EC, November 2015. Mission Report

²⁷ IEG, 2016. Implementation Completion Report (ICR) Review. Available at: <http://documents.worldbank.org/curated/en/804671467114202808/pdf/ICRR-Disclosable-P112713-06-28-2016-1467114181287.pdf>

²⁸ TMIS stands for Treasury Management Information System and constitutes a commitment control system, based on cash limits. The rationale for its introduction, under the IMF's ECF 2011, was to strengthen the Treasury's ability to check commitments against authorised limits, register commitments and enhance control and recording of cash spending requests (source: IMF).

FMIS stands for Financial Management Information System and is designed to support the automation and integration of public financial management processes, including budget formulation, execution (e.g. commitment control, cash/debt management, treasury operations), accounting, and reporting. The rationale for its introduction, as part of the IMF's ECF 2015, was to improve expenditure monitoring and oversight of budget operations (source: IMF).

²⁹ See also EC, 2015. Annex 2 of the Commission Implementing Decision on the Action Document for the Education Sector Reform Contract. Available at: https://ec.europa.eu/europeaid/sites/devco/files/aap-kyrgyzstan-ad-2-2015_en.pdf

and indirect)

Additionality – Not applicable, no tangible progress in this area.
evidence of political
/ operational
reinforcing effect
stemming from MFA
condition

MFA to Kyrgyzstan – Condition 4, PFM

Condition 4: The Chamber of Accounts of the Kyrgyz Republic is responsible for conducting the audit of the execution of republican and local budgets, the audit of off-budgetary funds and the audit of the use of public and municipal property. With a view to improving the quality of its audits, the Chamber of Accounts will develop and approve an Action Plan for upgrading its audit standards to INTOSAI standards. The INTOSAI is the International Organisation of Supreme Audit Institutions, which operates as an umbrella organisation for the external government audit community

Criterion	Assessment
Implementation / assessment of compliance	<p>According to ECFIN's mission report, "the Chamber of Accounts has adopted the Action Plan on 8 June 2015 by the order Nr. 04-4/62, which foresees to implement seven measures to upgrade its audit standards to INTOSAI standards. The Action Plan foresees implementation of INTOSAI standards for financial control; competence building of the Chamber of Accounts staff; pilot projects for efficiency audit and development of methodology for efficiency audits; pilot projects for IT audit and development of methodology for IT audits; methodology for audit of public procurement. Further capacity building and development of audit standards are foreseen for specialised audits, such as mining, environmental and many others. Representatives of the Court of Accounts expressed interest to receive technical assistance from the European Commission."³⁰</p> <p>Further discussions with the Chamber of Accounts as part of the mission indicate that they prepared a strategic development plan for 2016-2020, stipulating the Chamber of Accounts' commitment to raising national audit standards and meeting those recommended by INTOSAI.</p>
Relevance	This condition was still relevant by the time of the signature of the MoU. Its relevance also remained high.
<i>Importance in light of identified weaknesses and priorities for reform</i>	<p>External audit was one of the weaknesses confirmed in the 2014 PEFA.</p> <p>Already in 2012, the Operational Assessment informed that: 'National Audit Standards were developed in 2008 based on INTOSAI standards but due to absence in manuals and application guidelines this is not happening in practice'. The Chamber of Accounts communicated to ECFIN during the 2013 mission that it was developing an Action Plan for the purpose of fostering the application of INTOSAI standards. According to ECFIN, that condition was meant to give the Chamber of Accounts political support for that ongoing reform (support which was lacking outside the Chamber itself).</p> <p>The lack of political support was reiterated by the CoA during the mission visit. Additionally, the CoA stressed the</p>

³⁰ EC, November 2015. Mission Report

lack of expertise in-house that is necessary to drive certain reforms (including application of the INTOSAI standards). This has constrained their ability to implement reform in the past, while increasing their reliance on international consultants.

Level of challenge given the nature of the instrument Not challenging.
The condition necessitated the publication of an action plan only. No concrete actions surrounding the implementation of the INTOSAI standards were required under the MFA. The CoA also remarked that, though the MFA promoted the development of a detailed approach to meeting INTOSAI standards, reform in this area dates back to 2009 (pre-MFA). As such, guidelines for financial auditing (drawing on international best practice) were formally introduced in 2009 and pilot audits were conducted to test the new guidelines. In 2016, these guidelines were amended and “perfected” (as a result of the MFA condition).

Complementarity with national and EU/ international donors’ priorities Coherent with the PFM Reform Action Plan 2012-2015.
The EU³¹ and the World Bank³² have run successive TA programmes for the benefit of the Chamber of Accounts, on performance audit and financial audit respectively³³. During the mission visit, the CoA mentioned that funding received from the World Bank has focused on the institutional development of the department.

Effectiveness

Evidence of de facto implementation (no implementation deficit) In the strict sense, as per the text of the condition, there was no implementation deficit. This was reiterated as no part of interviews conducted with various EU and Kyrgyz authorities, including the CoA.

Domestic ownership This condition / aspect of reform was well-received by the authorities. During the mission visit, the CoA indicated that “audit reform is much needed and there is a will within the department to implement change.” The department is also interested in advancing reform so that international best practices are not only applied to practices currently used for auditing separate ministries but more widely, i.e. to audits of the republican budget.

³¹ https://ec.europa.eu/europeaid/projects/technical-assistance-chamber-accounts-kyrgyz-republic_en

³² <http://documents.worldbank.org/curated/en/829931468187760048/Kyrgyz-Republic-Strengthening-the-Chamber-of-Accounts-of-the-Kyrgyz-Republic-Project-procurement-plan>

³³ EC, 2015. Annex 2 of the Commission Implementing Decision on the Action Document for the Education Sector Reform Contract. Available at: https://ec.europa.eu/europeaid/sites/devco/files/aap-kyrgyzstan-ad-2-2015_en.pdf

Evidence of short term benefits While aligning practices with internationally-recognised ones is perceived to be a positive initiative, this process takes time - internal work procedures/processes need to be changed, staff need to be trained, and the right expertise is needed to drive the reform forward. Evidence of short term benefits is hence rather inconclusive at the moment.

Evidence of actual or expected longer-term impacts (direct and indirect) None, no tangible progress in this area.

Additionality – evidence of political / operational reinforcing effect stemming from MFA condition None, no tangible progress in this area.

MFA to Kyrgyzstan – Condition 5, Financial Sector

Condition 5: In line with the three year arrangement with the IMF under the Extended Credit Facility, the government of the Kyrgyz Republic continues its efforts to address the remaining vulnerabilities in the banking sector. In this context, the government of the Kyrgyz Republic will submit a new Banking Code to the Parliament, which will enable the enforcement of a new legal framework on banking. The Banking Code, once approved, will constitute a milestone toward establishing a solid banking sector.

Criterion	Assessment
Implementation / assessment of compliance	<p>Submission to Parliament was intended for end-April 2012. However, given the scope of the project, Kyrgyz authorities requested an extension of the deadline for the structural benchmark on the submission of the draft Banking Code to parliament from end-April 2012 to end-March 2013. Two new interim benchmarks on submitting the draft Banking Code to Fund staff by end-April 2012 and to the Kyrgyz government by end-December 2012 respectively were also requested. Work on the Banking Code did not however progress as expected. Kyrgyz authorities therefore requested to re-phase the structural benchmarks related to the submission of the Banking Code to the government to end-April 2013 and to parliament to end-September 2013. The Code was eventually submitted to Parliament on the agreed date, thereby fulfilling this condition.</p> <p>In June 2015, Parliament passed the first reading of the Banking Code but reduced it to a law. The second and third readings did not take place owing to the lack of quorum in the run-up to the October parliamentary elections. The Banking Law was adopted by Parliament in September 2016. It however did not contain the provisions recommended, owing to proposed amendments having been rejected by the Ministry of Justice of the Kyrgyz Republic on constitutionality grounds with respect to the limitation of judicial review. Eventually, the Banking Law (but not Code) was passed in 2017. The Law consolidated many relevant provisions in one act, but it still does not fundamentally address all issues that were found problematic back in 2011/12.</p>
Relevance	This condition was outdated at the time of signature of MoU (but highly relevant back in 2013 during the negotiations).
<i>Importance in light of identified weaknesses and priorities for reform</i>	<p>The 2007-08 (global) financial crisis and the 2010 political crisis and revolution against President Bakiev's regime severely impacted on Kyrgyzstan's banking sector. Specifically, a reported US\$240 million deposit outflow prompted fears of capital flight. As a result, deposits declined by 30 per cent during April 2010, mostly driven by withdrawal of non-resident deposits from the country's largest bank, the Asia Universal Bank (AUB). The AUB and seven other banks were subsequently put under conservatorship. The imposition of temporary administration was mainly justified by alleged links to the previous regime as well as to certain irregularities discovered in the AUB (e.g. loans made against potentially unrecoverable collateral in foreign countries;</p>

securities purchased by the AUB not registered to the bank). The AUB was eventually nationalised. Its administration and supervision were taken over by the National Bank of the Kyrgyz Republic (NBKR). The latter initiated bankruptcy proceedings for the AUB and, to launch the restructuring process, founded OJSC Zalkar Bank ("Zalkar"). DEBRA (the Agency for Bank Reorganization and Debt Restructuring) held four unsuccessful auctions to sell all of Zalkar's shares. All failed which prompted Zalkar's Board of Directors and DEBRA to retain the International Finance Corporation (IFC) in March 2012 to provide guidance as regards the bank's sale. The sale bore the requirement that 10 per cent of the bank's shares be retained by the State Property Management Fund of Kyrgyzstan. An offer for the remaining 90 per cent of the shares was made by ITB Holding (Russia) in April 2013. The purchase / sale was finalised in May 2013.

As a result of the aforementioned crises, flaws in the Kyrgyz legal framework emerged with respect to early intervention, bank resolution, and external pressure on the NBKR. Specifically, it was recognised that existing legislation lacked an effective resolution framework to protect functions and assets of banks. Most resolution procedures were taking place under court supervision, with the participation of creditors and shareholders, and DEBRA acting as the sole liquidator. As a result of this framework, the liquidation of banks under DEBRA was being subjected to significant delays

To address these weaknesses, Kyrgyz authorities requested the IMF's assistance in preparing a Banking Code. The new banking code aims to bring the Kyrgyz bank resolution framework in line with the international standards, including the Basel Core Principles, and strengthen the independence of the central bank. It also aims to limit the scope of judicial review of decisions taken by the central bank with respect to license revocation and bank resolution, enhance legal protection for the central bank's staff and establish the central bank as the sole authority to hold and manage official foreign reserves. It will also strengthen the internal oversight of the central bank.

Level of challenge given the nature of the instrument High: i.e. WB assessment of DPO-2 performance in this area: '*complexity of the revisions to the regulations supporting the supervisory framework that needed to be designed and the training that had to be absorbed by supervisory staff.*'

WB argued in the DPO-2 assessment: '*Capacity in the central bank is being built up, albeit gradually, to handle complex reforms in banking supervision.*'

IMF highlighted significant deficiencies in terms of the ownership level.

Complementarity with national and EU/ international donors priorities National: coherent with the National Sustainable Development Strategy, 2013-17. The IMF also confirmed high complementarity of this conditionality with its own conditionality pertaining to the Banking Code.

Effectiveness

Evidence of de facto implementation (no implementation deficit) The Banking Law was adopted by Parliament in September 2016. It however did not contain the provisions recommended, owing to proposed amendments having been rejected by the Ministry of Justice of the Kyrgyz Republic on constitutionality grounds with respect to the limitation of judicial review. Key actions were therefore mandated under the new ECF, including:

- the proposed amendments, relating to the reintroduction of the missing provisions, to be circulated to ministries for review (by end-April 2017);
 - the proposed amendments, relating to the reintroduction of the missing provisions, to be submitted to Parliament (by end-July 2017); and
 - the proposed amendments, relating to the reintroduction of the missing provisions, to be enacted and published in the Official Gazette (“Erkin-Too”) (by end-March 2018)
-

Domestic ownership Suboptimal, with changing level along the implementation period.

Evidence of short term benefits The current law consolidates many of the provisions that were before scattered around in different acts.

Evidence of actual or expected longer-term impacts (direct and indirect) Not available.

Additionality – evidence of political / operational reinforcing effect stemming from MFA condition MFA condition quickly became outdated (the submission to the Parliament was not the concrete problem beyond September 2013) and could thus not operationally help push for the next steps to be accomplished. That said, the IMF, who was constantly updating its conditions on the issue, valued positively that the EU endorsed the reform by including this condition, since in a way it served as a political endorsement of what the IMF was asking for.

MFA to Kyrgyzstan – Condition 6, Trade Policy

Condition 6: The Kyrgyz Republic became a member of the WTO in 1998 and, since then, the government of the Kyrgyz Republic has been supporting the liberalisation and regulation of its foreign trade policy, in accordance with its obligations towards the WTO. In line with the Trade Policy Review Mechanism of the WTO, the government of the Kyrgyz Republic will officially approve the report on its trade policy to be presented in the Trade Policy Review Body of the WTO and provide a draft action plan responding to the recommendations of the WTO Secretariat.

Criterion	Assessment
Implementation / assessment of compliance	<p>According to ECFIN mission report, “the second review of the trade policies and practices of the Kyrgyz Republic at the WTO took place on 19-21 November 2013, based on a report by the WTO Secretariat and a report by the Government of the Kyrgyz Republic, which was officially approved by the government of the Kyrgyz Republic on 23 October 2013”.</p> <p>The 2015 mission report does not mention the status of the action plan but indicates that the opening and closing statements made by the Kyrgyz Republic at the WTO review session on 19 and 21 November 2013 confirmed that most of the recommendations received on the WTO report were being fulfilled. Specific actions had been taken, including the adjustment of import tariffs to address the identified breaches of bound tariff rates. In the same vein, at the time, the Kyrgyz government confirmed its intention to consult and negotiate with the WTO members once its accession to EACU was confirmed.</p>
Relevance	This condition was outdated at the time of signature of the MoU (but relevant back in 2013 during the negotiations).
<i>Importance in light of identified weaknesses and priorities for reform</i>	The second trade policy report submitted by the Kyrgyz government to the WTO confirmed its commitment to further liberalising trade and attracting investments to the country. The second review highlighted a number of areas whereby further improvements could be made, including tariff rates and non-tariff measures; transparency and notification obligations; investment strategy; and regulatory matters (e.g. intellectual property and government procurement). Reassurances were asked by WTO members as regards Kyrgyzstan’s accession to the EACU, specifically in relation to the extent to which WTO processes will be maintained / followed. Through the MFA condition on trade, the EU stressed the importance of WTO membership and encouraged the Kyrgyz Republic to constructively interact with the WTO Secretariat.
<i>Level of challenge given the nature of the instrument</i>	This was the one condition which was difficult to negotiate with the Kyrgyz authorities according to ECFIN staff. The first part of the condition (approval of the report) relates to a WTO obligation <i>stricto sensu</i> . The second part (related to the action plan) goes beyond the formal obligation.

Complementarity with national and EU/ international donors priorities ADB is another donor active in this area.

Effectiveness

Evidence of de facto implementation (no implementation deficit) Stricto sensu the condition was met

Domestic ownership The ownership level was appropriate; however, in practice, it is believed that Kyrgyz authorities may be struggling in reconciling EEU and WTO obligations.

Evidence of short term benefits The Kyrgyz government confirmed having adjusted import tariffs to address identified breaches of bound tariff rates – this could have helped reduce the likelihood of dispute / retaliation from trading partners.

Evidence of actual or expected longer-term impacts (direct and indirect) There is not much evidence as regards the extent of progress made by Kyrgyz authorities in implementing other actions that ensued from the WTO recommendations, and hence the nature and magnitude of longer-term impacts that could have resulted.

Additionality – evidence of political / operational reinforcing effect stemming from MFA condition None.

MFA to Kyrgyzstan – Condition 7, Investment and Business Environment

Condition 7: With a view to creating a more favourable business environment, inter alia by reducing bureaucracy and red-tape, the government of the Kyrgyz Republic will ensure that the law "On licensing and permitting system in the Kyrgyz Republic", which foresees the reduction of the number of business licenses and permits (from originally 240) to no more than 100 is enacted.

Criterion	Assessment
Implementation / assessment of compliance	According to ECFIN mission report: <i>'The law "On licensing and permitting system in the Kyrgyz Republic" entered into force on 19 October 2013, which sets the number of business licenses and permits at 101. On 31 December 2014, as part of the agreements within the EEU, requirements for five permits were cancelled. One additional permit was cancelled on 8 April 2015. At the moment, the number of required business licenses and permits stands at 98'.</i>
Relevance	Outdated at the time of signature of MoU but medium/high relevance back in 2013
<i>Importance in light of identified weaknesses and priorities for reform</i>	<p>Business environment in the Kyrgyz Republic, even though better than in neighbouring Central Asian countries such as Tajikistan and Uzbekistan, still suffer from many weaknesses. WB assessment preceding DPO-2 was for instance indicating: <i>'The prevalence of complicated procedures, inadequate competition frameworks, weak accounting and auditing practices, and poor implementation of corporate governance laws and standards were identified as major constraints to private sector growth'.</i></p> <p>According to Doing business indicators and the IMF, starting a business was not the most pressing issue already at the time: in 2013, Kyrgyz DTF score on starting a business was of 92 (out of a maximum of 100), vs 57 for enforcing a contract or 31 for resolving insolvency. These other more major issues are, however, linked to the effectiveness of the judiciary system and thus less easy to address via the MFA instrument.</p>
<i>Level of challenge given the nature of the instrument</i>	<p>Not challenging</p> <p>The law subject to the conditionality was about to enter into force but the conditionality was still introduced as a signal, since there was some lobbying against it that ECFIN had been made aware of.</p>
<i>Complementarity with national and EU/ international donors priorities</i>	The condition is coherent with the National Sustainable Development Strategy 2013-17, which was specifically saying that "Despite the reforms that have been undertaken, there is still a lot of barriers for SMEs that prevent them from entering domestic and international markets, including unclear or vague licensing procedures). At the moment, there are about 240 types of various licenses and permits; this number, according to the business community, should be reduced".

ECFIN mission report was specifically quoting the need to advance on this matter in relation to the negotiations with the Eurasian Economic Union.

The ADB and WB work on this topic.

The importance of reducing red tape was also highlighted by the representative of the International Business Council.

Effectiveness

Evidence of de facto implementation (no implementation deficit) No implementation deficit – see also domestic ownership

Domestic ownership According to ECFIN 2015 mission report, the Kyrgyz authorities continue efforts to address this issue. It was already indicating that “a revision of the law “On licensing and permitting system in the Kyrgyz Republic” has been prepared, which will streamline the business licenses and permits system in the Kyrgyz Republic and limit its number to 91 activities. The proposed law was sent for public consultations on 29 July 2015”.

Evidence of short term benefits Decrease in operational costs of businesses.

Evidence of actual or expected longer-term impacts (direct and indirect) In 2017, the WB informed: ‘...The number of days to register a business fell from 20 in 2011 to six days in 2016.’³⁴

Additionality – evidence of political / operational reinforcing effect stemming from MFA No evidence.

³⁴ <http://documents.worldbank.org/curated/en/764021467981483577/Kyrgyz-Republic-Programmatic-Governance-and-Competitiveness-Development-Policy-Operation-Project>

condition

11 Summary of findings from consultation activities

Interviews with EU and Kyrgyz stakeholders

Relevance of the EU MFA

There was general consensus among the stakeholders consulted that the EU MFA was sizable, though to a lesser extent when compared to other forms of EU and international assistance provided to the Kyrgyz Republic (e.g. IMF support). Most stakeholders recalled the delays that surrounded the design and implementation process, which had some bearing on EU-Kyrgyz relations owing to the uncertainty that prevailed as regards the actual disbursement of the MFA. Eventually, the disbursement of the MFA was however coincidentally timely owing to new economic difficulties the Kyrgyz economy faced from 2015 (i.e. a sharp fall in exports to Russia (2015) and an important contraction in gold production (2016)). On the form of the MFA (i.e. the grant-loan combination), this was considered appropriate by both EU and Kyrgyz stakeholders. Some Kyrgyz stakeholders did however highlight their preference for grant-only arrangements. Various EU stakeholders commented on this possibility and confirmed that the likelihood for such an arrangement was low at the time, given the (existing) realm of EU aid operations in place in Kyrgyzstan.

The EU MFA was accompanied by a reform package agreed between the EU and Kyrgyz authorities. Target reform areas were informed by an in-depth operational assessment conducted by the EU that highlighted priority areas for action. EU and Kyrgyz stakeholders unanimously agreed that the MFA reform package was in line with the priorities set by the Kyrgyz government as well as other donors / IFIs (as part of their support programmes). The reforms were also consistent with wider objectives associated with EU MFA operations, notably to promote structural measures/reforms capable of driving and maintaining macroeconomic stability. However, owing to various procedural delays, most of the reforms had been implemented by the time the MoU was agreed and signed. Various stakeholders felt that the fulfilment of MFA conditionalities prior to the signature of the MoU *de facto* made the conditionalities redundant, wrongly signalling to Kyrgyz authorities that the EU was handing 'free' money. There was thus strong support for re-negotiations.

Effectiveness of the EU MFA

Stakeholders were asked about various aspects (pertaining to the effectiveness) of the EU MFA package, notably: the nature and extent of reform implementation and the (economic and social) impacts of such reforms.

Some stakeholders remarked that, in spite of the delays encountered in finalising the terms of the MFA package and disbursing the assistance to the Kyrgyz Republic, the EU MFA coincidentally came at the right moment (i.e. 2015). The Kyrgyz economy was facing new economic difficulties, while parliamentary elections were nearing. Nonetheless, it was generally recognised that the EU MFA was not "indispensable" and that the Kyrgyz government would have been able to find/seek alternative sources of finance in these difficult times (e.g. Russian support). In addition, many stakeholders believed that the Kyrgyz government would have also resorted to cutting public expenditure (especially among unprotected categories).

It was generally recognised that target reform areas under the EU MFA were appropriate. However, other donors (notably the IMF and the WB) were also active in these areas and promoted longer-term reforms (with potentially more significant macro-economic impacts than the EU MFA). Most stakeholders confirmed that Kyrgyz authorities fulfilled the economic and structural policy conditions related to the disbursement of the MFA in a satisfactory way. Various stakeholders however questioned the potential redundancy of MFA conditions, given that most of the reforms had been implemented prior to the MoU being approved. There was general

preference for re-negotiations to ensure that reforms were still fit for purpose at the time of the disbursements. Some stakeholders praised the IMF's negotiation process, which (as opposed to the EU) offers greater flexibility to review and adjust reforms / conditions.

It was generally recognised that the EU MFA entailed additional impacts. First, its political dimension contributed to strengthening EU-Kyrgyz relations at a time when the Kyrgyz Republic faced important political and economic difficulties. This impact was however potentially reduced owing to the delays that surrounded the disbursement of the EU MFA. Additionally, the magnitude of the impacts entailed by the EU MFA may have been less important when compared to other EU programmes. These are known to have had a desired positive impact, notably in terms of advancing legislation and promoting certain values, such as democracy, free press, rule of law and good governance.

Furthermore, a number of stakeholders recognised that, even though the EU MFA did not explicitly target particular areas of social development, it played an important role alongside other stakeholders (notably civil society) in preventing the enactment of the 'foreign agents' and 'anti-LGBTI' bills.

Efficiency of the EU MFA

In general, stakeholders consulted during this research acknowledged a smooth running of the negotiation process (facilitated through various mission visits). This also comprised effective coordination between the EU and other international donors to ensure that actions/reforms under the EU MFA complemented those promoted by other donors on the ground. There were particular synergies in the public financial management (PFM) and financial areas. The general level of reform ownership among Kyrgyz authorities was seen by many stakeholders as having been varying, partly in sync with the pendulum of the political cycle. Although some stakeholders saw a substantial pick up in the appetite to embark on MFA reforms in late 2014, more difficulties were reported closer to the parliamentary elections in the late 2015. In terms of monitoring, formal and regular missions constituted an important channel of dialogue between the Commission and Kyrgyz authorities. These were generally led by the Commission in close collaboration with the EU Delegation to the Kyrgyz Republic. The monitoring process was judged appropriate, though less stringent when compared to the extent of supervision undertaken in other recipient countries. A commonly-cited reason for reduced scrutiny in the case of Kyrgyzstan was that it was "outside of the traditional scope of MFA."

EU added value of the EU MFA

There was general recognition that the EU's added value, as a result of the MFA, was high at the beginning of the negotiation/implementation process. However, with the numerous delays, it was further recognised that the overall EU added value was arguably reduced. In particular, various stakeholders felt that these delays had adversely impacted the extent of awareness / visibility surrounding the operation.

Coherence of the EU MFA

It was generally recognised that the MFA conditionalities / reforms were designed to be coherent with the objectives of the operation as well as other EU and international donor support programmes, notably in the PFM and banking areas. As such, the MFA operation was both, internally as well as externally coherent.

Focus group with development partners

Theme 1: Awareness of the role played by the EU support and specifically the MFA operation

Familiarity with the MFA operation

The general consensus among the workshop participants was that “publicity” surrounding the EU MFA has been negligible in Kyrgyzstan. There is little awareness/understanding among the donor community (and the general population) of the MFA instrument, its objectives and intended outcomes.

Several participants (e.g. GIZ, EBRD) explained that the EU MFA is only viewed as “some form of EU support.” The EU MFA is not necessarily attributed to budget support. Specific conditions attached to the operation are also not widely known and information is lacking as regards the concrete outcomes/impacts the operation is seeking to achieve.

Other participants also stressed that awareness of the MFA operation is almost inexistent among the general population (in Bishkek as well as other provinces, such as Osh).

Extent of media coverage

The EU is generally perceived as an important donor partner in Kyrgyzstan. However, the MFA operation has received less attention (by the media) when compared to other EU support programmes, especially those dedicated to reforms in the areas of the rule of law, the judiciary, the electoral system.

- A representative of the UNDP explained that the international donors’ conference (organised in Bishkek back in July 2010) promulgated the EU’s work in / assistance to Kyrgyzstan, but little was said about the MFA operation specifically. This was because the MFA negotiations had not yet been initiated around the time the conference took place. In contrast, the focus was on the EU’s continued assistance to Kyrgyzstan to tackle important societal issues/challenges (e.g. deficiencies of the electoral system).
- In the same vein, representatives from the EBRD acknowledged the need to publicise the role of the EU more widely. Various initiatives of the EBRD are often co-managed by the EU and, in these instances, the role of the EU becomes more apparent – e.g. via press releases, EBRD/EU logo displays, etc. However, in the case of the EU MFA, media coverage is lacking, and other communication channels are not fully exploited.
- Various participants were in favour of social media as a means to showcase EU initiatives (such as the EU MFA), increase visibility, and stimulate interest. Other communication channels, such as local radio, television, were also suggested to increase visibility and reach.

General perceptions of the EU and relative visibility of its assistance programmes compared to those offered by other international donor organisations

Visibility of the EU MFA could be significantly improved. As the negotiations surrounding the terms/conditions of the MFA financing often take place between the EU and senior officials of the government only, the donor community, local stakeholders (e.g. the media, the civil society) and the general public do not have all the necessary information to fully understand the purpose and intended objectives of the EU MFA. Additionally, participants recognised that, in the case of the EU MFA, the outcomes/impacts/benefits are not “tangible” per se. As a result, further down the line, it becomes even more difficult to attribute certain reforms/impacts to the MFA operation.

- In that respect, a representative of GIZ warned that the general public tends to attribute specific projects/reforms to the organisations who ultimately implement them. For instance, GIZ (as opposed to Germany) is generally perceived to be the provider of financing within the projects it oversees on the ground.

Some participants also indicated that the extent of the role played by donor organisations in implementing certain projects/reforms on the ground is often "minimised." As such, the opening of a project overseen by GIZ was highly-politicised in the run up to last year's elections, which suggests that donors often allow their projects to be used by for the purposes of domestic politics.

In terms of visibility, the EU MFA operation is not on par with other support programmes, notably the IMF's. The IMF has a longstanding relationship with Kyrgyzstan, which could nonetheless explain the relative importance attributed to its programmes (and associated conditionalities / reform areas) among the media, and local stakeholders, including the general public.

Raising awareness is thus imperative when it comes to the EU MFA. As alluded to before, communication channels (specifically digital media) ought to be fully exploited. Participants also suggested that the process of negotiating and agreeing the terms of the MFA financing be publicised. Ratification of the MFA agreement by Parliament, for instance, could be more widely covered. This would not only increase awareness of the operation but also the level of transparency around the amount of funds being negotiated with the EU and their intended use(s).

Theme 2: Review of the impacts of the MFA

Economic impact

Participants were asked to assess the most probable course of action for Kyrgyzstan under various scenarios, namely: (i) Alternative 1: what would have happened had MFA not been disbursed in 2015 and 2016? (ii) Alternative 2: what would have happened had MFA and IMF assistance not been disbursed in 2015 and 2016?

Under Alternative 1, several scenarios were discussed, including:

- Scenario 1: Financing from other key donor / bilateral partners;
- Scenario 2: Financing from domestic markets;
- Scenario 3: Public cuts.

Scenario 1 was generally seen as the preferred course of action for Kyrgyzstan had MFA assistance not been provided. According to participants, Russia would have been the "easiest" partner to reach out to for budget support. The extent to which the financing offered would have been "tied" (i.e. specific conditions would be established prior to disbursement) was however difficult to ascertain. As such, Russia currently provides many (varying) forms of assistance to Kyrgyzstan and the extent to which their disbursement is conditional on the implementation of reform is not known.

Scenario 2 could potentially have been contemplated by the Kyrgyz government, though it could have proved more expensive (as opposed to seeking grant support from donor/bilateral partners) and further exacerbated the crisis faced by the country. In that regard, some participants recalled Armenia's experience. In 2010, the Armenian government engaged in large-scale borrowing from domestic markets to finance public spending and boost economic activity. This led to a rapid and substantial increase in interest rates and the "crowding out" of private investment (or a reduction in private investment spending). The government eventually had to adjust the fiscal rule to contain the pressures caused by their overspend, but with difficulty.

Scenario 3 was considered plausible, though it was generally agreed that the government's room for manoeuvre would most likely have been small. As such, some government expenditures are "protected" and there would not have been much flexibility to reduce them. On the other hand, a reduction in or (most likely) a reallocation of capital expenditures could have been considered. In sum, the government would have most probably favoured greater budget / fiscal discipline.

In the event that both IMF and EU assistance would not have been provided to Kyrgyzstan (Alternative 2), participants generally agreed that bilateral partners, such as Russia and China, would have most likely played a greater role (as regards the provision of financing). In addition, a representative of the Eurasian Development Bank (EDB) reckoned that the Kyrgyz government could have issued Eurobonds, i.e. It could have resorted to more non-concessional borrowing. This approach was recently trialled by the Tajik government.

Political impact

On the political significance of the EU MFA in Kyrgyzstan, a prevalent observation from participants was that the operation did not "catch eyes and ears." This also applies to the delays experienced during the negotiations and disbursements which, equally, did not receive much attention at national level.

The lack of visibility around the EU MFA was, to some extent, attributed to the EU's insufficient presence on the ground (as opposed to countries, such as Russia, which invest considerably in Kyrgyzstan and heavily publicise their support programmes).

Nonetheless, participants remarked that other EU programmes, notably those targeted at specific reforms (e.g. electoral system, rule of law, democracy, etc.), tend to be more widely covered and have sparked greater interest over the years among local stakeholders and the general public. It is easier to promote such programmes/projects as the objectives/intended outcomes of the assistance offered are clearer and "more targeted." On the contrary, conditions associated with the EU MFA are often "too technical" and difficult to convey to "laymen."

To further boost visibility, participants suggested that the EU increase support designed to tackle important (and pressing) societal issues, such as bridal kidnapping, gender inequality, promotion of women's rights, and promotion of mass media.

Theme 3: Review of the MFA contribution to Kyrgyz reform efforts

General assessment

Mass media and civil society were viewed as critical in driving national reforms in Kyrgyzstan. Specifically, they can help better promote donor assistance at national, local, and regional level. When assisting the implementation of reforms in the country, donors (such as the EU) ought to engage more heavily with them to boost visibility of their support programmes.

- As far as the EU MFA is concerned, participants suggested that conditions be developed in collaboration/consultation with civil society and other lobby groups. Additionally, the language used for describing the conditions ought to be simplified in order to reach out / appeal to a larger audience. These conditions should also be publicised and made available within the public domain. This would increase transparency around how the EU MFA is being channelled into public sector reform.

On the design of external support/assistance, participants were generally in favour of the idea of having conditionalities attached to financing (akin to the EU MFA). In a way, they ensure that "government is accountable" and "pressured into reforming priority areas."

Participants highlighted Kyrgyzstan's longstanding track record of successfully implementing reforms (when compared to its neighbours). However, in 2010, the Constitution was amended and required that reforms be ratified in Parliament, which largely reduced the government's ability/power to "move reforms quickly in the short term." Additionally, some participants remarked that "frequent changes in government" (as experienced by Kyrgyzstan in recent years) tend to limit policy / reform continuity. Further, corruption is rampant and, to a large extent, inhibits reform. Corruption scandals were particularly cited in the judiciary which, according to participants, have furthered the level of distrust towards the courts.

Participants were asked about potential reform areas for the EU to focus on going forward. The judiciary, public governance (or corruption), and private sector development (including competitiveness) were most commonly cited. Other key reform areas identified were: trade and banking. As regards the former, one participant explained that Kyrgyzstan's membership to the Eurasian Economic Union (EEU) has not reaped the benefits intended. Many trade barriers still exist. As regards the latter, access to loans (especially by businesses) was flagged as a major concern, a key impediment being high interest rates. Finally, policies/reforms aimed at furthering digital transformation were also recommended. Digital transformation of the economy has the capacity to spur innovation and boost more sustainable growth. Participants warned that Kyrgyzstan should not lag behind its neighbours in this area but instead channel efforts into positioning itself as a "regional digital hub" or "digital champion."

Finally, participants suggested that the EU focus on social reforms as well, notably women's healthcare services, which were reported to be lacking in many parts of the country. More widely, the needs of vulnerable groups (such as children, the elderly, etc.) should be thoroughly assessed and reforms should be focused on improving their well-being.

12 Expert validation workshop – list of participants

Institution	Contact person	Role
EU Delegation	Ms Charlotte Adriaen	Head of Cooperation
EU Delegation	Mr Robert Budzynski	Economic advisor
IMF	Mr Edward Gemayel	Former Head of Mission
WB	Ms Appolenia Mbowe	Local Senior Economist
WB	Mr Bakyt Dubashov	Local Economist
UNDP	Mr Erkinbek Kasybekov	Assistant Representative at UNDP in Kyrgyzstan
EuroAsian Development Bank	Ms Elvira Kurmanalieva	Representative
Independent expert	Mr Roman Mogilevsky	Local Economist/ Member of the ICF team
Ministry of Finance	Mr Nurkebk Akjalov	Head of the Department on PPP and Program Aid
Ministry of Finance	Mr Bakyt Sydykov	Head of Debt Department
Office of Prime Minister	Ms Dinara Uturova	Deputy Head of Division

13 Approach to the Social Impact Analysis



Approach to the
Social Impact Analysis

14 Approach to the Debt Sustainability Analysis



Approach to the
Debt Sustainability An

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