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**THIS ACTION IS FUNDED BY THE EUROPEAN UNION**

**ANNEX II**

to the Commission Implementing Decision on the financing of the annual action plan in favour of the Kyrgyz Republic for 2024

**Action Document for Water Sector Reform Performance Contract in the Kyrgyz Republic**

**ANNUAL PLAN**

This document constitutes the annual work programme within the meaning of Article 110(2) of the Financial Regulation, within the meaning of Article 23 of the NDICI-Global Europe Regulation.

**1 SYNOPSIS**

**1.1 Action Summary Table**

<b>1. Title CRIS/OPSYS business reference Basic Act</b>	Water Sector Reform Performance Contract in the Kyrgyz Republic OPSYS number: ACT-62577 Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe)
<b>2. Team Europe Initiative</b>	The Action is not a Team Europe Initiative, but will seek synergies with the regional Team Europe Initiative on Water, Energy and Climate Change in Central Asia.
<b>3. Zone benefiting from the action</b>	The action shall be carried out in Central Asia, Kyrgyz Republic
<b>4. Programming document</b>	Multi-Annual Indicative Programme (MIP) for the Kyrgyz Republic 2021-2027
<b>5. Link with relevant MIP(s) objectives / expected results</b>	Focal Sector 3 - Green and Climate Resilient Economy SO 1 - Support climate and environmental action and promote integrated water resource management
<b>PRIORITY AREAS AND SECTOR INFORMATION</b>	
<b>6. Priority Area(s), sectors</b>	Priority area 3 - Green and Climate Resilient Economy; Sector - Water Supply and Sanitation (DAC code 140)
<b>7. Sustainable Development Goals (SDGs)</b>	Main SDG: SDG 6: Ensure access to water and sanitation for all  Other significant SDGs: SDG 3: Ensure healthy lives and promote well-being for all at all ages, SDG 12: Ensure sustainable consumption and production patterns, SDG 13: Take urgent action to combat climate change and its impacts, and SDG 15: Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss. SDG 17: Peace, Justice, and Strong Institutions

<b>8 a) DAC code(s)</b>	14010 - Water sector policy and administrative management – 40% 14015 - Water resources conservation (including data collection) – 20% 14040 - River basins development – 20% 15111 – Public Finance Management			
<b>8 b) Main Delivery Channel</b>	Recipient Government -12000; Donor Government- 11000; Others – 90000			
<b>9. Targets</b>	<input type="checkbox"/> Migration <input checked="" type="checkbox"/> Climate <input type="checkbox"/> Social inclusion and Human Development <input checked="" type="checkbox"/> Gender <input type="checkbox"/> Biodiversity <input type="checkbox"/> Education <input checked="" type="checkbox"/> Human Rights, Democracy and Governance			
<b>10. Markers (from DAC form)</b>	<b>General policy objective @</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment @	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Gender equality and women’s and girl’s empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction @	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Inclusion of persons with Disabilities @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Nutrition @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Biological diversity @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Combat desertification @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation @	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<b>11. Internal markers and Tags:</b>	<b>Policy objectives</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Digitalisation @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	digital connectivity digital governance digital entrepreneurship digital skills/literacy digital services	<b>YES</b> <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<b>NO</b> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	/

		<input checked="" type="checkbox"/>	<input type="checkbox"/>	
	Connectivity @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	digital connectivity	YES <input type="checkbox"/>	NO <input type="checkbox"/>	
	energy	<input type="checkbox"/>	<input type="checkbox"/>	
	transport	<input type="checkbox"/>	<input type="checkbox"/>	
	health	<input type="checkbox"/>	<input type="checkbox"/>	
	education and research	<input type="checkbox"/>	<input type="checkbox"/>	
	Migration @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reduction of Inequalities @	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Covid-19	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

### BUDGET INFORMATION

<b>12. Amounts concerne</b>	<p>Budget line(s) (article, item): 14.020130</p> <p>Total estimated cost: EUR 17 000 000</p> <p>Total amount of EU budget contribution EUR 17 000 000 of which</p> <p>EUR 15 000 000 for budget support and</p> <p>EUR 1 900 000 for complementary support and</p> <p>EUR 100 000 for evaluation and audit.</p>
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### MANAGEMENT AND IMPLEMENTATION

<b>13. Type of financing</b>	<p><b>Direct management</b> through:</p> <ul style="list-style-type: none"> <li>- Budget Support: Sector Reform Performance Contract</li> <li>- Procurement</li> </ul> <p><b>Indirect management</b> with the entity(ies) to be selected in accordance with the criteria set out in section 4.4.2</p>
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## 1.2 Summary of the Action

The overall objective of this action is to promote an Integrated Water Resources Management (IWRM) approach in the sector and, in doing so, complement the current and forthcoming European Fund for Sustainable Development Plus (EFSD+) investments in Water, Sanitation, Hygiene (WASH) and Irrigation. The action is implemented at the national level under the relevant lead Ministry of the Government of the Kyrgyz Republic, which at the moment of this document's drafting is the Ministry of Natural Resources, Ecology and Technical Supervision (MNRETS), in line with the National Water Strategy. The MNRETS is the Secretariat of the National Land and Water Council (NLWC), which, chaired by the President, steers the sector's policies and coordinates with other relevant ministries. The action strengthens the capacity of institutional stakeholders and promotes concrete means to regulate the competing uses of water and related issues: irrigation and drinking water, sanitation and hygiene, industrial uses, hydropower, transboundary issues, climate change and environmental concerns. The support for the water reform agenda is instrumental in improving and making more efficient use of the Kyrgyz water resources that are vital for the region. That will ultimately lead to a sustainable, long-term mechanism that will ensure the protection of precious water resources from the challenges posed by climate change and the increasing needs of water stakeholders at both the national and regional levels.

This action will include the complementary provision of Technical Assistance on Public Finance Management (PFM) and Governance issues. This demonstrates the EUs commitment to continue its long-standing engagement on PFM issues and confirms the importance of PFM reforms for the delivery of Budget Support programmes in

MIP Priority Areas (Education Budget Support programme adopted in 2021 under Specific Objective 2: Water Resource Management Budget Support programme to be adopted in 2024 under Specific Objective 3: Support to PFM embedded in a Budget Support programme makes sense as PFM is an overall criterion in Budget Support disbursements.

## 2 RATIONALE

### 2.1 Context

The Kyrgyz Republic is a land-locked, lower-middle income country with one of the lowest gross domestic products among Central Asian countries (USD 1,180 per capita, World Bank Atlas Method 2021). The country has the most liberal and open political system in Central Asia, although during the last two decades it experienced periods of political and social instability. Civil society is considered one of the most vibrant in the region, but trends for shrinking civil space are on the rise, as underscored by the draft Law on Foreign Representatives, which places significant restrictions on civil society organisations. Political developments require continued monitoring, and if restrictions materialise, adaptations to cooperation programmes and implementation modalities might be required.

In 2021-2022, the country showed strong signs of recovery from COVID-19. Real GDP grew by 3.6% in 2021 and expanded further by 7% in 2022, demonstrating resilience to the first shock waves from the Russian invasion of Ukraine. However, the future outlook includes heightened uncertainty, which has to be adequately reflected in the economic policy planning. Growth is expected to recede to around 4% in 2023. High inflation (15.4% in 2022 and 10.7% in April 2023, year-on-year) continues to erode households' incomes. The economy is poorly diversified and heavily dependent on gold production (about 10% of GDP and 35% of exports), remittances (15% of GDP in 2022), and foreign aid (7-8% of GDP). Public debt stood at around 53% of GDP in mid-2023; however, even though the bulk of it carries concessional rates, it is exposed to exchange rate risks as around 88% of it is denominated in foreign currencies. The country's fiscal position recorded a modest deficit of 1.1% of GDP in 2022. However, high recurrent spending continues to constraint the fiscal space available for the needed capital investments and social expenditures. Sustained efforts will be needed to bring down the fiscal deficit without jeopardising growth.

The geography and topography of the Kyrgyz Republic make it one of the most vulnerable countries to climate change in Central Asia. Temperature changes in the Kyrgyz Republic have outpaced global averages.<sup>1</sup> Increasing melting of the glaciers, changing rainfall patterns, and increasing droughts will likely reduce the reliability and availability of water for domestic consumption, irrigation, hydropower and thermoelectric cooling. Water management is the top adaptation priority included in the Nationally Determined Contribution revised in 2021. These risks call for a more organised approach to managing water resources.

The country has developed and is implementing the following strategic documents related to climate change in the water sector. In this sense, the action will directly and indirectly support: the Nationally Determined Contribution updated in 2021 with mitigation and adaptation measures affecting water resources management; the National Development Strategy of the Kyrgyz Republic for 2018-2040; the Climate Investment Program of the Kyrgyz Republic and Program for the Development of a Green Economy in the Kyrgyz Republic for 2019-2023; the National Adaptation Plan in the Kyrgyz Republic. The further development and promotion of the climate agenda will be accompanied by active actions by the Cabinet of Ministers of the Kyrgyz Republic, as set out among others in the National Adaptation Plan when it is completed. The importance of climate action and the need to improve the national climate policy has received institutional confirmation in the creation of the State Committee on Ecology and Climate of the Kyrgyz Republic, which is an authorized state body for environmental safety and climate sustainability, and whose chairman is a member of the Cabinet of Ministers of the Kyrgyz Republic.

The Integrated Water Resources Management Budget Support programme will foster an enabling environment for reaching Global Gateway objectives under our bilateral and regional cooperation. This Action is aligned with the

<sup>1</sup> Mean temperature is a base index representing the average air temperature over different timescales (e.g., seasonal or annual). This index is well covered by data for past, present and future periods from both observations and model simulations.

priorities set by the 2030 Agenda for Sustainable Development, the EU strategy on Central Asia and the EU policy objectives and priorities on water diplomacy. It will contribute to SDG 3: Ensure healthy lives and promote well-being for all at all ages; SDG 6: Ensure access to water and sanitation for all; SDG 12: Ensure sustainable consumption and production patterns; SDG 13: Take urgent action to combat climate change and its impacts; and SDG 15: Protect, restore and promote sustainable use of terrestrial ecosystems; sustainably manage forests; combat desertification; and halt and reverse land degradation and biodiversity loss. The Action will also support the objectives of the external dimension of the European Green Deal and of NDICI-Global Europe, insofar as they are compatible with the Kyrgyz Republic's national policies and international commitments, including those under the Paris Agreement on Climate Change and relevant UN conventions.

In Kyrgyzstan, the design and implementation of bilateral Team Europe Initiatives are currently not possible due to the absence of Member States' development agencies in the country. However, this programme is part of the regional Team Europe Initiative/Global Gateway flagship initiative in Central Asia on Water/Energy/Climate Change. This synergy will allow a port of entry for Kyrgyzstan to profit fully from the regional TEI through the implementation of its national water strategy.

In the framework of the Central Asia Water and Energy Program (CAWEP 4), the EU will fund the preparation of the proposed Kambarata-1 Hydro Power Plant (HPP). The Kambarata 1 HPP, currently under development, is a transformative greenfield regional project, emerged among the least-cost projects for expanding clean energy resources in the Kyrgyz Republic and the Central Asia region.

These Global Gateway investments will foster regional cooperation and help Central Asian governments to strengthen their resilience. Hence, there will be a co-ordinated approach to promoting water and energy resources sustainably, addressing environmental challenges and tackling climate change in the region, while aiming at regional solutions for climate neutrality and environmental sustainability.

An additional benefit of the Budget Support programme will be to contribute to bolstering the resilience of the Kyrgyz Government's national programmes and strategies, at a time in which it is faced with the spillover effects of the invasion of Ukraine and international sanctions on Russia, price pressures and reduced remittances inflow<sup>2</sup>, which form the backbone of the Kyrgyz economy.

The Integrated Water Resources Management Budget Support programme will prolong the work made in the sector in partnership with a range of development financial institutions through the EFSD+ investments in the last and current MIP periods, in line with the conclusions of a recent Strategic Evaluation on Blending and Budget Support, which preconised the complementary use of the two instruments. Investments without reforms are not sustainable in the long run. Therefore, it is crucial to ensure the sector's sustainability by stimulating reforms and adopting an integrated approach to water resources management, looking at the competing uses of water and related issues: irrigation, drinking water, industrial uses, hydropower, transboundary issues, climate change and environmental concerns.

## 2.2 Problem Analysis

Water management is a key political topic for the Kyrgyz Republic. It is an upstream country in Central Asia, containing the source of one of the region's two big rivers (the Syr Darya) and one of the two sources of the other (the Amu Darya). This status gives it geopolitical importance within the region, creating both a risk for transboundary conflict and an opportunity for regional leadership. While the first has materialised through border disputes over water with Tajikistan and Uzbekistan, the second has yet to follow suit, with Kyrgyzstan being the most reluctant participant in the regional organisation on water management (the International Fund for Saving the Aral Sea – IFAS). Climate change is fragilising Kyrgyzstan further by putting strain on its hydroelectric resources, with important glacier losses. The Kyrgyz government is faced with the difficult equation of satisfying its developing population's water needs for domestic consumption, agriculture and energy, avoiding regional

<sup>2</sup> [Personal remittances, received \(% of GDP\) - Kyrgyz Republic | Data \(worldbank.org\)](#)

frictions resulting from disagreements on the use of available freshwater, and reaching its environmental and climate goals.

The sector remains fragmented. To date, the Ministry of Natural Resources (MNR) is tasked with implementing the integrated water strategy. The Action will adapt to any update of the institutional framework responsible for implementing the integrated water strategy. The lead Ministry needs to cooperate and share responsibilities with other important stakeholders, like the Ministry of Agriculture and the State Agency for Architecture, Construction, Housing and Communal Services (Gosstroy). The action strengthens the capacity of all relevant ministries and services and promotes concrete means to regulate the competing uses of water and the water related issues. To the extent possible, this will also be done in complementarity with the Coordination Mechanism established under the regional Team Europe Initiative on Water, Energy and Climate Change in Central Asia, to gain from and build economies-of-scale in water resource management, both at the national and regional levels. The level of support should allow providing sufficient fiscal space to advance reform implementation and consolidate recent climate, environmental and social achievements, which form the groundwork for the proposed intervention in the water sector. The planned amount will allow the EU to reaffirm that its Global Gateway strategy continues to deliver in the region, to strengthen its commitment to IWRM and to keep its status as one of the main development partners of the Kyrgyz Republic in the water sector.

Identification of main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) to be covered by the action:

The Kyrgyz water sector is multi-tiered with fragmented responsibilities among multiple stakeholders subject to complex dynamics. The Ministry of Natural Resources, Ecology and Technical Supervision (MNRETS) was tasked with the sector governance and regulation. It is the Secretariat of the National Land and Water Council (NLWC) that steers the policymaking of the sector and is chaired by the President. However, the MNRETS needs to cooperate and share responsibilities with other important stakeholders, like the Ministry of Agriculture (Water Resources Service, focusing on Irrigation) and the Department for the Development of Drinking Water Supply and Sanitation (focusing on investments in Drinking Water) of the State Agency for Architecture, Construction, Housing and Communal Services (Gosstroy) under the Cabinet of Ministers. As for the technical assistance in PFM, the Ministry of Finance is expected to be the main stakeholder. As indicated above, the Action will adapt to any update of the institutional framework responsible for implementing the National Water Strategy.

Other relevant stakeholders tasked with specific actions according to the National Water Strategy are:

KyrgyzHydroMet, which carries out systematic observations of water bodies, makes forecasts and undertakes systematic analysis of information for the implementation of measures of DRR.

The Department of Disease Prevention and State Sanitary and Epidemiological Surveillance of the Ministry of Health of the Kyrgyz Republic, that monitors the quality of sources of drinking water supply (ground and surface waters).

The National Statistics Committee of the Kyrgyz Republic, which implements the State's statistical activities.

The National Academy of Sciences of the Kyrgyz Republic, that provides the scientific foundations and training necessary for making managerial decisions.

Finally, the EU- funded WASH blending projects actively involve Municipal Water Companies (Vodokanal, under the responsibility of Local Authorities) as they lead the Project Implementation Units. Also, Civil Society, water users associations, rural public associations of drinking water consumers and enterprises have a role through the projects' Stakeholder Participation Programme. This activity includes them in the policy dialogue, in particular for what concerns the water governance reform and the efficient use of water. The aim is partly to involve the full drinking water customer base, extending to poor and vulnerable groups. This can reinforce the budget support benefits in terms of climate change adaptation and biodiversity, through locally led processes leading to improved climate resilience and watershed protection.

## 2.3 Additional Areas of Assessment

### 2.3.1 Pre-condition on Fundamental Values

N/A

### 2.3.2. Public Policy

The main sectoral tasks and indicators related to water are reflected in the strategic and programmatic documents of the Kyrgyz Republic:

- National Development Strategy of the Kyrgyz Republic for 2018–2040, approved by Decree of the President of the Kyrgyz Republic of 31 October 2018 No. 221;
- The National Development Programme of the Kyrgyz Republic until 2026, approved by the Decree of the President of the Kyrgyz Republic of 12 October 2021 No. 435;
- The State Programme for the Development of Irrigation of the Kyrgyz Republic for 2017-2026, approved by the Decree of the Government of the Kyrgyz Republic of 21 July 2017 No. 440;
- Programme for the development of drinking water supply and sanitation systems for settlements of the Kyrgyz Republic until 2026, approved by the Decree of the Government of the Kyrgyz Republic dated 12 June 2020 No. 330, etc.

The new National Water Strategy of the Kyrgyz Republic up to 2040 was developed as part of the environment protection system in order to create a sustainable system for managing the water resource of the Kyrgyz Republic for the benefit of present and future generations.

The Integrated Water Resources Management (IWRM) Budget Support promotes the protection and monitoring of water bodies, improvement of water quality and access, ecosystems conservation, climate change adaptation, in a framework of regional cooperation and from a WEF Nexus perspective. It supports:

- A continuous process leading to sustainable water management and distribution, and monitoring of water use while aiming to solve social, economic, and environmental problems;
- A high level of coordination of all stakeholders - government agencies, development partners, private and non-governmental sectors;
- A Decision-making based on efficient coordination and flexible interaction of all stakeholders and water using entities at Basin Organisations' level. It will allow for strategic decision making based on collective and transparent processes and for the rationalisation of public entities and related costs;
- The launch of a sustainable financing system for the water sector to ensure the protection and sustainable use of water resources.

#### **Strategic goal**

**Goal:** create a sustainable system of climate resilient, integrated water resource management in the Kyrgyz Republic for the benefit of present and future generations.

**Priority areas:** To achieve this goal, measures will be implemented in the following priority areas:

- 1) protection of water resources from depletion and pollution;
- 2) sustainable use of water resources;
- 3) reforming the water resources management system.

Measures will focus on:

- man as a source of anthropogenic pressure on the ecosystem;
- water as a life-supporting potential and an indicator of anthropogenic impact.

The measures will be implemented through:

- managing demand for water use as a potential for the development of the Kyrgyz Republic;
- water risk management, i.e. decision making in conditions of lack of information.

These priorities are translated into 10 objectives, which are supported by the respective sub-measures in the 1st rolling Action Plan 2023-2025 to implement the NWS:

1. Protection of water bodies

2. Improvement of state water records
3. Improvement of the environmental situation, increasing social motivation for the sustainable use of water
4. Ensuring safe and high-quality water supply, sanitation and sanitation
5. Digital Transformation of the Unified Information Water System
6. Creation of sustainable economic mechanisms for water management to encourage sustainable water use
7. Institutional Development
8. Establishment of basin management bodies
9. Water Resources Management in Main Basins
10. Basin Planning

**In conclusion, the policy is sufficiently relevant and credible for budget support contract objectives to be largely achieved. Therefore, the policy can be supported by the Commission with the proposed budget support contract.**

### 2.3.3 Macroeconomic Policy

The economy of the Kyrgyz Republic showed resilience to the spillovers from the war in Ukraine. In 2022, it expanded by 6.3%, driven by gold production, trade, transportation, and agriculture. Fiscal revenue improved significantly, and public debt declined. However, inflation rose sharply, while remittances decreased substantially. In 2023, the economy continued to perform strongly, despite the difficult regional context, and the economic sentiment improved further. Growth was robust in 2023, although it decelerated to an estimated 4.2%. Inflation remained elevated, including food inflation, but at the end of 2023 it was in a downward trend (10%) compared to the end of 2022 (14.7%).

Fiscal policy strikes a balance between the need to support vulnerable households from inflationary pressures and increase capital investment and the need to narrow down fiscal deficits. Tax revenue improved sharply in 2022 and 2023 on the back of the economic growth, increased imports and transit trade, but also due to improved revenue collection from the tax administration. Thus, tax revenue amounted to 23.4% of GDP in 2022 (from 18.9% in 2021) and to an estimated 25.5% of GDP in 2023. Encouraged by the sharp increase in tax revenues, the authorities increased total expenditures to 36.8% of GDP in 2022 and to an estimated 38.4% of GDP from 32.1% of GDP in 2021. This increase in total expenditures included a considerable increase in salaries and social expenditures, leading to an increase in current expenditures to 27.8% of GDP in 2022 as well as a substantial increase in capital expenditures (9% of GDP in 2022 and an estimated 8.1% of GDP in 2023 compared to 6% of GDP in 2021). Nevertheless, the substantial increase in expenditures was outweighed by the strong increase in tax revenues, leading to the narrowing of the fiscal deficit to 0.3% of GDP in 2022 from already low 0.7% of GDP in 2021. For the year 2023 forecast indicates that the fiscal account would be close to balance. As a result, at the end of 2023 public debt is estimated to have declined to 46.9% of GDP from 56.2% of GDP in 2021.

The net inflow of remittances declined to 16.8% of GDP in 2022 and to an estimated 16.4% of GDP in 2023, putting pressure on the current account and suggesting that adverse spillovers from the war in Ukraine continue to materialise. Imports grew by 76.8% in 2022 (non-oil imports grew by 26%), while gold exports were suspended due to the arbitration process over the Kumptor goldmine. Exports grew by 8% in 2022, suggesting that re-exports to Russia were not recorded in official statistics. All the above resulted in the widening of the current account deficit to 43.6% of GDP in 2022 from 8% of GDP in 2021. For 2023, the current account deficit is estimated to have narrowed to 31.8% of GDP. Thus, the gross foreign exchange reserves have been estimated to have shrunk to 2.8 months of next year imports at end-2023 (although, taking into account re-exports to Russia not-recorded by the statistical system, this metric is estimated at 3.8). The banking system has remained financially healthy. In November 2023, the ratio of non-performing loans to total loans had declined to 9.5% from 12.8% at the end of 2022.

The IMF's forecasts (December 2023) indicate that growth will remain strong at around 4% in 2024. Inflation is expected to recede to 8% at the end of 2024 (still above the National Bank's policy target), while the fiscal deficit is expected to be around 1.6% of GDP. Public debt is expected to decline further to around 44% of GDP, while the current account deficit is forecast to narrow to more sustainable levels at 9.7% of GDP in 2024. In view of the heightened global uncertainty, policy priorities include restoring macroeconomic buffers to strengthen resilience to future shocks and implementing structural reforms to support higher and more inclusive growth and poverty reduction.

Strong revenue performance and lower public debt should provide an additional fiscal buffer to counter adverse external shocks and secure funding for the so- needed public investments. Reducing fiscal deficits further would strengthen debt sustainability and support the battle against inflation. However, fiscal policy should take into account risks arising from the increased wage bill, a potential decline of imports in the medium term and the subsequent loss of VAT collections. Additional fiscal space could be created by eliminating inefficient tax exemptions (amounting to 3-4% of GDP), streamlining special tax regimes, increasing the progressivity of the Personal Income Tax, strengthening revenue administration, optimising the public wage bill and reducing energy subsidies (around 1.2% of GDP).

Medium to long-term growth can be supported by advancing structural reforms that improve the efficiency of resource allocation in the economy. The priorities are strengthening governance, including public procurement and management of state-owned enterprises, enhancing competition, reforming the electricity sector, reducing energy subsidies, strengthening social safety nets and continuing digital reforms. Efforts are also needed to strengthen resilience of the Kyrgyz economy to climate change, including by investing in green infrastructure, healthcare, and education. These reforms will also help unlock concessional external financing.

While there has been some progress on governance, important gaps remain, which if properly addressed, could have a transformative impact on investment and growth. Opportunities for corruption can be reduced by strengthening income and asset declarations by public officials and investigating illicit enrichment. The adoption and implementation of the Anti-Corruption Strategy of the Anti-Corruption Business Council have been delayed. A comprehensive SOE ownership and oversight policy would improve SOE governance, while strengthening the AML/CFT framework and improving monitoring of cross-border activities can be potent tools in deterring corruption. Reportedly, the respective draft law with necessary amendments to improve some norms on countering financing of terrorism and money laundering and bringing it in line with the effective international legislation, addressing gaps found during law enforcement practice, was in the Parliament for ratification at the end of 2023.

The political situation remains calm, but rising poverty could spark social tensions. The security situation has remained stable since the ceasefire agreement with Tajikistan in September 2022. Based on the authorities' estimates, the poverty rate increased to over 33% in 2021/2022 from 25% in 2020, partly due to inflation, while the social safety net was unable to provide adequate protection. The extreme poverty line reached 6% in 2022 across the country and remained at the level of the previous year. On the other hand, the resolution of the dispute around the Kumtor gold mine between the authorities and a foreign investor could strengthen the investment climate and facilitate gold exports. Policy space is limited, while the projected medium-term growth is insufficient to generate enough income to lift people out of poverty. The country needs to strengthen its macroeconomic resilience, which served it well during the pandemic. It will need to reduce inflation and fiscal gap and replenish foreign exchange reserves.

The authorities believe that the digitalisation of tax and customs administration that delivered strong revenue performance in 2022 will continue to bring more revenue in the medium term, while the Presidential decree limiting headcount in government bodies would reduce the wage bill. They project fiscal consolidation to reduce public debt to under 43% of GDP by 2027. They also expressed confidence that domestic markets would be able to provide necessary financing at reasonable costs, should the need arise. The Debt Management Strategy for 2021-24 foresees a ceiling on public debt at 70% of GDP (public debt was around 47% of GDP at the end of 2023).

### Key macroeconomic indicators

Indicator	Year 2020	Year 2021	Year 2022	Year 2023 (Estimate)	Year 2024 (forecast)	Year 2025 (forecast)
Real GDP (% change)	-7.0	5.5	6.3	4.2	4.4	4.2
GDP per capita (in USD)	1,271	1,391	1,718	1,844	1,949	2,058
Inflation rate/Consumer prices (12-month percent change)	9.7	11.2	14.7	10.0	8.0	5.5

Unemployment rate (if available)	5.8	5.3	4.9	-	-	-
Investment (Accumulation) (% GDP)	18.7	16.8	25.6	26.6	-	-
Foreign Direct Investments (% GDP)	-7.0	6.1	4.4	4.2	4.6	4.7
Total revenue (% GDP)	29.0	31.4	36.5	38.5	36.0	35.2
- Tax revenue (% GDP)	16.4	18.9	23.4	25.5	25.2	24.6
- Non-tax revenue (%GDP)	12.6	12.5	13.1	13.0	10.8	10.6
- Oil revenue (if relevant)	-	-	-	-	-	-
Total expenditures (% GDP)	32.1	32.1	36.8	38.4	37.7	36.9
Operating expenditures (% GDP)	28.2	26.1	27.8	30.3	29.3	29.1
- primary expenditures	27.2	25.4	26.7	29.3	28.2	28
- interest payments	1.0	0.7	1.1	1.0	1.1	1.1
- social transfers (if relevant)	10.3	9.2	10.2	11.1	11.2	11.1
Capital expenditures (% GDP)	3.9	6.0	9.0	8.1	8.4	7.8
Net lending/borrowing (% GDP)	-3.1	-0.7	-0.3	0.1	-1.7	-1.7
Gross debt (% GDP)	63.6	56.2	49.2	46.9	44.3	42.7
Domestic Debt (% GDP)	9.2	9.5	9.7	9.8	10.0	10.2
External debt or debt in foreign currencies (% GDP)	54.4	46.7	39.5	37.1	34.3	32.5
DSA rating (if available)	<i>rating remains sustainable and at moderate risk</i>					
Exports (% change)	-21.8	35.1	8.0	87.2	43.9	6.4
Current account balance (% GDP)	4.5	-8.0	-43.6	-31.8	-9.7	-7.9
Reserve coverage (months of imports)	5.3	3.2	2.6	2.8	2.4	2.1
Remittances (% GDP)	26.1	26.6	16.8	16.4	-	-

Source: IMF Article IV Mission (December 2023), IMF Article IV Report (March 2023), National StatCom, National Bank, WB

The Digitalisation of tax administration and the opening of public access to income and asset declarations by government officials were important steps in this regard. However, asset declaration access should be broadened, verification of declared information should be strengthened, and the triggers for investigation and prosecution for illicit enrichment established. The President approved an amendment to the public procurement law in July 2023. The new procurement legislation limits competitive bidding for certain types of procurement. On the other hand, it foresees simplification of public procurement procedures (new rules for evaluation of tenders, shortened times until the award, stronger oversight through public procurement committees and other measures).

The IMF maintains close engagement with the Kyrgyz Republic in the context of surveillance and provision of capacity development. The latest Article IV consultation was concluded in December 2023 and the next consultation will be held in November 2024. Between March and May 2020, the IMF approved emergency financing of USD 240 million under the Rapid Financing Instrument and Rapid Credit Facility. In the years prior to 2019, the country received eight consecutive IMF-funded programmes, with the last ending in April 2018. The country has benefited from the Fund's technical assistance in areas related to public finance management, tax policy and administration, the monetary policy framework, financial sector regulation and supervision, national accounts, balance of payments and fiscal statistics. Presently, the IMF's Regional Capacity Development Center for Caucasus, Central Asia, and Mongolia has been established in Almaty (Kazakhstan), where the EU is one of the contributors from the regional financial envelope.

**In conclusion, the authorities are pursuing a stability-oriented macroeconomic policy and the eligibility criterion is met.**

#### 2.3.4 Public Financial Management

[The Strategy for the Development of Public Finance Management for 2017-2025](#) was adopted by the Government on the 22<sup>nd</sup> December 2016 (Govt. Decision N<sup>o</sup>. 696). The goal of the PFM Strategy is to ensure that a modern,

effective, accountable, responsible PFM system is established, capable of providing the principal public services efficiently, effectively, fairly and equitably.

The objectives of the Strategy are:

- To improve the planning and execution of the state budget, including increasing the transparency, completeness and reliability of the budget.
- To bring the budget in line with state policy.
- To improve control over budget revenues and expenditures.
- To ensure the timeliness of accounting and financial reporting.
- To improve internal and external audit procedures.

Implementation of the Strategy is translated into three Action Plans: [AP 2017-2019](#) (Dec 2016), [AP 2020-2022](#) (June 2020) and [AP 2023-2025](#) (Jan 2023).

The implementation of the PFM Action Plans has been monitored by the Finance Ministry. [The latest 2022 annual report](#) is publicly available on the MoF's site.

According to the report, out of 136 tasks put forward for the AP 2020-22, 110 tasks or 81% have been fully performed and 26 tasks or 19% are in the process and/or moved to the 2023 fiscal year:

### **Pillar 1: Improvement of the budget planning**

Improvement of forecasting of budget revenues (8 actions, 7 fulfilled, 1 partially fulfilled: digital Form STI-161 to report on state social security is not yet fully operational).

Improvement of budget forecasting (8 actions, 6 fulfilled with 2 outstanding sub-indicators: (i) digitalisation of budget process; and (ii) integration of IFMIS module on programme budget target reporting).

Improving public investment (2 actions, both in the process of being completed: (i) amendment to update PIP legislation and integration of PIP in the central treasury system; (ii) improvement of procedures to pay membership fees to IOs).

Conducting training events (1 action, fulfilled).

Ensuring completeness and transparency of the budget (all 5 actions fulfilled).

### **Pillar 2: Improvement of the budget execution**

Improving the cost control system for budget execution (3 actions, 2 fulfilled, 1 partially fulfilled, namely the digitalisation of control system in “Kazna.4” is pending).

Improving cash management (1 action, partially completed as training is still ongoing).

Improving public debt management system (1 action, partially completed: 1 sub-indicator out of 7 to be finalised by the end of 2023, namely implementation of the Public Debt Management and Financial Analysis System (DMFAS) as purchase of equipment is underway).

Improving management of wage bill of the public sector (1 action, partially completed: 2 sub-indicators out of 5 are still pending, namely (i) staff reduction in the President office and (ii) development of digital module “HR” for ‘E-Kyzmat’ system).

Improving management policies and procedures related to public procurement (all 4 actions completed).

Improving revenue control systems for budget execution (1 action completed).

### **Pillar 3: Improvement of accounting and reporting standards, internal and external audit and control.**

Accounting (1 action, fulfilled).

Improving internal audit and control procedures (2 actions, 1 fulfilled, 1 partially fulfilled as its 2 sub-indicators out of 4 are still pending: (i) approval of regulation on internal financial control; and (ii) digitalisation of internal audit ‘SmartAudit’).

Improving external audit and control procedures (2 actions, 1 fulfilled, 1 partially fulfilled, namely a draft law on Accounts Chamber is pending approval).

### **Pillar 4: Improving the activities of the Department of Precious Metals under MoF**

Improving Precious Metals Department (5 actions, 3 fulfilled, 2 partially fulfilled: (i) Labs are still to be equipped; (ii) Accreditation of technical expertise is pending).

### **Summary Appraisal PFM Progress and Reforms**

The Kyrgyz Republic needs to create fiscal space for priority spending on infrastructure, human capital, and social protection. Tax revenue can be raised by reducing tax exemptions, incentives, and preferential tax regimes, strengthening the taxation of e-commerce, raising excise on tobacco and petroleum, which are low by international standards, and adjusting other specific excise to inflation. Tax administration can be strengthened further by continuing to improve e-filing, taxpayer registration, risk-based auditing and expanding the use of cash registers.

Further, since Kumtor is now fully state-owned, it should be brought under the same tax regime as other gold mining companies and its dividends should be channelled to the budget to reduce the deficit. The revenue loss from tax exemptions estimated at 3.5 percent of GDP (2021 Article IV consultation) requires reassessment in view of the new tax code and the changing structure of the economy due to the COVID pandemic and the impact of the war in Ukraine. The IMF expressed its willingness to provide the technical assistance to help the authorities implement a holistic reform of tax policy and administration, including an assessment of tax expenditures.

More fiscal space can be created by reducing expenditures and strengthening public finance management. Limiting nominal wage growth to below inflation and freezing public employment at the current levels would yield fiscal savings of about 1.5 % of GDP per year by 2027; allowing headcount reduction through attrition and public employment optimisation, including by steadfast implementation of the Presidential decree of 2022 to reduce central government headcount by up to 30 %, would generate more savings. A comprehensive reform of the public sector compensation and employment framework should also be pursued. Gradually raising electricity tariffs and lowering operating costs in the energy sector would reduce subsidies and generate fiscal savings, some of which should be used for targeted social assistance to the most vulnerable. These measures should be supplemented with PFM reforms to strengthen wage bill management; implement IFMIS modules for budget preparation and payroll; and limit extra-budgetary funds such as the Stabilization Fund.

During the reporting period, the MoF was able to demonstrate a notable progress in introducing technology based services, like e-procurement, digitalisation of input data for public services, including social allowances, submission of updated tax declarations, electronic payment of public services, accompanied by automated internal controls. Interconnection of the MoF with important data bases such as “E-Kyzmat” and “Tunduk” has been advanced, allowing for improved control over public human resources and public services. The transactions made under the Mandatory Health and Insurance Fund are being integrated into the central treasury system.

The latest Public Expenditure and Financial Accountability (PEFA) assessment for the Kyrgyz Republic was published in August 2021, marking a clear improvement from the previous PEFA done in 2015: 7 indicators present an A score (5 in 2015), 13 present a B/B+ score (10 in 2015), 7 present a C/C+ score (9 in 2015) and 2 present a D/D+ score (4 in 2015).

The authorities acknowledge the problem of corruption and fighting corruption is high on the agenda of the government. Both the National Development Strategy 2019-2040 and the National Development Programme 2021-2026 emphasise fight against corruption as a cross-cutting priority of the State. They agreed on the need to strengthen governance, fight corruption and improve implementation capacity for AMLand CFT. In recent years, the President, Parliament, and Government offices have adopted numerous legal acts and taken measures to enhance both the prevention and prosecution of corruption crimes. They also intend to reform SOE governance, optimise the number of non-strategic commercial SOEs. Meanwhile, Kyrgyzstan ranked 140/180 in the 2022 and 2021 [Transparency International Corruption Perceptions Index](#) with a score of 27/100, thus showing a deterioration from 2020 when the score was 31 and rank was 124.

In broad outline, neither the PFM Strategy 2017-2025 of the Kyrgyz Republic nor the National Development Strategy 2040 include clear provisions on **Gender Responsive Budgeting (GRB)**. However, the National Strategy for Gender Equality 2022-2030 (adopted in 2022) includes preparatory actions for the development of Gender-Responsive Budgeting. The EU strongly advises the national authorities to include implementation costs of the newly adopted National Gender Equality Strategy 2022-2030 and its Action Plans in the new PFM Strategy 2026+.

The Kyrgyz Republic, like other countries in the region, is particularly exposed to the risks of global warming, and needs to develop its own climate adaptation policy to strengthen resilience. This requires creating fiscal space for additional public spending on green infrastructure, healthcare, training and education, and social safety nets. Despite its low carbon footprint, the country should also contribute to global mitigation efforts by reducing air, soil, and water pollution, expanding renewables, and raising electricity tariffs to recover cost, which would attract private investment in clean power generation. The Government has made strong commitments to address **climate-related challenges**, and as part of their plan, they have prioritised green energy, agriculture and industry, environmentally friendly transportation, sustainable tourism, waste management, and green cities. Addressing climate-related challenges would open new opportunities for more sustainable and greener growth. The Action foresees to provide technical assistance in order to improve the planning and execution of the national budget. Although mainstreaming of climate-related considerations into the budget process with an effective impact on decision-making is not expected, the Action is expected to strengthen the link between the country’s development priorities and budget allocations. As such the action is expected to indirectly support the way water sector and climate priorities are being taken into account for budget allocation purposes.

## Domestic Revenue Mobilisation

In 2023, total tax revenues increased by 28.6% compared to 2022, while the tax-to-GDP ratio increased to an estimated 25.5% of GDP in 2023 from 23.4% of GDP in 2022 and from 16.4% of GDP in 2020. Tax revenues from income tax increased by 28.8%, profit tax increased by 56.9%, and VAT receipts increased by 34.4% in 2023 compared to 2022. Customs revenues increased strongly by 50% in 2023 compared to 2022 due to the effect of increased cross-border trade. Overperformance came as a result of the economic recovery in 2022 and 2023, as well as improvements in tax administration, analysis and monitoring of all sectors of the economy. SMART Sales tax procedures and digitalisation projects are also yielding results, including the introduction of electronic invoices, cash registers, and the consolidated post system for accounting of goods within the EAEU. Revenue collection is expected to continue to benefit from strong growth rates and from new digital tools such as the cash machines that were introduced in 2022, which report transactions automatically to the tax service. The State Tax Service continues the implementation of its Development Strategy 2023-2025. At the end of 2020, the World Bank initiated a technical assistance project (which extends to 2025) in order to improve revenue collection, especially in V.A.T. The State Customs Service followed up on the implementation of its own plan for the development of the Customs Service 2022-2024.

Revenue	2021 (actual)	% GDP	2022 (actual)	% GDP	2023 (actual)	% GDP
<b>GDP (bln KGS)</b>	<b>723,122</b>		<b>919,445</b>		<b>1,125,550</b>	
<b>Tax revenue, including:</b>	<b>151,185</b>	20.9	<b>228,962</b>	24.9	<b>294,439</b>	26.2
<i>Income Taxes</i>	12,533	1.7	16,939	1.8	21,817	1.9
<i>Profit Taxes</i>	7,759	1.1	18,002	2.0	28,238	2.5
VAT	63,634	8.8	107,616	11.7	144,795	12.9
<i>Other Taxes</i>	67,259	9.3	86,404	9.4	99,589	8.8

*Source: Kyrgyz authorities, Year 2023 contains the latest data on Tax Revenues*

On 18 January 2022, Kyrgyzstan enacted a new Tax Code. The new legislation includes provisions that aim at optimising tax structures, simplifying procedures, improving tax administration, ensuring the stability of the tax system, further improving the digitalisation of tax procedures, creating equal conditions for doing business and reducing the shadow component of the economy. The Code establishes a tax on electronic commerce activities with a rate of 2 % and a tax of 2 % for non-cash trading. The obligation to pay VAT is introduced for foreign companies providing services in electronic form without using a domain name or IP address registered in the Kyrgyz Republic, the place of delivery of which is recognised as the territory of the Kyrgyz Republic (“Google tax”). Since mid-2022, the MoF has started the process of evaluating and revising the existing regime of tax incentives.

The revenue mobilisation policy was formulated in the newly adopted [State Tax Service Development Strategy 2023-2025](#) (December 2022). Specific elements of this Strategy stem from the last TADAT assessment (2017) and include: (i) integrity of the registered taxpayer base; (ii) effective risk management; (iii) timely filing of tax declarations; (iv) accurate reporting on tax declarations; (v) efficient revenue management; (vi) accountability and transparency; (vii) use of SWOT-analysis and SMART principles. The changes in the tax policy and tax administration were also necessitated by the harmonisation processes with EAEU<sup>3</sup> requirements.

Since 2019, the State Tax Service has been administering insurance premiums transferred from the Social Fund of the Kyrgyz Republic, reducing the administrative burden on legal entities and individuals. It carried out all the necessary operations for transferring social contributions from the income part of the budget of the Social Fund to the centralised accounting system of the Single Treasury Account. In 2020, the State Tax Service developed a service for obtaining voluntary, compulsory patents and insurance policies in electronic form in a taxpayer’s personal account.

Consistent with its Development Strategy and with an aim to improve surveillance and increase revenue collection, the State Tax Service has introduced the large-scale projects within the framework of digital economy, including

a number of components of tax fiscalisation procedures. These projects include: electronic reporting of revenues and tax returns, electronic issuance of certificates and patents, electronic marking of goods for trade, electronic invoices, electronic monitoring of gas stations and petroleum and extracting products.

The ongoing World Bank technical assistance project (2021-2025) for the State Tax Service and the National Statistical Committee helps improve revenue collection (especially VAT), enhance tax administration, strengthen tax compliance and improve data compilation.

**In conclusion, the public finance management reform strategy is sufficiently relevant and credible, including on domestic revenue mobilisation, and the eligibility criterion is met.**

### 2.3.5 Transparency and Oversight of the Budget

The entry point is met, as the [Enacted Budget \(for fiscal year 2024\)](#) was published on 18 January 2024. The transparency of the budget has been considerably enhanced since the relatively poor score of 20 ‘*Scant or No Information Available*’ in the Open Budget Index (OBI) of 2012 to 62 ‘*Substantial Information Available*’ of 2021 as a result of the Government’s efforts to address the issues raised by the Open Budget Survey (OBS) in 2012.

Since 2013, the preliminary budget statement, ~~the~~ MTBF, draft budget, and Budget Law, as well as monthly, six-monthly, and annual reports on execution have been published in a timely manner on the website of the Finance Ministry. MTBF and Budget Circulars and Citizen’s Budget have also been made available at the respective MoF’s website.

The [Annual Audit Report of the Accounts Chamber](#) (AC) is timely published and available on the AC’s website.

Regular public budget hearings on the draft budget and budget execution reports contributed to increased participation of the civil society. However, continuation of mechanisms to engage with citizens during the budget implementation phase shall be pursued. Although the Parliamentary/legislative oversight has been strengthened over the years, it still needs to improve examination of the executive’s budget proposal and in-year budget implementation and publish reports with their analysis and findings online. All key recommendations are reflected in the latest OBS encompassing 2021 data [published in May 2022](#), where the overall OBI score increased from 55 in 2017 to **62 in 2021** but slightly dropped in comparison with **63 in 2019**. The Kyrgyz Republic has a public participation score of **26 (33 in 2019)**. Further, the legislature and supreme audit institution in the Kyrgyz Republic provide relatively adequate oversight during the budget process, with a composite oversight score of **61 (78 in 2019)**.

A transparency score above 61 indicates that the country is likely publishing enough material to support informed public debate on the budget.

The Kyrgyz Republic has improved the availability of budget information by increasing the information provided in the Audit Report. However, the country should prioritise the following actions to further improve the budget transparency, notably publishing revised and updated expenditure and revenue estimates in the Mid-Year Review online in a timely manner; publishing performance reports for all ministries as part of the Year-End Report with information on actual expenditures, achievement of targets, and results for all budget programs; publishing expenditures for administrative budget programs in In-Year Reports; publishing the narrative accompanying the Year-End Report with explanatory description of the budget’s performance.

The 2021 PEFA assessment demonstrated that Pillar II- Transparency of public finances (PIs 4-9) has been improved.

*Budget classification/PI-4* single-dimensional indicator is upgraded from B to A. There is full alignment between the classification systems used for the budget as presented to Parliament and the Chart of Accounts that underpins reporting and accounting for revenue and expenditure. Both incorporate administrative, economic, functional and sub-functional/ programme classifications for revenue and expenditure.

The Kyrgyz Republic scores well on *PI-5* concerning the information provided to Parliament in the *budget documentation*. Eleven out of twelve elements of the requisite information are provided, including all four basic ~~the~~ elements. The score is upgraded from B to A.

*Central government operations outside financial reports/PI-6* indicator is upgraded from D+ to B. The revised Budget Code, which came into force at the beginning of 2017, requires the budgets of the Social and Health Funds to be subject to the same Parliamentary procedures in the same timescale as the Republican Budget.

*Transfers to subnational governments/PI-7* indicator is assessed as B+. All 484 Local Self-Governments (LSGs)

receive funds directly from the central government; these consist of the two major cities (Bishkek and Osh), 29 other cities and 453 local settlements (ayl okmotu). All transactions are executed through the Treasury Single Account supported by a network of Treasury offices in each of 40 rayons.

*Performance information for service delivery/PI-8 indicator* is assessed as B. Since 2014, all RB expenditures have been presented in budget documents in programmes with quantified objectives in terms of outputs or activities, but not outcomes. However, investment expenditure has been largely excluded from medium-term planning and the programmes do not provide effectively for the progressive improvement of public services. This is because projects are only included in the medium-term projections when there is confidence that external funding will be available. Article 87 of the Budget Code makes Ministries and Agencies responsible for the achievement of performance targets.

*Public access to fiscal information/PI-9 indicator* has deteriorated since 2014 and assessed as D. The score reflects the absence of any information on defence and public order (police), which was published until 2011. If some limited information were available about defence and public order, the score would be B.

### **Status of the latest budgetary documents**

Budgetary Document (latest)	Produced	Publicly available	Timeliness (publication date of last document)	Comprehensiveness & Quality	Evolution since last disbursement (if relevant)
<a href="#">Executive budget proposal (fiscal year 2024)</a>	Yes	Yes	29/09/2023	adequate	Same
<a href="#">Enacted budget (for fiscal year 2024)</a>	Yes	Yes	18/01/2024	adequate	Same
<a href="#">In-year report (fiscal year 2023)</a>	Yes	Yes	2023	adequate	Same
<a href="#">Mid-year report (fiscal year 2023)</a>	Yes	Yes	21/09/2023	adequate	Same
<a href="#">End-year report (for fiscal year 2023)</a>	Yes	Yes	26/01/2024	adequate	Same
<a href="#">Audit Report (fiscal year 2022)</a>	Yes	Yes	10/10/2023	adequate	Same
Others (e.g. <a href="#">Citizens Budget (enacted) for 2024</a> )	Yes	Yes	27/01/2024	adequate	Same

### **Evaluation of budgetary transparency**

PEFA Assessment (2016 indicators)	Match with PEFA 2011	Year 2009	Year 2015	Year 2021	Progress
PI-5 Budget documentation	PI-6	A	B	A	Improved: 11 elements of information satisfied, including 4 basic elements
PI-6 Central government operations outside financial reports	PI-7	D	D+	B	Improved: All revenue of bodies controlled by the Government is included in financial reports. 7.5% of RB expenditure to meet SOE deficits are not included in budget execution reports.
PI-9 Public access to fiscal information	PI-10	C	C	D	Deteriorated: Only 1 of 5 basic elements required was fully provided. No data on defence and public order.
PI-28 In-year budget reports	PI-24	C+	C+	A	Improved: Reports are complete and consistent with budgets. There are no concerns regarding data accuracy, but commitments are not captured.
PI-29 Annual financial reports	PI-25	D+	C+	C+	No change: Accounting standards are consistent and disclosed but more progress towards international public sector accounting standards is required.
PI-30 External audit	PI-26	D+	C+	B+	Improved: Most revenue and expenditure is audited using national audit standards with an increasing amount of compliance with international audit standards.
PI-31 Legislative scrutiny of audit reports	PI-27	C+	C+	A	Improved: Public debates take place and reports are published on the Parliament's website timely.
	<b>Year 2015</b>	<b>Year 2017</b>	<b>Year 2019</b>	<b>Year 2021</b>	<b>Progress</b>

Open Budget Index	54	55	63	62	Information provided in the Audit Report improved. Civil society participation and budget oversight are adequate.
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According to [the Accounts Chamber reporting for 2022](#), 78 audit activities were carried out in line with the international standards, during which the performance of 1,666 structural and subordinate institutions of audit objects was covered (1,182 budgetary institutions, 203 business entities, 279 institutions and organisations financed from the local budgets and 2 other organisations).

The total value of financial violations of the 2022 state budget resources amounted to over KGS 46 billion (nearly EUR 484 mln) and was increased compared to the previous year by 1.6 times (in 2021, violations amounted to over KGS 28 billion). This total value of financial violations for the 2022 state budget (KGS 46 billion) reflects all kinds of violations in the financial regulations established in the budget including wrong treatment or wrong classification of funds, accounting and reporting errors and procedural violations. Out of the total amount of KGS 46 billion for identified violations, an amount of KGS 15.5 billion (EUR 163 mln) was subject to refund, of which KGS 7.2 billion (EUR 75 mln) or 46 percent has been repaid.

In 2022, based on the audit findings, 340 instructions and 175 recommendations were submitted to the auditees. In response, 132 instructions (38.8 percent) were fully executed, 81 (23.8 percent) were partially executed and 127 (37.4 percent) are in the process.

Based on the audit results, the Accounts Chamber issued an opinion on the main shortcomings in the execution of the 2022 state budget, which will be published in November [2023](#). The main issues in the budget execution identified by the audit are persistent problems in planning, accrual and expenditure management, which affect the efficient allocation of budgetary resources. The main aspects of public finance management are still characterised by inconsistencies between budget planning, budget execution and monitoring and evaluation.

The Accounts Chamber has been actively engaged in the intergovernmental electronic interoperability system “*Tunduk*” for data exchange and reporting, especially with the Finance Ministry. With the support of INTOSAI, [the Development Strategy 2022-2026](#) for the Accounts Chamber has been elaborated and endorsed in 2022.

**In conclusion, the relevant budget documentation has been published and the eligibility criterion is met.**

### 3 DESCRIPTION OF THE ACTION

#### 3.1 Objectives and Expected Outputs

The Overall Objective of this action is to promote an Integrated Water Resources Management (IWRM) approach in the sector and, in doing so, complement the current and forthcoming EFSD+ investments in Water, Sanitation, Hygiene (WASH), Irrigation and Climate Change.

The Specific Objectives of this action are to support:

1. Protection of Water resources
2. Efficient Water Use
3. Water Governance Reform

The induced Outputs to be delivered by this action contributing to the corresponding Specific Objectives are

- 1.1 Improved State water records
- 2.1 Improved water information system
- 2.2 Improved economic mechanisms for water management to encourage sustainable water use
- 3.1 Improved Water Resources Management within the boundaries of main Basins
- 3.2 Development of Basin plans

The Direct Outputs are:

- 1.1 Additional fiscal space created by the transfer of funds and increased predictability of funds
- 1.2 Constructive policy dialogue and social dialogue with and among the Water Sector stakeholders
- 1.3 Improved sector policy performance and monitoring systems

1.4 Strengthened capacity of Water Sector duty bearers to maintain inclusive and quality IWRM (complementary support)

### 3.2 Indicative Activities

This Water Sector Budget Support programme will address the specific objectives through continuous policy dialogue and will use it as leverage to support necessary reforms, ensure government's full engagement, ownership and commitment, provide sufficient budgets, and budgetary planning coherent with the sector's policy. It will also contribute to necessary changes in institutional and socioeconomic environment, including organisational flexibility, connectivity, attitudes in the Government and society, government spending, long-term regulatory outlook. Proposed activities related to all outputs include:

1. Continued policy dialogue with the Government, emphasising the specific objectives, results, disbursement conditions of the Sector Reform Performance Contract as well as the adequate implementation of the complementary measures;
2. Regular monitoring and policy dialogue on achievements of the water policies and their quality objectives, on macro-economic and PFM developments and budget transparency;
3. Preparation of the disbursement files and monitoring of performance targets and indicators to be used for disbursement;
4. Participation in the high-level water-related events, sector meetings, reviews and technical working groups.

The complementary measures are encompassing the improvement of the capacity of the relevant institutions in overall management and development of the sector. More precisely:

- Technical Assistance (direct management: procurement of services, EUR 0.75 M) will be focused on (i) strengthening the capacities of the national and local authorities to formulate, implement and monitor water policies aiming at quality improvement, including sound financial management, resource allocation in the sector, as well as supporting productive policy and social dialogues with the EU, other Development Partners and water stakeholders; (ii) keeping and attracting personnel in engineering specialties and with professional technical education, and developing relationships with scientific and technical organizations (iii) ensuring equitable access to the water sector, considering climate-related issues, with emphasis on gender and disability; (iv) ensuring that the principles of environmental conservation, climate change and circular economy are mainstreamed among institutions and in their planned investments.
- Technical Assistance in PFM (EUR 1 M) may be implemented through: indirect management by an entrusted entity which has long-standing experience in the country's PFM and fiscal governance system, good knowledge of and successful cooperation with government institutions related to PFM system and a proven record of successful cooperation with the EU in this field. Discussions are ongoing with partners including the Ministry of Finance to determine which partner would be preferable.

### 3.3 Mainstreaming

#### **Environmental Protection & Climate Change**

The proposed budget support programme promotes the implementation of the National Water Strategy of the Kyrgyz Republic up to 2040 and of its Plan of Action 2023-2025. It is part of the environmental protection system put in place to sustainably manage the natural resources of the Kyrgyz Republic.

This Action aims to promote two crucial principles for an IWRM approach: the Cost Recovery Principle and the Polluter Pays Principle. The Polluter Pays Principle is closely linked to the Cost Recovery Principle in the context of water pricing. As part of the 'full cost' of water services, the environmental costs should be reflected in the prices paid by water users. This approach is essential to ensure the long-term sustainability of water services and resources and to encourage the efficient use of water resources.

Furthermore, it aims to protect and improve the water environment and the quality of water resources. The goal is to ensure that water management practices do not have a negative impact on the water environment and its ecosystems. That means it will promote the use of water quality standards to regulate the discharge of pollutants into water bodies and the implementation of measures to reduce water abstractions from rivers and lakes.

Climate change is changing weather patterns, leading to high risk of more frequent and intense droughts and floods in Kyrgyzstan. Hence, the national adaptation plans require effective and timely climate data and information to serve water services. These include assessment of climate vulnerabilities and identification of adaptation options, development of products that help improve the understanding of climate and its impacts, and enhancement of capacity for planning and implementation of adaptation in the water sector. Adaptation of water resources to climate change will benefit from the IWRM approach promoted by the budget support. Issues related to the natural level of national or transboundary river basins and lakes, or upstream to downstream water flows, will be addressed in conjunction with longer-term adaptation needs to be identified in the National Adaptation Plan process.

**Outcomes of the SEA screening** (relevant for budget support and strategic-level interventions):

The Strategic Environmental Assessment (SEA) screening concluded that no further action was required.

### **Gender equality and empowerment of women and girls**

As per the OECD Gender DAC codes identified in section 1.1, this action is labeled as G1. This implies that the action is developed with a Right Based Approach determined to “leave no one behind”. Most people with limited access to water are women, who carry the burden of economic and household tasks requiring water use. A sustainable integrated water resource management approach will include considerations on how access for women to water can be ensured, while using their role in societies to catalyse positive change.

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### **Human Rights**

All activities under this Programme are designed and will be implemented in accordance with principles of good governance and human rights, gender equality and the inclusion of socially or economically deprived groups wherever these issues are of particular relevance to the institutions to be assisted.

Water is a fundamental human right. The human rights-based approach and its key principles (applying all human rights for all; meaningful and inclusive participation and access to decision-making; non-discrimination and equality; accountability and rule of law for all; and transparency and access to information supported by disaggregated data) will be integrated throughout the action. Particular focus will be given to inclusive policies targeting women and persons living in vulnerable situations, including those left behind due to labour migration and persons with disabilities, as well as involvement of local communities.

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### **Disability**

As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D1. This implies that the proposed programme will include efforts to address the most marginalised and leave no one behind, notably persons with disabilities.

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### **Reduction of inequalities**

According to the latest UNDP Human Development Report, 0.4 percent of the population of Kyrgyzstan (25 thousand people) is multidimensionally poor, while 5.2 percent is classified as vulnerable to multidimensional poverty (330 thousand people). The income gap between urban and rural areas is reported as being significant in Kyrgyzstan, and there are disparities in access to basic rights, such as education, access to water and sanitation and health care. Integrated Water Resources Management (IWRM) can have a significant impact on the socio-economically disadvantaged individuals, households, or groups, particularly the poorest 40 percent of the population, in several ways:

- Improved Access to Clean Water: IWRM includes projects to provide better access to clean and safe drinking water. This is particularly beneficial to disadvantaged communities, as they are more likely to lack access to clean water sources.
- Health Improvements: Better access to clean water and sanitation facilities, which IWRM can promote, directly contributes to improved public health. This is especially crucial for disadvantaged communities with limited access to healthcare.
- Enhanced Food Security: IWRM can support sustainable agricultural practices, including efficient irrigation systems. Disadvantaged communities often rely on agriculture for their livelihoods. Improved access to water and better agricultural practices can increase crop yields and food security, reducing their vulnerability to hunger and poverty.

- **Livelihood Opportunities:** IWRM can promote activities like fish farming, which can provide income-generating opportunities for disadvantaged communities. These activities can help alleviate poverty and improve the economic well-being of the bottom 40 percent.
- **Participatory Decision-Making:** IWRM often involves participatory approaches where local communities have a say in water management decisions. Disadvantaged groups can benefit from having a voice in how water resources are managed, ensuring their specific needs are considered.
- **Reduced Vulnerability to Climate Change:** Climate change disproportionately affects disadvantaged populations. IWRM strategies that consider climate resilience can help protect these communities from the impacts of extreme weather events and changing precipitation patterns.

### **Democracy**

Kyrgyzstan has recently experienced a reduction in civic space, which may weaken democratic processes, institutions, and the overall enjoyment of the right to political participation by its population. The proposed Budget Support programme promotes strengthened water governance. It is crucial for long-term stability because it helps manage water resources efficiently, prevent conflicts, enhance economic development, improve public health, and address social inequities. The proposed budget support intends to reinforce political dialogue and push to adhere to the EU’s fundamental values.

### **Conflict sensitivity, peace and resilience**

The periodic flare-ups of the Kyrgyzstan-Tajikistan border tensions have serious human rights consequences and threaten the stability of Kyrgyzstan and the region. Interethnic tensions within Kyrgyzstan, and internal political instability characterised by growing political polarization and weakened system of checks and balances, are other important manifestations of Kyrgyzstan’s fragility.

Poverty, insufficient economic and educational opportunities in the border region, scarce water and other resources, and a lack of participation of all members of local communities (including youth, women and ethnic minorities) in policy-making affecting their livelihoods, have been identified as contributing factors to the border tensions. They have also been recognised as factors hampering the authorities’ response to tackle the consequences of the conflict. Corruption, a weak human rights and rule of law architecture, and difficulties in recognizing and consolidating a truly inclusive Kyrgyz identity, are significant elements causing political instability and ethnic tensions. More broadly, water disputes between upstream and downstream users are not uncommon.

The Water SPRC promotes IWRM, which can provide mechanisms for resolving these disputes fairly, ensuring that all parties have access to water and reducing inequalities between regions and transboundary river basins.

### **Disaster Risk Reduction**

The mountainous landscape predetermines the heterogeneity of the distribution of water resources and places of residence for the local population. High seismic activity, the complexity of the geological structure, the high landscape diversity, along with the alternation of mountain ranges and depressions, cause the widespread development and spread of dangerous natural processes and phenomena in the country, which often lead to emergency situations.

The analysis shows a steady increasing trend in the number of emergencies, so in 1991-2000 the average statistical number of emergencies per year was 123; in 2001-2010 it was 235; and in 2011-2016 it was 313. Water-related emergencies registered in decreasing order are distributed as follows: mudflows and floods, avalanches, landslides, floods associated with rising groundwater levels, etc.

The Water SPRC promotes the implementation of the National Water Strategy, which aims at the creation of a sustainable system of water resources management in the Kyrgyz Republic to preserve the natural capacity for the benefit of present and future generations.

### **Other considerations if relevant**

NA

## 3.4 Risks and Lessons Learnt

Category	Risks	Likelihood	Impact	Mitigating measures

		(High/ Medium/ Low)	(High/ Medium/ Low)	
Ineffective implementation capacity: fragmentation of responsibilities and lack of clear division of tasks among institutional stakeholders	Risk 1	<b>M</b>	<b>M</b>	Technical assistance (TA) to strengthen institutional and human resources within the MoES and related stakeholders;  Technical Assistance in PFM
Lack of capacity to measure the indicators related to the water sector. Quality of information and evidence-based sources are poor.	Risk 2	<b>M</b>	<b>M</b>	Mobilisation of independent review mission and expertise to assess the performance and quality of programme indicators; TA to monitor Water Action Plan and ensure reliable data supply; Joint sector review in the framework of policy dialogue
Financial fraud and corruption affect the effectiveness of Government and the rule of law (former Minister NRETS and deputy arrested in 2023 with fraud charges).	Risk 3	<b>H</b>	<b>M</b>	Upcoming EU TA to support the reforms of Public Finance Management, including reduction of corruption, while prioritising and constraining expenditure, promoting transparency and accountability;
Political and economic instability within the country and/or within the region disrupts the implementation of the National Water Strategy	Risk 4	<b>M</b>	<b>M</b>	Continued political and policy dialogue with the Kyrgyz Government
Weak Sustainability of the Water Sector, lack of agreement between stakeholders within a national framework on water allocations	Risk 5	<b>H</b>	<b>H</b>	Water should be treated as having an economic and social value. The Action will intensify political dialogue among all stakeholders, taking advantage of the current partners' efforts in order to create a methodology for cost recovery water tariff formulation. It will promote the government's adoption of the methodology and its monitoring.
There is a risk that the democratic space might be shrinking given some signals in 2023: <ul style="list-style-type: none"> <li>provisions of the newly adopted Constitution amendment on Constitutional Court (September 2023) granting the President the power to over rule a</li> </ul>	Risk 6	<b>H</b>	<b>M</b>	Intensified political dialogue

<p>pronunciation of the CC for vague “moral and ethical values” could be used to restrict human rights, including freedom of expression;</p> <ul style="list-style-type: none"> <li>• 2023 Foreign Agents Law.</li> </ul>				
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**Lessons Learnt:**

The key assumption is that investments without reforms are not sustainable in the long term. Therefore, in line with the recommendation of the *Evaluation of EU Budget Support and Blending in the Kyrgyz Republic 2010-2019*, the considerable EFSD+ investments in WASH need to be complemented and aligned with a strengthened sector governance guided by the principles of IWRM. That will also foster ownership of the local institutions.

The joint EEAS-Commission services’ note on ‘Leveraging the potential of budget support’<sup>17</sup>, which is built on a synthesis of 17 budget support evaluations carried out by the Commission globally, acknowledges that budget support provides a unique avenue to pursue dialogue on reforms, strengthen country systems and contribute to sustainable results, while promoting fundamental values. The EU global response to COVID-19 evidences how it has been instrumental in helping the country cope with the pandemic – quickly and meaningfully.

Leveraging the potential of budget support also requires managing risks better and using the instrument with rigour, in accordance with the recommendations from the European Court of Auditors on data quality and on the design of variable tranches.

### 3.5 The Intervention Logic

The underlying intervention logic for this action is that:

*IF* sector policy dialogue is effective and productive based on the constructive social dialogue with water stakeholders and IF capacities of responsible National and Local Authorities, water stakeholders and CSOs are strengthened in order to promote innovation and facilitate the exchange of best practices in the water sector and IF advisory services and technical assistance recommendations focused on Integrated Water Resources Management are translated into policy decisions and actions *AND* the MoNRETS, MoA, MoE allocate relevant staff members capable to implement these actions, *THEN* the State water records, the water information system, the economic mechanisms for sustainable water management will be improved and a Water Resources Management within the boundaries of main Basins will be produced.

*IF* Outputs are delivered *AND* Ministries of Finance and NRETS financing will efficiently and effectively support the Protection of water resources, the efficient water use and the governance reform, *THEN* the more efficient management institutions in the Water Sector will promote access to water resources and sanitation for all in a sustainable way, *BECAUSE* key elements necessary for creating conducive environment for practical and functional skill set development will be made available: investments without reforms are not sustainable in the long term .

*IF* a more efficient management institutions in the Water Sector will promote access to water resources and sanitation for all in a sustainable way *AND* the Kyrgyz Government remains committed to the National Water Strategy and Action Plan, the achievement of relevant SDGs and is accountable and transparent, *THEN* the the action will contribute to promote an Integrated Water Resources Management (IWRM) approach in the sector and, in doing so, complement the current and forthcoming EFSD+ investments in Water, Sanitation, Hygiene (WASH) and Irrigation. This is *BECAUSE* in line with the recommendation of the Evaluation of EU Budget Support and Blending in the Kyrgyz Republic 2010-2019, the considerable EU funds for the Blending projects in WASH need to be complemented and aligned with a strengthened sector governance guided by the principles of IWRM. That will also foster ownership of the local institutions.

### 3.6 Logical Framework Matrix

This indicative logframe constitutes the basis for the monitoring, reporting and evaluation of the intervention.

On the basis of this logframe matrix, a more detailed logframe (or several) may be developed at contracting stage. In case baselines and targets are not available for the action, they should be informed for each indicator at signature of the contract(s) linked to this AD, or in the first progress report at the latest. New columns may be added to set intermediary targets (milestones) for the Output and Outcome indicators whenever it is relevant.

- At inception, the first progress report should include the complete logframe (e.g. including baselines/targets).
- Progress reports should provide an updated logframe with current values for each indicator.
- The final report should enclose the logframe with baseline and final values for each indicator.

The indicative logical framework matrix may evolve during the lifetime of the action depending on the different implementation modalities of this action.

The activities, the expected Outputs and related indicators, targets and baselines included in the logframe matrix may be updated during the implementation of the action, no amendment being required to the Financing Decision.

BUDGET SUPPORT MODALITY as reflected by the national/sector public policy supported (4 levels of results / indicators / Baselines / Targets / Source of Data - no activities)

Caveat: the indicators used in the *Logical Framework Matrix* refer to the budget support intervention logic. They help monitoring the implementation of the programme in view of its objectives and later evaluate its contribution to country policy's achievements. The list of indicators below should not be understood as the list of indicators informing the disbursement of variable tranches and spelled out in the relevant part of the financing agreement signed with the partner country, although some indicators may be used for both purposes and will be marked accordingly.

Results	Results chain	Indicators (max. 15)	Baselines (year)	Targets by the end of the budget support contract (year)	Sources of data (1 per indicator)
<b>Indicative Impact of the policy</b>	To promote an Integrated Water Resources Management (IWRM) approach in the sector and, in doing so, complement the current and forthcoming EFSD+ investments in Water, Sanitation, Hygiene (WASH) and Irrigation.	1) Status of SDG 6.5.1, the degree of implementation of IWRM	1) 0	1) X	1) National Statistics Reporting on SDGs: <a href="https://sustainable-development-kyrgyzstan.github.io/">https://sustainable-development-kyrgyzstan.github.io/</a> and/or other relevant SDG progress reports of UN Agencies and MoNRETS
<b>Expected Outcomes of the policy</b>	1. Improved Protection of Water resources	1.1 Status of regulations on sustainable functioning of the system of monitoring and state control of water  1.2 Annual Discharge data completed according to national methodology  1.3	1.1 Non existent  1.2 54/78  1.3 Approved Decision on creation of Unified Water Info System	1.1 Regulation on the monitoring of water resources and on the state control of water use adopted  1.2 70/78  1.3 Share of the population with sustainable access to: safe drinking water sources increased - by 96 %; Sewage system – by 45 %	1.1 Cabinet of Ministers Decision/Order  1.2 Annual report on the conditions of hydrological network  1.3 Gosstroy, MoF, Las reports

	2. Improved Water Use	2.1 Automation and digitalisation of the register of water bodies  2.2 Automation and digitalisation of the licensing system and register of water users	2.1 0  2.2 0	2.1 An electronic register of geographical names of water bodies (rivers, lakes, glaciers) established  2.2 Electronic service introduced for issuing the permits/licenses and to register water users	2.1 MoA, NAS reporting  2.2 MNRETS, MoA reporting
	3. Reformed and improved Water Governance	3.1 Number of Water Management Plans applying IWRM principles and/or WEFE Nexus approaches to improve water governance, also in transboundary contexts	3.1 0	3.1 5	3.1 River Basins Organisations

<b>Induced Outputs</b>	1.1 Improved State water records	1.1.1 Status of the State Water Cadastre, use and protection of groundwater and surface waters	1.1.1 0	1.1.1 The MNRETS has adopted the Annual report on the conditions of hydrological network	1.1.1 MNRETS reporting
	2.1 Improved water information system;	2.1.1 Status of the information system “Unified information system for water resources management”, including the procurement of relevant hardware	2.1.1 0	2.1.1 The MNRETS operates a basic version of the information system, including the procurement of relevant hardware	2.1.1 MNRETS reporting
	2.2 Improved economic mechanisms for water management to encourage sustainable water use;	2.2.1 Status of collection of a fee for the use of surface water resources for industrial purposes	2.2.1 The coverage of the collection of fees from business entities in subsoil use and industry for the use of surface water is 40%	2.2.1 60%	2.2.1 MNRETS reporting
	3.1 Improved Water Resources Management within the boundaries of main Basins;	3.1.1 Status of implementation of the State Water Administration	3.1.1 Resolution of the National Water and Land Council, held on 20/12/2023	3.1.1 24 employees	3.1.1 State Water Administration reporting
	3.2 Basin plans Developed;	3.2.1 Status of Basin plans with respective budget	3.2.1 Resolution of the National Water and Land Council, held on 20/12/2023: the MNRETS shall ensure the development and submission to the Cabinet of draft five Basin Plans by 1 September 2024	3.2.1 5 Basin plans with respective budget adopted	3.2.1 National Water and Land Council reporting

<p><b>Direct Outputs</b></p>	<p>4.1 Additional fiscal space created by the transfer of funds and increased predictability of funds;</p> <p>4.2 Constructive policy dialogue and social dialogue with and among the Water Sector stakeholders;</p> <p>4.3 Improved sector policy performance and monitoring systems;</p> <p>4.4 Strengthened capacity of Water Sector duty bearers to maintain inclusive and quality IWRM (complementary support)</p>	<p>4.1.1 Disbursement level of the BS</p> <p>4.2.1 Extent to which policy dialogue outcomes are reflected in the decisions and actions;</p> <p>4.2.2 Extent to which social dialogue is effective to address Water Sector challenges;</p> <p>4.3.1 Level of progress of Water Sector Action Plan (AP) 2023-25 and status of a successive action plan 2026-2028.</p> <p>4.3.2 Level of financing of State Water Administration;</p> <p>4.4.1 Status of TA project(s) addressing capacity building and PFM.</p>	<p>4.1.1 0</p> <p>4.2.1 0</p> <p>4.2.2 National Policy Dialogue (water stakeholders) under the Water Resources Service has being functional in the last 3 years.</p> <p>4.3.1 The Water Action Plan 2023-2025 was adopted in 2023.</p> <p>4.3.2 The Water Action Plan 2023-2025 was adopted in 2023.</p> <p>4.4.1 The projects are under preparation (2023).</p>	<p>4.1 At least 90% of variable tranche paid annually</p> <p>4.2.1 Policy dialogue outcomes are reflected in actions of AP 2026-2028;</p> <p>4.2.2 Social dialogue outcomes are reflected in actions of AP 2026-2028;</p> <p>4.3.1 The report on the implementation of AP2025 is approved by the NWLC and successive AP 2026-2028 is timely adopted and its implementation report approved annually.</p> <p>4.3.2 At least 95% of State Water Administration budget spent;</p> <p>4.4.1 TAs are operational and achieve at least 90% of project indicators/targets and milestones</p>	<p>4.1 eu disbursement reporting, national bank's statement and mof's treasury statement;</p> <p>4.2.1 Action Plan 2023-2025, Policy dialogue meeting minutes and conclusions;</p> <p>4.2.2 Action Plan 2026-2028, Social dialogue meeting minutes and conclusions;</p> <p>4.3.1 AP2024 progress report; adopted AP 2026-2028 and its progress reports;</p> <p>4.3.2 MoF's budget execution; State Water Administration financial reports;</p> <p>4.4.1 TAs project progress reports;</p>
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## 4 IMPLEMENTATION ARRANGEMENTS

### 4.1 Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with the Kyrgyz Republic.

### 4.2 Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 36 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

### 4.3 Implementation of the Budget Support Component

#### 4.3.1. Rationale for the Amounts Allocated to Budget Support

The amount allocated for the budget support component is EUR 15 000 000 and for complementary support is EUR 2 000 000. This amount is based on extensive consultations with National Authorities and sector stakeholders. The level of support should allow providing sufficient resources to advance reform implementation and consolidated achievements. The EU budget support is playing a key role in the sector modernisation and investments as well as in increasing the effectiveness of Government expenditure. The present Action will offer a fiscal space for the implementation of the newly adopted National Water Strategy 2022-2040. The disbursement is considerable if compared with the current resources of the authorities involved in water management. This amount will allow the EU to reaffirm its commitment to protection and efficient use of natural resources and to keep its status as one of the main donors of the Kyrgyz Republic for the Water Sector.

Leveraging the potential of budget support implies seizing any opportunity for dialogue with government counterparts, to promote reforms and pursue EU objectives. This is particularly relevant for budget support, which implies specific and tangible incentives for change, through the conditions and indicators governing payments.

#### 4.3.2. Criteria for Disbursement of Budget Support

##### a) Conditions.

The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the National Water Strategy 2022-2040 and continued credibility and relevance thereof or of the subsequent policy.
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme.
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information.

b) The performance indicators for disbursement to be used for variable tranches may focus on the following policy priorities:

- 1) protection of water resources from depletion and pollution;
- 2) sustainable use of water resources;
- 3) reforming the water resources management system.

Greater efforts will be made to engage in the policy dialogue and reinforce the need to develop a more integrated, coherent and effective system. Given that the other Development Partners have less engagement

in the policy dialogue and are concentrated on downstream work such as WASH and irrigation, the strategic issues of Integrated Water Resources Management will be mostly supported by the EU, which will also complement its current and forthcoming EFSD+ investments in WASH and irrigation programmes. In doing so, the EU will comply with the recommendations of the *Evaluation of EU Budget Support and Blending in the Kyrgyz Republic 2010-2019*.

c) Modifications.

The chosen performance indicators and targets to be used for the disbursement of variable tranches will apply for the duration of the action. However, in duly justified cases, the partner country and the Commission may agree on changes to indicators or on upward/downward revisions of targets. Such changes shall be authorised in writing ex-ante, at the latest at the beginning of the period under review applicable to the indicators and targets.

In exceptional and/or duly justified cases, for instance where unexpected events, external shocks or changing circumstances have made the indicator or the target irrelevant and could not be anticipated, a variable tranche indicator may be waived. In these cases, the related amount could either be reallocated to the other indicators of the variable tranche the same year or be transferred to the next variable tranche the following year (in accordance with the original weighting of the indicators). It could also be decided to re-assess an indicator the following year against the original target, if there was a positive trend and the authorities did not reach the target because of factors beyond their control. The use of this provision shall be requested by the partner country and approved in writing by the Commission.

d) Fundamental values

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

#### 4.3.3. Budget Support Details

Budget support is provided as direct untargeted budget support to the national treasury. The crediting of the euro transfers disbursed into Kyrgyz Som will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement. The disbursement calendar and profile proposed for the action will be set out in the financing agreement.

#### 4.4. Implementation modalities

The Commission will ensure that the EU rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures<sup>4</sup>.

##### 4.4.1. Direct Management (Procurement)

The proposed technical assistance interventions totalling EUR 0.9 million will contribute to achieving all four specific objectives through strengthening the capacity of relevant national authorities by using the country's Water Strategy.

The specific measures will be designed to strengthen key institutions and policy-making process. Capacity development needs will be assessed for that purpose and support provided for: (i) strengthening the capacities of the national and local authorities to formulate, implement and monitor water policies aiming at quality improvement, including sound financial management, resource allocation in the sector, as well as supporting productive policy and social dialogues with the EU, other Development Partners and water stakeholders; (ii) keeping and attracting personnel in engineering specialties and with professional technical education, and developing relationships with scientific and technical organizations (iii) ensuring equitable access to the water

sector with emphasis on gender and disability; (iv) ensuring that the principles of circular economy are mainstreamed among institutions and in their planned investments.

#### 4.4.2. Indirect Management with an entrusted entity

A part of this action (i.e. complementary support for Public Finance Management) may be implemented in indirect management with an entity, which will be selected by the Commission’s services using the following criteria: an entrusted entity with long-standing experience in the country’s PFM and fiscal governance system, good knowledge of and successful cooperation with government institutions related to PFM system and a proven record of successful cooperation with the EU in this field.

The implementation by this entity entails regular monitoring and policy dialogue on achievements of the water policies and their quality objectives, on macro-economic and PFM developments and budget transparency and on budget planning and execution. Sharing of best practice and knowledge in preferred areas.

#### 4.4.3. Changes from indirect to direct management mode (and vice versa) due to exceptional circumstances (one alternative second option)

Kyrgyzstan has been recently experiencing a reduction in civic space, which may weaken democratic processes, institutions, and the overall enjoyment of the right to political participation by its population. At the beginning of 2024, three topics are raising concern among the international community: (i) the approval at first reading of the draft law on foreign agents; (ii) the declaration on the NGOs; (iii) the tightening of the security grip on medias.

Therefore, the EU needs to stand ready for an alternative to the Water Sector Reform Performance Contract, in case the preliminary conditions will not be met. Alternative implementation modality as follows:

- EUR 15 900 000 (15 M from Budget Support and 0.9 M from procurement ex 4.4.1) in indirect management with contribution agreement with an IFI for an EFSD+ blending and/or guarantee operation in the water sector (e.g. support to the rehabilitation or construction of a hydropower plant). This may still include procurement for technical assistance should this be required for the project.
- EUR 1 000 000 in direct management via grants to Civil Society Organisations if in exceptional circumstances the indirect management through entity as identified in section 4.4.2 for PFM is not possible.

#### 4.5. Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission’s authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where application of the eligibility rules would make the realisation of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

#### 4.6. Indicative Budget

<b>Indicative Budget components</b>	<b>EU contribution (amount in EUR)</b>
<b>Budget support</b> - cf. section 4.3	15 000 000
<b>Implementation modalities</b> – cf. section 4.4	
<b>Objective 2 Efficient Water Use, PFM</b> composed of	1 000 000
Indirect management with an entrusted entity - cf. section 4.4.2	1 000 000

<b>Objective 1 Protection of Water resources, 2 Efficient Water Use, 3 Water Governance Reform</b> composed of	900 000
<b>Procurement</b> – total envelope under section 4.4.1	900 000
<b>Evaluation</b> – cf. section 5.2	100 000 May be covered by another decision
<b>Audit</b> – cf. section 5.3	
<b>Contingencies</b>	N.A.
<b>Totals</b>	17 000 000

#### 4.7. Organisational Set-up and Responsibilities

The EU Delegation to the Kyrgyz Republic constitutes the Contracting Authority for the Water SRPC. The MNRETS of the Kyrgyz Republic and the MoEF of the Kyrgyz Republic are the principal counterparts.

A Steering Committee, chaired by the MNRETS of the Kyrgyz Republic or other relevant ministry tasked to the implementation of the integrated water strategy and co-chaired by the EU Delegation, will be responsible for oversight of the Water SRPC and policy dialogue. The Steering Committee will include as a minimum: MNRETS, EU Delegation, MoEF, the Ministry of Agriculture (Water Resources Service, focusing on Irrigation), the Department for the Development of Drinking Water Supply and Sanitation (focusing on investments in Drinking Water) of the State Agency for Architecture, Construction, Housing and Communal Services (Gosstroy) under the Cabinet of Ministers and civil society organisations.

As for the technical assistance in PFM, the Ministry of Finance will chair the Project’s Steering Committee and the EU Delegation will be the co-chair. The final composition of the Committee will be agreed with the entrusted entity and the Contracting Authority during the Inception Phase of the project.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action and may sign or enter into joint declarations or statements, for the purpose of enhancing the visibility of the EU and its contribution to this action and ensuring effective coordination.

## 5. PERFORMANCE MEASUREMENT

### 5.1 Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner’s responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (Outputs and direct Outcomes) as measured by corresponding indicators, using as reference the logframe matrix (for project modality) and the partner’s strategy, policy or reform action plan list (for budget support).

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Roles and responsibilities for data collection, analysis and monitoring:

The MNRETS of the Kyrgyz Republic or other relevant ministry tasked to the implementation of the integrated water strategy and the MoEF as the main implementing partners under Budget Support component will be responsible for performance monitoring and reporting during the Steering Committees and independent review missions. The disbursement request along with a self-assessment report based on proven progress and data for year N shall be submitted by the MoEF indicatively by end of Q2 of year N+1 annually.

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed. This assessment has fed into the design of the action as follows:

The Development Partners, incl. IMF, reported that statistics data provision is adequate for surveillance. It is also noticed that Kyrgyzstan has developed sex-disaggregated statistics enabling to routinely assess progress. Moreover, the recently launched WB-funded Tax Administration and Statistical System Modernisation Project (USD 35 million, 2021-2025) to operationalise the newly adopted Law on Official Statistics and associated regulatory reforms, digitalise administrative data, modernise IT system, improve interoperability of government systems, streamline business process for greater data utilisation and strengthen capacity will bring statistics services up to international standards.

There are also additional institutions responsible for collecting, compiling and disseminating macroeconomic and other statistics such as the MoEF and the National Bank. They have legal and institutional environments that support statistical quality, and their respective staff are well-versed in data collection and analysis.

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed. This assessment has fed into the design of the action as follows: when it comes to water-related data-collection, it is worth mentioning that the the Ministry of Natural Resources, Ecology and Technical Supervision of the Kyrgyz Republic has been tasked by the National Water and Land Council to develop a basic version of the information system “Unified information system for water resources management”, including the procurement of relevant hardware by 1 July 2024. Ministries, state committees, administrative agencies involved in the management, monitoring, record, distribution, study of water resources and having information systems shall ensure access (integration) to the Unified Water Information System (UWIS) by the 4th quarter of 2025.

## 5.2 Evaluation

Having regard to the nature of the action, a final evaluation will be carried out for this action or its components via independent consultants contracted by the Commission.

It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that this programme complements the ongoing and forthcoming EFSD+ investments in WASH in irrigation.

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

The Commission shall inform the implementing partner at least 30 days in advance of the dates envisaged for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports may be shared with the partners and other key stakeholders following the best practice of evaluation dissemination. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, apply the necessary adjustments.

Evaluation services may be contracted under a framework contract.

## 5.3 Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

## 6. STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

The 2021-2027 programming cycle will adopt a new approach to pooling, programming and deploying strategic communication and public diplomacy resources.

In line with the 2022 “[Communicating and Raising EU Visibility: Guidance for External Actions](#)”, it will remain a contractual obligation for all entities implementing EU-funded external actions to inform the relevant audiences of the Union’s support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. This obligation will continue to apply equally, regardless of whether the actions concerned are implemented by the Commission, partner countries, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU member states.

However, action documents for specific sector programmes are in principle no longer required to include a provision for communication and visibility actions promoting the programmes concerned. These resources will instead be consolidated in Cooperation Facilities established by support measure action documents, allowing Delegations to plan and execute multiannual strategic communication and public diplomacy actions with sufficient critical mass to be effective on a national scale.