



Joint Programme 2021 Annual Progress Report

SDG Financing Portfolio - Component 1

Cover page

UNCT/MCO: Kyrgyzstan

Reporting Period: 1 January - 31 December 2021

JP title: Enhanced Financing Opportunities and Alignment with National Sustainable Development Goals Through an Integrated National Financing Framework for Kyrgyzstan

PUNOs: UNDP, UNICEF

Government partner: The Office of the President of the Kyrgyz Republic

Target SDGs: SDGs 4, 10, 16, 17

Gender Marker: 2

Approved budget: USD 975,471

Co-funding: USD 190,000

Total Disbursement by 2021: USD 487,735

Total estimated expenditures: USD NA (est. Delivery rate: NA%)

Total estimated commitments (including expenditures): USD 485,166.6 (est. Committed rate: 99.5%)

RCO focal point name: Ulukbek Usubaliev

RCO focal point email: ulukbek.usubaliev@un.org

Executive Summary

Due to the continued economic disruption resulting from COVID-19, Kyrgyzstan not only faced strong economic and fiscal headwinds but also an increased risk of debt stress. JP has adjusted its programme and provided support on analyzing debt restructuring options. This support enabled the country to postpone a \$56 million debt repayment, which enabled the country to widen fiscal space for SDG financing.

A framework for assessing the effectiveness of tax incentives was established. The government endorsed a new Tax Code in December 2021 that provided a framework to conduct regular tax incentive efficiency assessments. This allows the Government to improve the efficiency of tax incentives and mobilize more public funds for SDG financing by eliminating inefficient incentives.

As a result of the review of the national policy, budgeting and spending in the education sector including Early Childhood Education (ECE), against alignment with SDG 4 targets and bottlenecks, a Road Map on the ECE planning and budgeting in short-, mid-and long-term perspectives is prepared. The Road Map indicates policy measures, mechanisms and instruments for integration of SDG in the planning and budgeting of ECE. Programme- and

result-based budgeting, per capita financing, performance audit, risks and monitoring are presented in a clear diagram form in line with current budget planning processes. The approach is relevant and applicable to other social sectors. The Road Map is currently under review by the Ministry of Education and Science (MES). Once validated and accepted by the MES and Ministry of Finance, policy dialogue will continue with a wider range of stakeholders for implementation to be supported by the JP. Nearly 60 central and district education authorities and professionals including financial specialists across the country improved their knowledge and planning skills to integrate SDGs/NDS, sectoral policy objectives into budgeting.

Annual Progress

Overall JP self-assessment of 2021 progress:

Satisfactory (majority of expected results achieved; 1 to 3 months delay in implementation)

Comments on self-assessment: The satisfactory assessment is associated with the commitments of new counterparts in the President's Administration, who initiated the countersigning process of the JP Prodoc and the process to establish the Governance structure of the JP, and endorsed the extension of the JP deadline from June 30, 2022. A study on the efficiency of public sector spending in the education sector is intended to inform national policymakers and education advocates on the main issues and policy prospects for improved education finance. A Road Map is available for integration of the NDS/SDG targets and education sectoral strategy into MTRF and budget processes and documents. A review of the regulatory framework and implementation guidelines of PPP in pre-school education has been updated in line with the new Law on PPP adopted in August 2021. Technical dialogue with Chamber of Accounts (CoA) on performance and strategic audit with the focus on education affected new draft law on CoA stipulating measures for better oversight how spending outcomes link to strategic priorities. DFA was launched, and the results are expected in April 2022.

Overall progress and key developments to date (3 key JP milestones)

- a. Good working relationship with counterparts was maintained, though the government restructuring processes have caused some challenges. Good working relationships were maintained with President's Administration (PA), which has launched the processes to establish the JP governance structure. In October 2021 a division on SDG and donor coordination was established, which is leading the JP work. Respective working relations were established with them to create the governance structure of JP. Most of the state bodies were going through the restructuring processes; therefore, it was decided to work with the new Parliament convocation to strengthen their capacities on performing budget oversight functions, as the terms of the previous convocation ended in December 2021.
- b. DFA was launched and results will be available in April 2022. It will map the financing landscape, review government plans aligned with SDGs, identify SDGs with gaps in financing needs and outline strategy to address financing needs.
- c. Study on the efficiency of public spending in education sector analyzed issues affecting education finance with a purpose to inform the stakeholders on the main issues and policy prospects. The results of the analysis will shape projection of funding needs for 2030 contributing to the SDG/NDS financing strategy and propose policy actions for education finance reform. Such robust evidence sets the base for dialogue between the stakeholders. This dialogue is crucial for designing policies that can sustainably improve public spending efficiency and effectiveness in education. A review of debt restructuring options for each bi- and multilateral creditor was conducted. It explored pros and cons of each option, and historical restructuring examples of the creditors. This support enabled the country to postpone \$56 million debt repayment, which enabled the country to widen fiscal space for SDG financing; a pre-feasibility study on an impact bond in the employability and skills development was conducted. Initial findings suggest that Kyrgyzstan has a fairly well-developed legal framework for an impact bond though the identified bottlenecks to be addressed prior to launching implementation of impact. Addressing the bottlenecks will allow the country to implement performance-based financing and raise upfront funds.

- d. JP provided support on developing a new version of Tax Code, via providing a platform, where representatives of the private sector, were able to actively participate at the development of the Tax Code. The development of a comprehensive Code with proper incentives will enable the country to mobilize funds from the private sector to finance SDGs. JP supported establishment of a framework for assessing effectiveness of tax incentives. The new Tax Code establishes a framework to conduct regular tax incentive efficiency assessments. This allows the Government to improve efficiency of tax incentives and mobilize more public funds for SDG financing by eliminating inefficient incentives. A communication plan of the JP was developed.
- e. Findings and recommendations on bottlenecks preventing alignment between the SDG 4, target 4.1, and national development priorities have informed the content of the capacity building for nearly 60 district education authorities. Training sessions took place in March 2021.
- f. Key stakeholders were able to strengthen their capacities on INFF concept and learn success stories of other countries in implementing the INFF during the two regional online trainings. 22 representatives of Kyrgyz state institutions and CSOs participated in the January training. 6 representatives have participated in the March training.
- g. Partnership with the Government of Russia was established. UNDP has attracted an expert to share Russian experience on wage bill reforms with the Kyrgyz Ministry of Finance (MoF). The provided recommendations enabled MoF to design a fair pay system to achieve greater equality.

Changes made to JP: Due to the continued economic disruption resulting from COVID-19, Kyrgyzstan not only faced strong economic and fiscal headwinds but also an increased risk of debt stress. It resulted in public debt increase by 16.5 per cent of GDP to 68 per cent, mostly caused by currency depreciation and Covid related borrowings. In these circumstances, MoF requested UNDP to provide assistance in restructuring its external debt. The JP supported the request and allocated \$120K. This support enabled the country to postpone \$56 million debt repayment, which enabled the country to widen fiscal space for SDG financing UNICEF has made reallocation of the initially distributed funds to focus on Output 1.1. Study on efficiency of public sector spending in Education disaggregated by gender and disability. It also reallocated \$ 75,000 initially allocated for Output 1.2. Conducting a fiscal space analysis. Both changes do not exceed the threshold set.

Main Challenges: During the reporting period, the main challenges related to JP’s implementation were related to the ongoing political changes and frequent changes of counterparts. The Decision-making process on the counterpart side was slow and some key decisions were significantly delayed, despite the JP team’s efforts and reminders. Like the establishment of the JP’s Governance structure, and identification of the respective focal points. Political changes took the priority attention of their counterparts and were associated with the change in Constitution and laws. Frequent changes of counterparts took time and efforts of the JP team to present the information and establish a working relationship with them. The JP’s design envisages full commitment and strong ownership of the INFF of the President’s Administration; thus, it was important to involve them and allow them to lead the JP implementation. These changes, which occurred three times in 2021, negatively impacted the JP implementation.

Updates on SDG financing framework

	Assessment		Monitoring	Governance
Inception phase	Diagnostics	Financing Strategy	Review	Coordination
Advancing (50-99%)	Emerging (1-49%)	Planned (0%)	Planned (0%)	Emerging (1-49%)

Descriptions on progress by INFF building blocks

Inception Phase: An institutional home for the INFF process was identified in the new structure of the Government. It is a newly created SDG and donor coordination division in President’s Administration. This division is leading the process to establish the Governance Structure of the JP. DFA was launched, inception report was reviewed by

the counterparts. In addition, several presentations were delivered to the Division to inform them about the JP and create the ownership. The core objective of the DFA is to assess the opportunities of using existing sources of finance more efficiently and raise the level of finance from sources yet to be utilized to its full potential taking as a point of departure the required resources to achieve the SDGs.

Assessment & Diagnostics: DFA was launched and results will be available in April 2022. It will map the financing landscape, review government plans aligned to SDGs, identify SDGs with gaps in financing needs and outline strategies to address financing needs. Fiscal space analysis is being launched. SDG costing is being discussed with President's Administration. With the support of the Istanbul Regional Office of UNDP and the active participation of regional peers, several capacity development events were arranged to inform the new counterparts on how SDG costing methodology. These events enabled the counterparts to strengthen their capacity on SDG costing and inform them about the available methodologies. Under the tax incentives review process, Government endorsed a new Tax Code in December 2021 that provided a framework to conduct regular tax incentive efficiency assessments. This allows the Government to mobilize more public funds for SDG financing by eliminating inefficient incentives.

Financing Strategy: The financing strategy has not yet been developed, though several meetings and presentations with respective beneficiaries were conducted. These activities confirmed the strong interest of the counterparts in developing and implementing the financing strategy. The DFA will take into account the ongoing changes in the structure of government and legislative reforms in Kyrgyzstan. These changes provide new preconditions and opportunities for the formulation of financial strategies but may also entail the need to generate new knowledge and, consequently, increase the capacity of public governance institutions. Political changes in the country brought in three government restructurings that led to changes in the staff, who were involved in the JP coordination. This fact did not allow the JP team to timely implement the DFA, as this needed government's guidance and support to successfully implement the assessment; Thus, the financing strategy will be developed soon.

Monitoring & Review: The work was conducted with the Ministry of Economy and Commerce, in particular, a review of the current tax incentives towards the SDGs was conducted to establish a mechanism to assess the efficiency of tax incentives. The review revealed that some tax incentives were not efficient and aligned with the initial objective. The new Tax Code envisages a framework to launch regular assessments on the efficiency of tax incentives. This framework enables the government to abolish ineffective tax incentives and increase state revenue for financing the country priorities. Ministry of Economy and Commerce leads the monitoring and review of development programs. Necessary discussions were held to strengthen the current monitoring system.

Governance & Coordination: A decision was agreed with the new authorities on utilizing the UNDAF Coordination Council as the only Coordination unit for all UN programs and projects. Therefore, this Council will serve the JP's Oversight Committee function. The technical working group is being established. President's Administration is working on the issuance of a decree on the establishment of the JP's Governance structure.

Priority Cross-cutting Issues

How did the JP adapt to the COVID-19 context

JP was adapted to the Covid-19 context by updating the respective ToRs and reacting to the new emerging priorities of the country. ToRs on DFA, tax incentives and impact bond pre-feasibility assessment were adapted to consider the Covid-19 context. In addition, JP has supported the country's emerging priority to provide support in analyzing debt restructuring options. This support enabled the country to postpone \$56 million in debt repayment and to widen the fiscal space.

How did the JP apply the Gender Marker

Gender mainstreaming was introduced and maintained through JP activities; project national partners were gender sensitized accordingly. All programme documents are designed taking into consideration the gender equality and women empowerment aspects. As a rule in UN agencies, all ToRs are reviewed and cleared by a Gender specialist. This allows the JP team to mainstream gender equality and women's empowerment into JP's activities. The

DFA will analyze financial flows through a gender lens, and women's organizations will be actively involved in the DFA process to ensure women's empowerment. JP supported a platform to discuss a draft Tax Code. During the preparatory process, JP requested the Ministry of Economy – JP's counterpart to ensure gender equality by inviting women-led associations to the event. Inviting women-led associations, the JP ensured women participation, visibility and empowerment. Currently, the JP activities are focused to map the policy and institutional framework on gender equality and identify existing initiatives on financing for gender equality. This will support the identification of opportunities to mainstream and advance financing for gender equality and women's empowerment through the INFF process.

Estimated % of overall disbursed funds spend on gender: 75%

Alignment with cross-cutting UN issues (e.g. human rights, decent work, inclusion, LNOB)

The following JP activities had a focus on inclusion and leaving no one behind, in particular: Tax incentives effectiveness assessment is being conducted with a special focus on gender and social inclusion issues. Debt restructuring activities were aimed to identify viable restructuring options, which could have enabled the country to widen fiscal space for financing human rights, leaving no one behind by increasing expenditures to support the vulnerable groups.

In partnership with Russian Trust Fund, support was provided on strengthening the wage bill system in the public sector. This partnership enabled the country to learn the best practices on effective wage bill management and receive respective recommendations on how the new system may create a decent and fair work environment for public servants.

How did the JP work to build ownership and buy-in of key stakeholders

Despite the political changes in 2021 and frequent changes of civil servants, the JP used the “no harm approach” and applied efforts to establish a working relationship with every new appointee, involved in the JP implementation. Necessary official correspondence, meetings, presentations and trainings were delivered to inform them about the JP and build ownership over its implementation. In 2021 there were three changes in the President's Administration - the main counterpart of the JP, who was supposed to lead the JP implementation. The JP team was able to establish good working relations with the new counterparts, who were appointed to their positions at the end of 2021.

JP is making efforts to ensure the sustainability of the JP results over time, for this, when possible, the existing government mechanisms are being used in the implementation of the JP. For instance, the existing UNDAF Co-ordination Council will serve the function of the JP Oversight Committee. In addition, all training materials are recorded to make them available for any interested parties to ensure the sustainability of efforts.

Annual Reporting on Results

Results achieved in promoting the priority thematic SDG agendas

Good results were achieved on SDG 17. Revitalize the global partnership for sustainable development, in particular on 17.4. Due to the continued economic disruption resulting from COVID-19, Kyrgyzstan not only faced strong economic and fiscal headwinds but also an increased risk of debt stress. JP has adjusted its programme and provided support on analyzing debt restructuring options. This support enabled the country to postpone a \$56 million debt repayment, which enabled the country to widen fiscal space for SDG financing.

The JP contributes to achieving SDG 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all, and in particular, Target 4.2 By 2030, ensure that all girls and boys have access to quality early childhood development, care and pre-primary education so that they are ready for primary education.

Early Childhood Education (ECE) has been one of the key priorities of all governments and improvement of coverage by pre-school programmes has been reflected in National Development Strategy (NDS) 2018-2040, National Development Programme (NDP) 2021-2026 and Education Development Programme (EDP) 2021-2040 with quantifiable targets set. UNICEF provided technical assistance to the Ministry of Education and Science (MES) and supported a series of consultations, training sessions on planning, budgeting and effective financing to achieve targets set in the education policy documents. Road Map to align budgeting with national and sectoral goals, informed by the SDGs, provides clear step by step actions in short-, medium- and long-term perspectives. To ensure the latter, MES is to become a pilot ministry for program-based budget and proper MTF.

JP contributions to the Joint SDG Fund's global results (especially around Outcome 2 & Output 4)

DFA was launched, several meetings and training events were delivered to the newly appointed officials to inform them about the JP objectives. A pre-feasibility study on an impact bond in employability and professional and vocational skills development was conducted. Initial findings suggest that Kyrgyzstan has a fairly well-developed legal framework for an impact bond though the identified bottlenecks to be addressed prior to launching the implementation of impact bonds in Kyrgyzstan. Addressing the bottlenecks will allow the country to implement performance-based financing and raise upfront funds for its projects.

Progress against JP-specific outcomes

Good results were achieved on output 1.2. State institutions have evidence on opportunities to mobilize resources for NDS/SDGs JP provided support in establishing a framework for assessing the effectiveness of tax incentives. The new Tax Code provides a framework to conduct regular tax incentive efficiency assessments. This allows the Government to improve the efficiency of tax incentives and mobilize more public funds for SDG financing by eliminating inefficient incentives. JP supported a pre-feasibility study on an impact bond in employability and professional and vocational skills development. Initial findings suggest that Kyrgyzstan has a fairly well-developed legal framework for an impact bond though the identified bottlenecks to be addressed prior to launching the implementation of impact bonds in Kyrgyzstan. Addressing the bottlenecks will allow the country to implement performance-based financing and raise upfront funds for its projects.

Progress against JP-specific outputs

Good results were achieved on Outcome 1: Kyrgyzstan has stronger evidence for an improved policy framework for public and private finance to deliver on NDS/SDGs. DFA was launched to identify the financial flows, which could be leveraged towards the country development priorities. The new Tax Code has improved the tax efficiency assessment framework by incorporating requirements to conduct regular assessments and monitor the tax incentives. The enactment of the framework will enable the country to eliminate the inefficient tax incentives and mobilize more public funds for SDG financing by eliminating inefficient incentives.

JP contributions to strengthening UN coherence, partnerships and reducing duplications of efforts

Cooperation among PUNOs: UNDP and UNICEF, and RCO within the JP on public finance management matters are enhancing efficiency, as the involved agencies are coordinating the development of their policy recommendations. The PUNOs are about to jointly conduct the costing of the selected SDGs and development of a national financing strategy led by the Presidential Administration and Ministry of Finance with a coordinated involvement of the UNDP and UNICEF experts. The TA provided resulted in an opportunity for the country to postpone a re-payment of 56M USD of the current external public debt.

A good partnership was achieved with UNCTAD, which is working with the Ministry of Finance on implementing the Debt Management and Financial Analysis System (DMFAS). RCO ensured cooperation among the UN agencies, involved in public finance management activities, to ensure policy coherence and partnership.

Strategic Partnerships, Documents and Communications

How did the JP facilitate collaboration with diverse stakeholders in the SDG financing space

JP has facilitated collaboration among IFIs, government and private sector. Within the DFA all involved government bodies are collaborating with JP to develop a financing strategy. Within debt restructuring involvement, JP has collaborated with all IFIs, creditors and the private sector of the Kyrgyz Republic to review avenues for restructuring and strengthening the local bond market. Within conducting a pre-feasibility study on an impact bond in the employability and professional and vocational skills development, collaboration was facilitated among the private sector and civil society, in particular, the study involved IFI projects on vocational skills and private vendors, which were implementing the projects.

Did the JP secured additional financing (co-funding/co-financing) from the following stakeholders:

Government	Donors & IFIs	Private Sector	PUNOs	Other Partners
No	Yes	No	Yes	No

Comments on additional financing secured: JP has facilitated collaboration among IFIs, government and private sector. Within the DFA all involved government bodies are collaborating with JP to develop a financing strategy. Within debt restructuring involvement, JP has collaborated with all IFIs, creditors and the private sector of the Kyrgyz Republic to review avenues for restructuring and strengthening the local bond market. Within conducting a pre-feasibility study on an impact bond in the employability and professional and vocational skills development, collaboration was facilitated among the private sector and civil society, in particular, the study involved IFI projects on vocational skills and private vendors, which were implementing the projects.

JP organized events in 2021

JP Launch Event	Annual Donor Event	Partners Event
No	No	No

Number of strategic documents produced by the JP: 4

Number of strategic documents contributed by the JP: 1

Number of communication materials produced: 50

2022 Plans & Way Forward

JP priority activities & expected results for 2022

Expected activities: DFA completion, SDG costing completion, complete a study on the efficiency of public spending in the education sector, improve efficiency and effectiveness of education spending and develop policy actions for education finance reform and assistance in implementing the proposed policies, finalize debt restructuring policy advisory, conduct fiscal space analysis, complete effectiveness of tax incentives review, develop systems for monitoring and managing the use and impact of tax incentives, conduct a Revenue and Expenditure Analysis, integrate NDS/SDG targets and sectoral strategies into MTFF and budget processes, develop a national financing strategy,

improve the normative and governance framework for PPPs, integrate the NDS/SDG agenda/objectives into parliamentary and public oversight, establish a platform for policymakers and DPs on NDS/SDG financing strategy prioritization, establish a national strategic NDS/SDG-aligned planning process. Update the PPP package to extend ECE services.

Expected outcomes: DFA, INFF Roadmap and finance strategy will be completed to improve the policy framework for public and private finance to deliver on NDS/SDGs. MTF/MTEFs will be aligned with SDGs via results-based budgeting to improve strategic planning and financing systems to support NDS/SDGs implementation. The institutional coordination framework will be improved to monitor and oversight the NDS/SDG implementation.

3 major transformative results that will be achieved by the end of the JP

The JP will offer transformational results at the macro-level to transform the way financing is directed towards national sustainable development objectives. It will be achieved by the development of a financing strategy, which focuses not only on public finance but also on the incentives and tools to increase private investments and financing for sustainable development impact. The JP will also support the implementation of reforms in public and private finance. As the JP takes a holistic approach looking at financing trends, policies and ways forward across public and private finance, it will bring together policymakers and non-state actors, including structured analysis and dialogue with private sectors partners, who will be proactively engaged and consulted on enabling factors for increasing private sector financing and attracting investment. This approach will change the mindset of policymakers to actively involve the private sector in achieving the Agenda 2030.

The JP will be supporting the work on establishing a system and methodology for introducing and managing such incentives consistent with the overall priorities of the NDS and conducive to the country’s objectives of achieving the SDGs, in particular reducing poverty and inequality, promoting entrepreneurship, enterprise development, and economic growth, and promoting gender equality. Currently, the JP has supported the enactment of a new Tax Code that sets requirement to regularly assess the effectiveness of tax incentives policy. Once the system is operational, it would eliminate tax incentives that are ineffective or negatively affect the low-income segment or that disfavor women; and the introduction of incentives that shifts the tax burden towards already capital-strong tax payers/businesses; that introduces and allocates tax incentives in designated growth areas and have desirable gender and social impacts.

Estimated rate of completion for each result as of 31 Dec 2021

Result.1	Result.2	Result.3
Emerging (1-49%)	Emerging (1-49%)	Planned (0%)