



Joint Programme 2022 Annual Progress Report

SDG Financing Portfolio - Component 1

Cover page

UNCT/MCO: Kyrgyzstan

Reporting Period: 1 January - 31 December 2022

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

Stakeholder partner: National Government; Private sector; IFI's;

Thematic SDG Areas: Transforming education; SDG localization;

PUNOs: UNDP, UNICEF

Top- up received as part of DEM: No

Total estimated expenditures: US\$ \$ 553,703.0

Total estimated commitments (including expenditures): US\$ \$ 781,250.3

Gender Marker: Gender-sensitive (for example, the JP acknowledged and aimed to address gender to enhance the policy/programme, such as undertaking gender analysis to ensure policies/programmes do no harm)

Resident Coordinator: Grawe, Antje

Resident Coordinator Email: grawe@un.org

Executive Summary

During the reporting period the JP achieved following critical milestones:

- The JP launched the process of the Development Finance Assessment (DFA) and the National Financing Strategy (NFS) development to support the improvement of the policy framework for public and private finance to meet the ambition of the National Sustainable Development Programme 2026 (NDP-2026) and national SDGs commitments.
- In close collaboration with the Ministry of Economy and Commerce the JP has been developing a new methodology of the regular assessment of tax incentives to increase their efficiency.
- JP has also contributed to strengthening public finance management by improving program-based budgeting (PBB) framework and aligning it with national development priorities – the initiative was piloted with the Ministry of Education and Science (MoES) and led to result-oriented Mid-Term Expenditure Framework (MTEF) for 2023-2025 alignment with PBB and improvement of regulatory framework on PBB.

Above mentioned results will contribute to the achievement of the following UNSDCF 2023-27 outcomes/outputs:

CF Outcome 1. By 2027, the people of the Kyrgyz Republic, particularly vulnerable groups, will have enhanced resilience, strengthened capabilities, and access to decent work, resulting in full enjoyment of their rights contributing to the socio-economic and gender-transformative development of the country.

Output 1.2.1 Data-driven education sector planning, joint results monitoring, and sector performance improvement mechanisms at a national level is strengthened.

Output 1.2.3 Financial sustainability and diversification at central and regional levels for optimized education programmes is increased (i.e. PPP-ECE through per capita funding model etc)

CF Outcome 2. By 2027, the well-being of the population of the Kyrgyz Republic will increase through the development of a green economy based on sustainable and nutrition-sensitive food systems, natural resource management and migration processes, accelerating digitalization, innovation, and entrepreneurship.

Output 2.1 Green economic growth is achieved through increased entrepreneurship and employment opportunities, including through the sustainable use of natural resources.

Annual Progress

Overall JP self-assessment of 2022 progress:

On-track (expected annual results-achieved)

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

During reporting period, the JP achieved following key results:

Result 1. The JP assists the efforts of the Government in the Kyrgyz Republic to improve the policy framework for public and private finance to deliver on NDP-2026 and its SDG ambition. DFA analyses the broad financing trends in the country and provides policy recommendations for SDG financing and specific steps to operationalize the Integrated National Financing Framework (INFF).

In line with the approach to mainstream the SDGs into the state governance, including coordination, monitoring and review processes, the JP continued to a) support the Government to align and integrate the SDGs into the national policy frameworks; and b) deploy the new SDG financing approach and instruments to transform from traditional approach to financing to the new approach that will be tapping into possibilities of mobilizing private capital and incentivize innovative finance.

The first draft DFA that was submitted for review by the Government analyses the broad financing trends in the country and provides a set of policy recommendations for financing, including a comprehensive roadmap by setting up specific steps to operationalize an INFF. In particular, it recommends to further strengthen the existing governance and coordination mechanisms to implement the integrated financing framework, introduce innovative financing instruments, deepen financial and capital markets, strengthen management of public funds, develop carbon market and new climate financing tools, and expand Islamic finance. In addition, the President's Administration recommends prioritizing education, agriculture and green economy in the DFA.

Result 2. The JP helps the Government to improve the management of tax incentives by establishing a

comprehensive system for regular assessment of their efficiency.

To improve the efficiency of tax incentives, the JP is supporting the Kyrgyz Government's efforts to establish a system for regular assessment of the efficiency of the tax incentives. Respective articles were introduced into the New Tax Code. New methodology for regular assessment of the efficiency of tax incentives is now being finalized. The methodology will help the Government to increase fiscal space, by a) dropping ineffective tax incentives, and b) introducing the tax incentives that are aligned with SDGs and support inclusive economic growth.

Result 3. The JP supported the Ministry of Education and Science to introduce and further improve program-based budgeting.

The program-based budgeting (PBB) was piloted with the Ministry of Education and Science with an aim to addresses some of the shortcomings of the existing system which disallows the evaluation of the effectiveness of budget expenditures. PBB will be effectively linking resources with results thus holding managers accountable for the delivery of specific targets and effective deployment and usage of resources.

The 2023 budget submission of the Early Childhood Education (ECE)/preschool sub-sector and result-oriented Mid-Term Expenditure Framework (MTEF) for 2023-2025 was prepared in line with PBB criteria. As a result of the joint UN efforts, the PBB reform was further endorsed through new Government regulations:

1) “On program-based budgeting” accompanied by two additional instructions - a) on the development, review and implementation of mid-term expenditure framework (MTEF), and b) on the development, review and implementation of the PBB.

2) “On monitoring and evaluation of the effectiveness of budget programmes” also accompanied by two instructions – a) on monitoring and reporting on indicators, and b) on evaluation of budget programmes and measures.

The UN will continue supporting the Ministry of Finance and pilot ministries, including the Ministry of Education and Science, to align the planning and budgeting cycles with the SDG-informed national policy priorities after the JP ends.

Main Challenges, adjustments and lessons:

- According to the SDG Fund Secretariat's guidelines, the second tranche was conditional on the submission of the Project Document countersigned by the state counterparts. The countersigning of the Project Document (which has not been signed since the launch of the JP in 2020 as impacted by the Covid-19 pandemic, the political crisis in late 2020, and the massive government restructuring in 2021) became a real challenge and led to a delay in receiving the second tranche as the UN had to re-negotiate the JP design with the authorities. Due to this challenge, funding was unavailable to the JP for three months which delayed the implementation. The Project Document was finally countersigned on April 30, 2022. The UN requested an extension of the JP for an additional 12 months until June 30, 2023.

- Despite political commitments to achieving SDGs in education, implementation problems persist. Frequent changes of senior leadership of the Ministry of Education and Science (ministers and deputy ministers) slow the progress on agreed outcomes substantially. There have been notable delays in fostering the partnership with the Chamber of Accounts (CoA) to integrate the NDP-2026/SDG targets (focused on education) into government auditing. The delay was due to the legislature's lengthy review and finalization of the new Law on CoA.

SDG Acceleration

SDG4: SDG Financing Agenda will be advanced in the education sector by providing credible evidence of efficiency gains; introducing program-based budgeting to align planning and spending and improve accountability for outcomes in preschool and primary education; as well as by improving the normative framework for PPPs focused on preschool services. The latter, in conjunction with the recently launched SDG 4 costing exercise, will provide important insights and practical solutions to accelerate progress towards implementation of the SDG-focused national development priorities.

SDG16: The JP assists the Government by improving overall planning, budgeting, and financing coordination and oversight mechanisms. It is expected that the INFF recommendations, once accepted and implemented, will help build effective, accountable, and inclusive institutions.

SDG17: The JP builds capacity for domestic resource mobilization and expanding fiscal space. Regular assessment of the efficiency of tax incentives will help to further strengthen the fiscal space and mobilize/release additional financial resources to achieve the SDGs in the Kyrgyz Republic. The DFA will give comprehensive overview of financial flows, including recommendations for new innovative financial instruments that could mobilize additional financial resources from public and private sources. It will contribute to policy coherence for sustainable development through setting a holistic financing architecture and systems needed to support policy reforms and relevant legislation.

Updates on SDG financing framework

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

Descriptions on progress by INFF building blocks

Inception Phase: The INFF Roadmap has been developed and is currently being reviewed by stakeholders. It is expected to be finalized by March 2023. The key recommendations of the roadmap will include: • Deepen capital and financial markets; • Introduce innovative financing instruments; • Strengthen the public financial management system; • Develop the carbon market; • Expand Islamic finance; • Strengthen partnership for the SDGs

Assessment & Diagnostics: The JP will be using the DFA, public expenditure review, and fiscal space analysis to inform the design of the new national Financing Strategy/INFF. The results of the on-going SDG costing exercise in the sectors of education, agriculture and green economy is underway will be incorporated into new national Financing Strategy/INFF. The President's Administration demonstrated a strong commitment to incorporate some of DFA's recommendations for leveraging additional private sector financing into its annual Plan of Actions to support implementation of the NDP-2026. The 2023 budget submission of Early Childhood Education (ECE)/preschool sub-sector and result-oriented Mid-Term Expenditure Framework (MTEF) for 2023-2025 was prepared in line with PBB criteria.

Financing Strategy: The ultimate goal of the new Financing Strategy will be to strengthen the capacity of the Government and other partners in the Kyrgyz Republic to mobilize more private and public funding from domestic and foreign sources. In the Kyrgyz Republic, the new national Financing Strategy/INFF will assist the Government to design a new architecture for financing the national development goals and the SDGs. The main contribution of this strategy will be suggesting new integrated approaches to managing the public and private sources of finance for achieving the NDS-20/SDG targets. More specific elements of the new Financing Strategy will be reported during the next reporting cycle.

Monitoring & Review: In October 2022, Kyrgyzstan issued a decree on State Strategic Management in the Kyrgyz Republic. The UN provided further support on this document with emphasizing on clarity on the roles of key actors in strategic planning, monitoring and evaluation, which was missing in the previous unified legislation. The JP continues supporting the Government to streamlining the national system of strategic planning, monitoring and evaluation to become compliant with SDGs.

Governance & Coordination: The INFF design is expected to define appropriate means for monitoring and reviewing its implementation and innovative governance and coordination arrangements. This last element is critical to implementing the highly strategic and cross-cutting interventions. In the Kyrgyz Republic, the decision of the Presidential Administration was therefore to assign the national SDG Coordination Committee (currently being established with the support of the UN) with the oversight function of the INFF.

Annual Reporting on Results

JP contributions to the Joint SDG Fund's global cost of living crisis

Next steps, scaling and sustainability [400 words]

- DFA and INFF Road Map will be completed by March 2023 and national Financing Strategy by June 2023. The President's Administration plans to incorporate some of the DFA's recommendations for leveraging additional private sector financing into its annual Plan of Actions to support implementation of the NDP-2026. This will ensure the sustainability of results achieved. All of the above will be accompanied by capacity building activities of the state and non-state partners.
- The JP will continue working with the Ministry of Finance to incorporate the findings and recommendations of the fiscal space analysis and public expenditure review into the 2024 budget preparation process hence, contributing to strengthening the public finance management. As part of another ongoing initiative (beyond the scope of the JP), the UN will be providing technical support to the medium-term economic forecasting to inform medium-term budget development.
- The JP will continue assisting the Government with the establishment and institutionalization of the national SDGs Coordination Committee, one of the functions of the Committee will be oversight of the INFF.
- The JP will support publishing and wider dissemination of the Review of Public Spending Efficiency in the Education Sector. This will include the incorporation of the recommendations on efficiency gains into the sector ministry's budget planning.
- Following the recommendation of the President's Administration to prioritize the Education, Agriculture, and Green Economy in the DFA, the JP will support the costing of SDGs in these sectors.
- The JP will continue to develop a training module on M&E for Program Based Budgeting (PBB) based on regulations and instructions to enhance the capacity of the Ministry of Education and Science and other PBB pilot ministries.
- The JP will continue its technical support to the Ministry of Finance, Ministry of Economy and Commerce, and Ministry of Education and Science to integrate SDG-aligned policy objectives into budget processes.

- The JP will continue supporting the Ministry of Finance in automating PBB documentation.
- The JP will continue supporting the Public Private Partnership Center (PPP) in testing and scaling up PPP projects.
- The JP will continue providing methodological support to Chamber of Accounts (CoA) to enhance performance and strategic audit.

Priority Cross-cutting Issues

Cross-cutting results/issues

The JP has been fully aligned with the LNOB principle by supporting the improvement of public services through leveraging an adequate level of financing to support sustainable and inclusive growth. The review of the efficiency of public spending in the education sector, for example, provided the Ministry of Education and Science with clear recommendations how to increase financial efficiency and address the issues of equity, quality, and inclusion in education. The review provided credible evidence for the UN to advocate with policymakers on financial efficiency for various approaches in expanding preschool coverage with the current budget, i.e., 5-hour-day shifts instead of the 10-hour that has proven to be financially unsustainable leaving half of the children without access to preschool. The JP analysis also recommended an introduction of public-private partnership (PPP) vouchers that would allow children to attend private preschools. These equity-focused options influenced the design of the PPP pilot. The pilot has started in January 2023, and it will allow for testing of hiring teachers outside of the collective bargaining norm (“Collective bargaining” is a means through which employers and their organizations and trade unions can establish fair wages and working conditions. ILO Convention No. 154), which is overly bureaucratic. The UN will continue its support to increase the efficient use of resources at the central and preschool/school levels.

How did the JP apply the Gender Marker

The JP is Gender-sensitive (for example, the JP acknowledged and aimed to address gender to enhance the policy/programme, such as undertaking gender analysis to ensure policies/programmes do no harm). N/A;

Focus on LNOB cross cutting principles

| | | | |
|--------------|---------------------------|-------|------------------------------------|
| Human Rights | Persons with disabilities | Youth | Environmental and social standards |
| No | No | Yes | No |

Strategic Partnerships, Documents and Communications

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

The JP has fostered a strategic partnership with the Presidential Administration, the Ministry of Finance, the Ministry of Economy and Commerce, and the Ministry of Education and Science, as well as with the National Bank and the private sector. The Presidential Administration leads the INFF processes in the country and serves as the main point of contact for INFF design and implementation. The Ministry of Finance is a partner in the implementation of activities related to public finance, such as the review of public expenditures, fiscal space and the integration of SDG targets into the budget process. The Ministry of Economy and Commerce is a partner in the implementation of fiscal incentives, strategic planning and monitoring activities. The Ministry of Education and Science serves as a pilot for introducing PBB. The National Bank and the private sector are partners in exploring new financial instruments to unlock additional financing for the SDGs.

Donor and Strategic events attended by JP in 2022

| | | |
|---|-------------------------------------|-----------------------|
| JP steering committee/ programme board meeting | Strategic partners/ donors event | Closing meeting/event |
| Yes | No | No |

JP contribution to SDG Financing

| | | | | | | |
|---|---|---|--|--|---|--|
| Drafted a bill, strategy, and/or approved a law increasing the fiscal space for the policy focus | Produced financing, costing, diagnostic and feasibility analyses as a basis to invest or increase spending on the SDGs | Improved efficiency (cost savings) in the management of programmes/scheme s | Improved effectiveness (value for money; i.e. developed tools social impact of \$1 spent) of spending | Drafted policies/regulatory frameworks i.e. developed tools incentivize private sector investment on the SDGs | Structured financial instruments (public, private or additional funding to leverage | new instruments or (public, private or additional funding to leverage |
| No | Yes | No | No | Yes | Yes | |

Main capacity building activities supported by the JP that allowed people to expand their knowledge on SDG Financing and INFFs

The main capacity-building activities were related to the DFA process, which allowed stakeholders to learn about ways to tap additional private sector financing through various financial instruments. During the DFA missions, workshops were held for the members of the working groups, which were composed of representatives from government agencies and the private sector.