Kyrgyz Republic
Development Finance Assessment (DFA)

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ACRONYMS AND ABBREVIATIONS

4IR	Forth Industrial Revolution
AAAA	Addis Ababa Action Agenda
ASB	Asian Development Bank
B4SDG	Budgeting for SDGs
BB	Building Block
BBB	Building Back Better
BIOFIN	Biodiversity Finance Initiative
BIOFIN	Biodiversity Finance Initiative
BRI	Belt and Road Initiative
CSOs	Civil Society Organizations
DFA	Development Finance Assessment
EFT	Ecological Fiscal Transfer
ESG	Environment, Social and Corporate Governance
EU	European Union
F2F	Funding to Financing
FDI	Foreign Direct Investment
FINTECH	Financial Technology
G2B	Government-to-Business
GDP	Gross Domestic Product
ICT	Information and Communications Technology
IMF	International Monetary Fund
INFF	Integrated National Financing Framework
LNOB	Leaving No One Behind
LSG	Local Self Governance
MCISYP	Ministry of Culture, Information, Sports and Youth Policy
MDD	Ministry of Digital Development
MDFP	Main Directions of Fiscal Policy
MLWM	Ministry of Labor, Welfare and Migration
MoA	Ministry of Agriculture
MoEC	Ministry of Economy and Commerce
MoF	Ministry of Finance
MSME	Micro, Small and Medium Enterprises
MTBES	Medium Term Budget Expenditure Strategy
MTDS	Medium-Term Debt Strategy
MTRS	Medium Term Revenue Strategy
NIA	National Investment Agency under the President of the Kyrgyz Republic
NDC	National Determined Contribution
NBKR	National Bank of the Kyrgyz Republic
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
PBB	Program-Based Budgeting
PER	Public Expenditure Review
PFM	Public Finance Management
PPP	Public Private Partnership
RC	Resident Coordinator

RIA	Rapid Integrated Assessment
SACSLSG	State Agency for Civil Service and Local Self-Government
SCNS	State Committee for National Security
SDG	Sustainable Development Goals
SFIS	State Financial Intelligence Service
SME	Small to Medium Enterprise
SOE	State Owned Enterprise
SAPDP	State Agency for Personal Data Protection under the President of the Kyrgyz Republic
STBills	Short Term Treasury Bills
STBonds	Short Term Bonds
TWG	Technical Working Group
UNCT	United Nations Country Team
UNDP	United Nations Development Program
UNSDCF	United Nations Sustainable Development Cooperation Framework
USAID	United State Agency for International Development
VNR	Voluntary National Review
WBG	World Bank Group
WCFSD	Working Committee on Finance for Sustainable Development
WTO	World Trade Organization

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EXECUTIVE BRIEF

This Development Finance Assessment (DFA) presents a review of the Kyrgyz Republic's financial landscape covering domestic and international public and private flows, as well as policy, institutional, capacity and risk management dimension, and links to the Program for Medium-Term Development (2021-2026). The DFA (which is Building Block 1 of the Integrated National Financing Framework (INFF) presents the overall development financing context (Chapter 1), the sustainable development context (Chapter 2), a detailed review of the Kyrgyz development finance landscape (Chapter 3), a review of integrated planning and budgeting withing which Agenda 2030 Sustainable Development Goals (SDGs) will be aligned (Chapter 4), and financing strategy entry points (Chapter 5). Chapter 6 provides an overview of new financing instruments to be considered by the three key target sectors identified by the President's Administration and is support by a review of Governance and Coordination (Chapter 7) and Monitoring and Review (Chapter 8) recommendations, while Chapter 9 provides a Roadmap of Actions to be executed over the short, medium and longer term.

The Kyrgyz Republic as an Aspiring Leader in SDG Financing

This DFA has been driven by the President's Administration, signifying the intent to deepen and green both financial and capital markets, and to make sustainability a key driver of national development aligned to the national vision and Medium-Term Program. In line with the approach to mainstream the SDGs into governance and coordination and monitoring and review processes, the aim is to fully align and integrated the SDGs into government policy, and to deploy the new SDG financing approach as a new way of thinking, leading to a shift in mindset from a traditional approach to financing, to one that is much more focused on mobilizing private capital and incentivizing innovation. Given interests in increasing both domestic and foreign flows (including foreign direct investment, portfolio inflows and better using diaspora funds), strengthening accountability, transparency and anti-corruption efforts will remain central to progress.

Sustainable Financing Gaps That Need to be Addressed

Unless domestic public and private and international public and private resources are successfully mobilized to finance the SDGs, there is a great risk that despite efforts to integrate SDGs into public policy and spending, many of the SDGs may not be achieved due to under-investment. On the back of the COVID-19 crisis and ongoing war in Ukraine, the need to address gaps and overcome blind spots has become increasingly apparent. In conducting a thorough review of the financing landscape – including detailed dialogue with public officials, private sector and international community partners, the following overall approach has been established, to address gaps and seize opportunities.

- ***Mainstreaming Governance and Coordination***: Governance and Coordination arrangements will be mainstreamed into government business, and linked to the budget formulation and execution cycle. In mainstreaming the SDGs and Integrated National Financing Framework (INFF) into cabinet functions, an INFF Financing Strategy Performance Dashboard is proposed to support bi-annual cabinet deliberations on Road Map coordination, execution and impact monitoring. In support of a national mindset change, an SDG Communication Strategy will be developed, new public and private collaboration platforms and productivity pacts will be established, and it is suggested to establish voluntary SDG Centers with small annual block grants.

- ***Mainstreaming Monitoring and Review Processes***: So as not to create parallel processes, and building from the findings of the 2020 Voluntary National Review, the monitoring and review process will be mainstreamed into core government functions. An INFF Dashboard is proposed to keep track of financing ecosystem flows as they change over time, and at the same time greater investment will be made to improve SDG baselines and indicators. An annual report on performance in implementing the Kyrgyz INFF Road Map and Financing Strategy is proposed, with the INFF integrated into future National Voluntary Review reporting, alongside a mid-term INFF Review to be conducted in 2026. Monitoring of green and sustainable financing to include Environment, Social and Corporate Governance (ESG)s is also indicated as an emerging area where greater attention is needed. In essence, this means strengthening capacities to monitor new financing instruments, including options for establishing a One Data Policy to support the SDGs.

- ***Introducing Priority Innovative Sector Financing Instruments***: Beyond government revenues, debt and Public Private Partnerships (PPPs), there is a wide range of new and exciting sustainable financing instruments that can be explored over the life of the INFF. Suggested instruments for consideration for the three priority sectors identified by government include:

    - ***Agriculture***: To bolster agricultural financing in the Kyrgyz Republic, a variety of financing instruments are proposed. These instruments include (i) Scaling Up Agricultural Value Chain Finance, (ii) improving Agricultural Insurance to Deal with Climate Change, (iii) introducing new Risk Transfer Mechanisms, (iv) agricultural Factoring, (v) scaling up agricultural Leasing, and (vi) green and climate bonds. Furthermore, the implementation of loans, leasing, agricultural factoring credit, and crop insurance will provide a solid financial foundation for the sector. The further development of project financing arrangements, Group Credit for Cooperatives, and the establishment of an Apex Financing Institution for Credit Guarantees will further support agricultural financing.[1] Additionally, agricultural product space financing and the utilization of green and climate bonds will contribute to the sustainable development of agriculture in the Kyrgyz Republic.

    - ***Education***: In order to effectively finance the education sector in the Kyrgyz Republic, a comprehensive Education Sector Financing Strategy will be developed. This strategy will encompass a School Based Management System Model, expanded rights for boards of trustees, and the promotion of Public-Private Partnerships (PPPs) in education. Additionally, it will facilitate the establishment of education technology innovation funds and Education Challenge Funds, encouraging innovation in the sector. The strategy will also promote the use of financial instruments such as educational savings accounts through commercial banks, scholarship programs, Social Impact Bonds, and blended finance. Furthermore, the strategy will foster the growth of microfinance and philanthropic investments in education, as well as support the provision of microfinance loans for education-related expenses. This multi-faceted approach will ensure a sustainable and well-funded education system in the Kyrgyz Republic.

    - ***Green Economy***: To promote a green economy in the Kyrgyz Republic, a variety of financing instruments are proposed. These instruments include (i) Green and Climate bonds, (ii) Carbon pricing, (iii) Energy Efficiency Insurance, (iv) Green loans, (v) Green venture capital funds, (vi) Energy service companies (ESCOs), and (vii) green crowdfunding and equity crowd funding. Additionally, the Kyrgyz Republic aims to amend and approve the Kyrgyz Green Taxonomy on Sustainable Development, adopt Green Bond Standards, and join the Bank for International Settlements Network of Central Banks Greening the Financing System (NGFS). Establishing a sustainable financing unit within the National Bank of the Kyrgyz Republic (NBKR) would further support these efforts, as would the development of a concept note on Carbon Market Development.

[1] In the context of providing credit guarantees to Small and Medium Enterprises (SMEs), an apex financing institution typically serves as a backstop or guarantee for loans made to these businesses, de-risking lending, therefore improving the risk appetite and increasing lending.

- ***Digital Economy Transition Priorities***: The purpose is to provide funding and investment for businesses and projects that foster the growth of the digital economy, including sectors like e-commerce, software development, telecommunications, and digital media. Key actions involve undertaking a Digital Readiness Assessment, establishing a Digital Economy Masterplan, and creating a single multi-component National Data Process Center (DPC) to strengthen personal data protection. Additionally, efforts will focus on ramping up digital skills development and financial literacy training, including digital hygiene and protection against digital fraud. Introducing the Digital SOM, supporting the transformation of digital agriculture with a GIS system, and establishing digital marketplaces as multichannel e-commerce platforms will streamline production processes and businesses. Lastly, ramping up PPP financing and developing a digital economy investment pipeline will ensure continued growth in this sector.

- ***Implement the Financial Inclusion***: Continue to implement 2021-2025 Financial Inclusion Strategy in order to accelerate financial innovation and inclusion and reduce numbers of unbanked and increase access to financing by MSMEs and poor households, strengthen MSME financing through credit guarantees by participating financing institutions and expand digital and mobile financing solutions as well as low-income bank products to better serve unbanked and under-banked communities and businesses. Digitalization will also assist in reducing the size of the informal economy, where more than 70 percent of the working population is engaged.

- ***Financial and Capital Markets Development***: Capital markets are under-developed, impeding progress in government and the private sector in accessing such markets to finance operations and expansion. Capital markets will not be deepened without guidance and it is suggested that a Capital Market Development Road Map be established, to be executed by a Capital Markets Working Group (CMWG) to oversee implementation of the roadmap. It is also proposed – over the medium term – to make government securities tradeable on the stock exchange, to develop a market-based yield curve that could be used to price other assets (private sector bonds, equities) and to make foreign exchange tradeable on the stock exchange. Additional measures proposed include developing foreign exchange derivatives to allow households to share in foreign exchange risks, promoting peer-to-peer lending activities which also target the diaspora and to increase capitalization requirements for professional participants in the securities market engaged in brokerage, exchange and depositary activities.

- ***Strengthening Medium Term Revenue and Sustainable Debt Management***: The government is overly dependent on external creditors with considerable exchange rate risks, increasing service payments and reducing fiscal space for the SDGs. Given challenges to fiscal space, which impeded execution of Agenda 2030 and undermine government investments in growth-inducing capital spending, it is proposed to establish a Medium-Term Revenue Strategy (MTRS) linked to the digitization of tax and customs administration under the Smart Salym approach. Update the Medium-Term Debt Strategy (MTDS) to include linkages to thematic bonds and development of capital markets. There is a need to assess need for harmonization of tax regulations, improve surveillance of PPPs and better manage contingent liability risks, consider increasing green taxes and remove tax distortions. As part of the MTRS, reforming the real-estate tax and developing options for Online eCommerce taxation is urgent, as is the digitalization of revenue administration, strengthening tax digitization and developing options for the expansion of Green Investment Tax Allowances.

- ***Strengthening SDG Budget Alignment and Integration through Programmatic Budgeting***: With a focus on building from the current shift from project to programmatic budgeting, the focus will be on ensuring that policies, programs, and investments align with the achievement of the SDGs by introducing programmatic budgeting, strengthening SDG alignment, and integrating SDG targets into PIPs and PPPs. This approach aims to align government or organizational objectives with the budget process, allocating resources to initiatives most likely to achieve desired outcomes while considering short-term operational needs and long-term strategic objectives. Efforts will focus on strengthening Budget Call Circular SDG guidance, integrating SDGs into the Citizen's Budget, and supporting SDG localization with local government.

- ***Accelerate Financial***: Many of the new sustainable financing instruments require new skillsets to be established. In order to increase awareness and capacity for Green Financing Instruments, it is therefore recommended to establish a Kyrgyzstan Green Taxonomy (as ongoing and noted above), establish measurable understanding of 'green' whether as a taxonomic or principle-based approach, to establish a Working Group /Task Force to identify and overcome challenges in creating a green financing ecosystem and communities and to certify professional institutions (professional associations, professional codes of ethics, certification standards, etc.) for green financing products. Mapping the pipeline of potential green projects would also be desirable.

- ***Accelerate Public Private Partnerships for Agriculture, Education and Green Economy***: To improve Public-Private Partnerships (PPPs) in the Kyrgyz Republic, key actions include amending the 2021 PPP law to encompass civil code, land code, tax code, and transaction advisory best practices. The focus will be on assessing institutional governance options, building core capacities, and introducing a PPP taxonomy and new financial instruments. An institutional assessment will evaluate corporate governance options for the PPP Center under the National Investment Agency under the President of the Kyrgyz Republic (NIA). A PPP Capacity Readiness Assessment will identify areas for improvement in government and public sector entities. The PPP taxonomy will guide the expansion of the project pipeline, and new financial instruments like guarantees and availability payments will be introduced. Efforts will also concentrate on enhancing sector ministry capacity in conducting feasibility studies and establishing PPP project financing instruments.

- ***Develop Climate Financing Tools***: The goal is to create a carbon market and find new ways to finance climate action. To achieve this, the following steps will be taken: creating a database of greenhouse gas emissions, publishing information on fossil fuel subsidies and emissions in Kyrgyz Republic, making a plan for a voluntary carbon market, and exploring options for a local carbon market trading system. However, setting up a full carbon market including credits and offsets will take some time. Options for developing a Local Carbon Market Trading Scheme are also developed.

- ***Introduce ESG Standards and Reporting***: It is necessary to further incentivize businesses to comply with ESG-related regulations given low levels of adoption and to introduce more rigorous ESG reporting requirements, develop key performance indicators and build core ESG human resource capacities. At the same time, and as the ESG market emerges, it will be important to increase the transparency of ESG reporting covering corporate ESG strategies, net zero commitments, emissions reduction strategies and comprehensive disclosures and reporting practices and to strengthen reporting and transparency of ESG ratings and themed indexes. Building partnership with trendsetting national and international corporations will be explored.

- ***Strengthening Partnerships for the Goals***: It is proposed – like many other forward-thinking countries – to establish a UN Global Compact Local Network and to establish a new ICT partnerships network between academic, research institutions and the business sector based on the High Technology Parks. In building SDG legislative oversight capabilities, it is proposed to put in place a Framework for Triangular Cooperation for priority sectors and establish Regional SDG Localization Contract Groups, in addition to have been established the SDG Parliamentary Committee,.

Managing Risks

There are a large number of risks inherent in not directing sufficient resources to get the job done, and new instruments, modalities and partnerships identified in this DFA will shape the INFF Financing Strategy. Moreover, the ownership of DFA Road Map priorities will need to be widened beyond government to include the whole-of-nation stakeholder ethos made central to the National Development Plan. A number of high-level risks are presented below:

- Leaving people behind – by geospatial location, gender, income group, ethnicity or age - will come at an economic (social protection) and political stability cost. This is why improving the monitoring of the availability of global SDG indicators in the Kyrgyz Republic as outlined in the Figure below, will be vital to minimize the risks of leaving people and certain SDGs behind. In addition, the risk of supporting environmental sustainability, good governance/ human rights protection, and better managing disaster/crisis risks.

- Insufficient financing is in place to support both climate mitigation and adaptation, with the contingent risk that climate change will further erode economic growth and prosperity outcomes. New risk management tools and incentives to promote environmental sustainability, and better managing disaster and crisis risks will also need to be explored.

- Foreign and domestic portfolio investments are increasingly seeking ESG compliance, and slow uptake in capacity to deliver and monitor impact ESG measures would undermine important flows for climate mitigation and adaptation.

- The risk of attaining SDGs at the national level, but failing to deliver locally, could amplify existing imbalances and inequalities. No person and no place should be left behind, and as a result linking national SDG policy with SDG localization is vital to secure ownership and engagement. UNDP and UNHABITAT have developed models for SDG localization.

<u>Kyrgyz INFF Sequencing</u>

The Program for Medium-Term Development notes that to date, Kyrgyzstan, has made some improvements in 9 goals out of 17, challenges for 5 goals remain significant (See SDG Dashboard below). In terms of goals, there are significant challenges in relation to life on earth, industrialization, innovation and infrastructure, peace, justice and effective institutions. The many actions proposed – based on the findings of the DFA and aligned to the Mid Term Program – are to be executed over the period 2023-2030 and to assist in financing the SDG financing gap. As a result, careful deliberation is required to carefully prioritize actions in the Financing Strategy that deliver both quick wins and enduring change. Importantly, as SDGs revolution implies changing the overall mindset around how to finance sustainable financing, the communication, outreach, dialogue and partnership framework approach being led by the President's Administration will be critical to adoption and scaping for results and impact.

Figure 1. KYRGYZ REPUBLIC SDG DASHBOARD AND TRENDS (2022) [2]

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[2] For an understanding of SDG Dashboard scoring see: https://dashboards.sdgindex.org/profiles/kyrgyz-republic

Chapter 1

The Current Context

1. THE DEVELOPMENT FINANCING CONTEXT

1.1 INTRODUCTION

1 This Development Finance Assessment (DFA) has been established by the Government of the Kyrgyz Republic President's Administration as the primary building block for establishing the Kyrgyz Republic Integrated National Financing Framework (INFF). The DFA seeks to identify and address structural challenges to increased resource mobilization undermining the Government of Kyrgyzstan's (GoK) ability to finance Agenda 2030 Sustainable Development Goal (SDG). As a result of enquiry, this assessment identifies challenges to existing policy, institutional, capacity and financing arrangements, in order to identify new financing instruments, mechanisms and incentives to close the 'Agenda 2030' SDG financing gap. The report draws and benefits from the 2020 Voluntary National[3] and the results of the Bishkek Economic Forum hosted in October 2022, which shone a light on critical reforms in particular to enabling the private sector, alongside new areas of investment such as climate financing, digital investments, the creative economy and Islamic financing.

2 The INFF process is being undertaken in 86 countries with the aim of introducing new ways of working and financing the ongoing innovative and sustainable financial revolution. The process emerged from the 2015 Addis Ababa Action Agenda (AAAA), the Third International Conference on Financing Sustainable Development. The Conference established a strong foundation to support the implementation of the 2030 Agenda for Sustainable Development, providing an agenda within which the Government of the Kyrgyz Republic aligns all financing flows and policies with national economic, social, and environmental priorities. The Addis Agenda also introduced an integrated approach to financing, bringing together domestic public and private with international public and private resources, reflective of the understanding that sustainable development cannot be achieved in the absence of a central role for the private sector, given its role as an engine of growth, innovation and employment.

3 Of significance for this assessment, given the macro-fiscal context (See Chapter 2), is the potential of private investment to align with the SDGs, to close the financing gap. It is within this context that this Kyrgyz Republic INFF Assessment and Road Map has been established, to identify existing, emerging and future sources of financing, following which the Kyrgyz Republic Financing Strategy will outline how the actions proposed under this Road Map will be executed.

1.2 ABOUT THIS ASSESSMENT

4 This DFA and Road Map were established by the President's Administration and supported by an inter-ministerial Technical Working Group (TWG) and United Nations Development Program (UNDP) international and national experts. This assessment is the result of months of research and a thematic dialogue process that has engaged stakeholders across the domestic public and private international public and private divide. The DFA was established based on detailed consultation at the national and regional levels, including national technical level workshops drawn across sector ministries and agencies, and was guided by the subject-matter technical Working Group. The DFA formulation process was informed by more than 100 key informant interviews, including the private sector, CSOs and diplomatic core and international cooperation partners. The final road map was validated by the Technical Working Group including members from the Ministry of Finance, Ministry of Economy, Central Bank and sector ministries and agencies.

5 The general approach and method follow the work of the Inter-Agency Task Force on Financing for Development (IATF), which developed the overall methodological guidance for each of the four primary INFF Building Blocks (BBs) as outlined in Table 1 below.

Table 1. FOUR BUILDING BLOCKS OF THE KYRGYZ REPUBLIC INFF

[3] https://sustainabledevelopment.un.org/content/documents/26458VNR_2020_Kyrgyzstan_Report_English.pdf

Building Block 1	Assessment and Diagnostic focused on assessing financing needs, mapping resources, and assessing risks and identifying constraints.
Building Block 2	Financing Strategy matching financing policies to priorities in sustainable development to improve the execution of 2018-2040 National Development Strategy.
Building Block 3	Monitoring and Review of relevant financial resources and feeding lessons back into policy design.
Building Block 4	Governance and Coordination outlining the guiding coalition, leadership and engagement of all relevant stakeholders across the public and private divide.

6 UNDP's Development Finance Assessment (DFA) Guidebook (for Building Block 1 Assessment and Diagnostic) focuses efforts to identify opportunities for upgrading policy, institutional capacity, and financing systems, in an integrated way. The general approach has also allowed the TWG to:

- Provide an overview of the Kyrgyz Republic's financing ecosystem including the trends and composition of all public, private, domestic and international financial flows.
- Review the strength and achievements of existing financing strategies, policies and institutional structures to meet key financing challenges.
- Consider a prioritized focus on areas in depth (particular finance flows or aspects of financial planning) that are central to the Kyrgyz Republic's ability to achieve results by executing Agenda 2030 and National Development Strategy 2040.
- Identify constraints that hinder institutional attempts to both mobilize and effectively channel finance into priority areas (with a focus on capacity to couple public and private finance).
- Propose realistic recommendations around policy and institutional reforms that can be used to strengthen capacities and institutions to this end; and,
- Provide the foundation for the INFF Road Map.

7 The primary reason for adopting an integrated approach to financing, is precisely because combining 'not-for-profit' resources with 'for-profit' resources allows new blended financing modalities to be developed to de-risk private capital and to encourage new private financing flows into areas of the economy where market-based solutions can support public goods. This is fully in line with supportive of the national Vision, and the pro-private sector policies that government has been introducing. Traditional Public Private Partnerships (PPPs) provide an obvious example of such integration, though there are many other financing instruments including tax and non-tax incentives, catalytic first loss finance, guarantees and SDG bonds for example, can increase resources available to the economy at a time when the pandemic has undermined macro-economic and fiscal performance.

8 It is important that the INFF will need to be integrated into the policy, planning, budgeting, implementation, monitoring and budget tagging process, given how central government expenditure priorities and procurement both shape economic outturns and align with the SDGs. Mainstreaming the SDGs also requires integrating into the national budget formulation and execution process, at the national and oblast level, as well as aligning with the regional development funds. Increasing the role of regional funds will strengthen SDG localization, which is anyhow essential for meeting the SDGs.

1.3 DFA OUTCOMES

9 This DFA comes at an important time for the Government of the Kyrgyz Republic as it emerges from the destabilizing impacts of COVID-19, with spillover effects of the Russia invasion of Ukraine and the sanctions and supply-chain blockages it has produced. Given the impact of these external shocks on macro-economic growth and fiscal space (despite 2022 seeing a round from a low base), diversifying the sources of sustainable and innovative financing not only improve the resourcing of the 2018-2040 National Development Strategy (NDS), it can also provide a springboard for the deepening of financial and capital markets, increasing the contribution of the private sector to sustainability.

10

Financing Agenda 2030

Development Finance Assessment

The DFA is a tool developed by the United Nations Development Program (UNDP) to establish integrated national financing frameworks, to finance the agenda of building forward better with greater sustainability, resilience, and inclusivity.

National Vision 2018-2040

Sustainable National Financing

Vision 2018-2040 calls out for new financial instruments and mechanisms to improve resourcing of sustainable development, with the vision acknowledging the importance of new ways of working, many of which are discussed and developed here.

11 In 2020 UNDP's Rapid Integrated Assessment (RIA) highlighted that the alignment of the SDGs with national strategic development planning was 82 per cent. Although the alignment is high, the assessment identified implementation challenges in all areas of SDG adaptation and implementation, including proper integration (not declarative) of SDGs into development programs at all levels- national, sectoral and regional. Improving budgeting and monitoring alignment with SDGs, overcoming data issues and fiscal space challenges alongside weak capacity to work on SDG integration at full scale need to be addressed. With a focus on reducing the SDG financing gap, this DFA therefore addresses the challenge of limited financing resources, with a focus on new instruments to increase SDG related fiscal space. In this regard, primary outcomes of this DFA include the identification of key policy and planning, stakeholder dialogue, sustainable financing reforms and improved management of results for sustainable development, as outlined below:

- ***Strengthening the link between finance policy and planning functions, for example by***: strengthening the governance mechanisms that align policies and annual budgets to the national development plan; estimating the cost of national development plans; and developing holistic strategies for mobilizing the public and private resources that will be needed to realize the objectives of the national plan and close the fiscal gap.

- ***Strengthening multi-stakeholder dialogue on financing, for example by***: supporting multi-stakeholder SDG platforms at the country level; incorporating public and private finance into regular progress reporting; and enhancing multistakeholder participation in policy processes.

- ***Solutions and reforms for mobilizing resources, for example by***: strengthening policy and capacity to attract and incentivize sustainable, introducing new financing instruments and mechanisms, inclusive private investment; and accessing untapped sources of international finance.

- ***Effectively managing finance for results, for example by***: achieving better development outcomes with public finance (including the management of state-owned enterprises such as Kumtor Gold Mine),[4] developing outcome-based incentives for private investment; broadening the mandate of revenue authorities; more effectively targeting vulnerable or excluded populations; strengthening parliamentary scrutiny over finance; and enhancing data collection systems. As a result, the DFA addresses the following three overarching questions:
    - What policies, institutions, capacity and analysis are already <u>in place</u>?
    - What initiatives <u>are underway</u> to strengthen policies, institutions, capacity and analysis?

[4] As Kumtor gold mine is now fully state-owned, it will need to comply with the same tax regime as other gold mines, while also channelling its dividends to the budget in order to boost fiscal resources.

- What opportunities exist to further strengthen policies, institutions, capacity and analysis in a more integrated approach to financing?

12 In answering these questions, the DFA (i) analyzes the financing landscape covering all public, private, domestic and international resources (ii) takes a deep dive into agriculture, education and the green economy that have been prioritized by government (iii) assesses the strength of government's existing financing strategies, policies and institutional structures to meet key financing challenges (iv) assess the existence of the building blocks of the Kyrgyz integrated national financing framework and (v) identifies constraints that hinder government attempts to mobilize financing for sustainable development results, where integrated financing solutions support could be offered. This assessment compliments other ongoing work, such as the UNDP Investor Mapping, which can be integrated into the financing strategy work to help inform sustainable investment decisions.

13 To have impact, the DFA Road Map (provided in Chapter 9) will need to be mainstreamed into normative governance and coordination structures, across all levels of government, and into the annual and medium-term national planning and budgeting process and related programs. Moreover, given the increased importance of Leaving No One Behind (LNOB), this DFA acknowledges emerging development themes including the Great Reset and Forth Industrial Revolution (4IR), Industry 4.0, Paris Climate Agreement and emergence of the Digital Economy.

1.4 DFA Assessment Objective & Scope

14 The objective of this DFA is to develop a road map and strategy to catalyze the resources necessary to achieve national sustainable development priorities and results in the context of the 2030 Agenda and National Vision 2018-2040, while at the same time developing targeted, evidence-based policies and sound institutional solutions to implement them. The scope of the assessment is provided in Table 2 below, though the Financing Strategy will take a deeper dive into governance and coordination and monitoring and review processes,

Table 2.	Scope of the INFF Assessment
Scoping Assessment and Diagnostics (BB1)	**Scoping Financing Strategy (BB2)**
▪ Quantify financing landscaping volumes and players ▪ Establish initial estimates of financing needs ▪ Identify emerging financing trends ▪ Outline key financing challenges and opportunities ▪ Understand risk landscape ▪ Identify primary impediments to effective financing of national development priorities	▪ Review existing private and public financing policies and consider catalytic potential ▪ Evaluate role of international development community ▪ Identify ways to integrate sustainability into private sector decision making ▪ Consider primary financing constraints ▪ Identify possible financing policy solutions for inclusion in INFF Roadmap
Scoping Monitoring and Review (BB4)	**Scoping Governance and Coordination (BB3)**
▪ Review national capacity to track financing trends ▪ Review national data and statistical systems ▪ Review environment to encourage sustainability reporting ▪ Identify potential for SDG/Gender/Climate budget tagging ▪ Identify opportunities to improving monitoring capacity	▪ Identify INFF Ownership Arrangements within Government ▪ Finalize INFF roles and responsibilities ▪ Review Public-Private dialogue platforms ▪ Identify preferred oversight, dialogue, coordination, transparency and accountability structures to overcome silos and enhance integration across stakeholders, sectors, and financing policy areas

1.5 Mainstreaming SDGs into Policy and Planning

15 This President's Administration has determined that the attainment of the Kyrgyz Republic SDGs are to be fully mainstreamed into national and oblast development policy and planning processes, with no parallel structures established. Given government's ongoing focus on establishing pro-private sector policies, mainstreaming allows actions under the road map to also be fully mainstreamed into

government policy making processes. As a result, no special SDG related institutional arrangements are established here, allowing governance and coordination and monitoring and review processes to be integrated into cabinet functions. The execution of the Road Map will continue to be overseen by the President's Administration and executed through already established cabinet, sub-cabinet, ministerial and regional committees.

1.6 THE DFA FOUR QUADRANT FRAMEWORK

16 As noted above, the Kyrgyz Republic DFA takes an integrated approach, providing a detailed description of the sustainable development financing ecosystem across the four assessment quadrants; (i) public (ii) private (iii) domestic and (iv) international. Importantly, and as illustrated in Table 3 below, over time it is hoped that the various sources of sustainable financing can be integrated, crowding-in private investment through blending, de-risking and incentivizing. Here it is worth noting that blending not only incentivizes private capital by lowering risk, it also allows public funds to leverage in new resources to lower the fiscal cost and increase resource flow to priorities.

Table 3. DOMESTIC AND INTERNATIONAL, PUBLIC AND PRIVATE FINANCING QUADRANTS

	Public	*Private*
National	▪ Direct, indirect and other tax revenue ▪ Natural resource related taxation ▪ Non-Tax Revenues ▪ Regional Development Funds ▪ Public Private Partnerships ▪ Public or publicly guaranteed borrowing ▪ Debt ▪ Oblast and Municipal Flows ▪ Guarantees and contingent liabilities	▪ Commercial banks, micro-financing institutions, capital markets, venture capital ▪ Capital markets ▪ Private equity and debt ▪ Domestic NGOs, foundations, and philanthropists ▪ Corporate Social Responsibility (CSR) ▪ Environment, Social and Corporate Governance (ESG) standards
International	▪ ODA Grants ▪ ODA loans ▪ Other Official Flows ▪ Public of publicly guaranteed borrowing ▪ Multilateral development banks ▪ South-south and triangular cooperation ▪ Climate Finance	▪ Foreign direct investment ▪ Portfolio equity ▪ International transfers such as remittances ▪ International NGOs, foundation, and philanthropists ▪ Private borrowing (international lenders) ▪ Corporate social responsibility

1.7 SDG LOCALIZATION

17 An area of great significance for the DFA is the role of the seven oblasts in investing in sustainable outcomes, and as a result this DFA uses statistics from all oblasts, with a particular focus on Batken, Jalal Abad and Naryn oblasts where dialogue was conducted. Localization of the SDGs refers to the process of defining, implementing, and monitoring strategies at the local level to achieve global, national, and subnational sustainable development goals and targets. In implementing the Road Map, strengthening SDG localization while also aligning the Regional Development Funds to support the SDGs will be important, as will the issuance of new instruments such as municipal bonds, which are legally sanctioned but not used in practice.

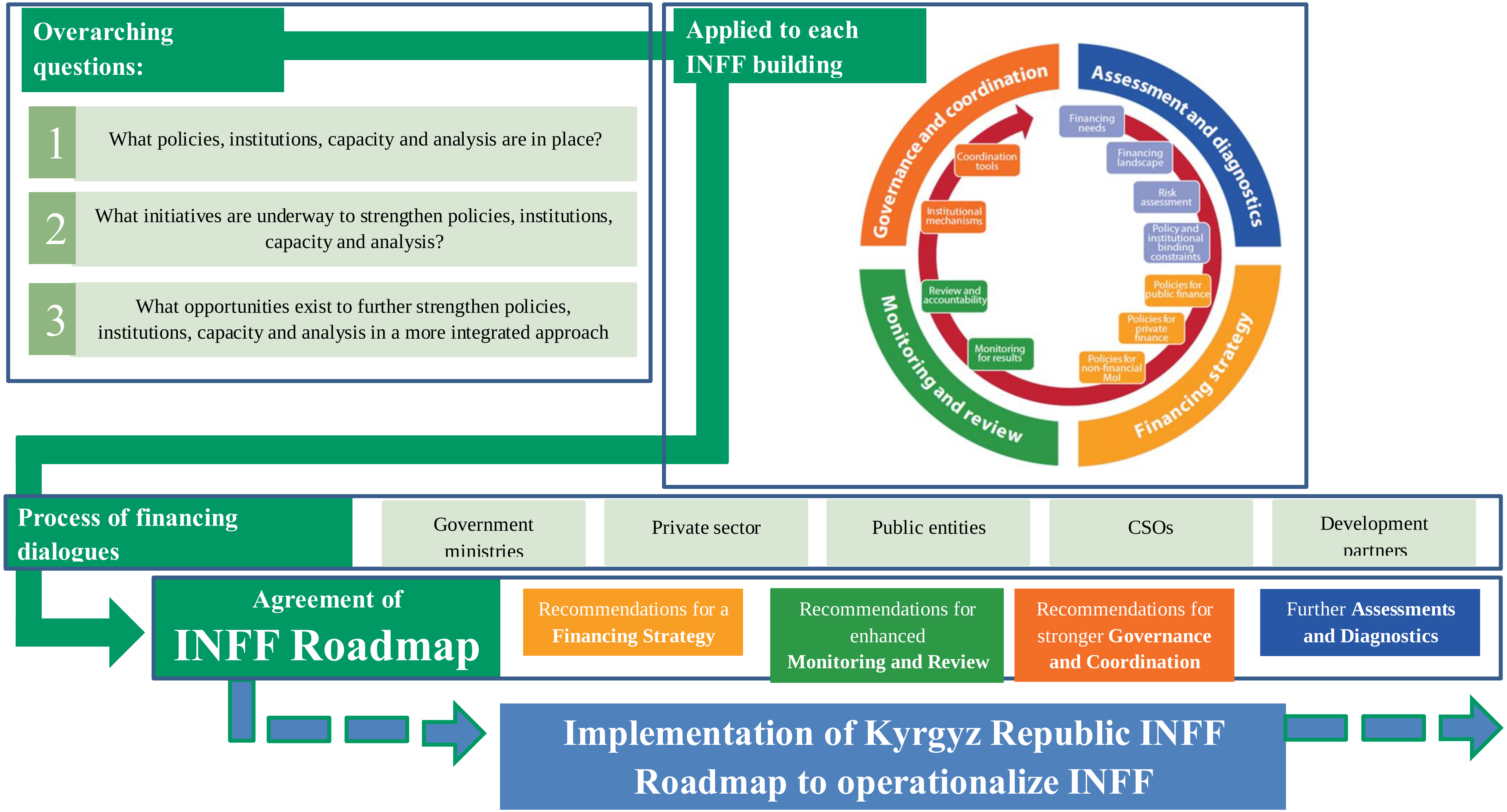
1.8 REPORT STRUCTURE

18 Chapter 2 provides a short introduction to the Kyrgyz Republic's sustainable development context, re-stating the national vision and key elements of the Medium-Term Development Program (2021-2026). The chapter identifies key trends in macro-economic growth, structural constraints to growth, financial markets, socio-economic, green and human development, focused on issues relevant to the 17 SDGs. Chapter 3 presents the results of the development finance landscape assessment across the four quadrants outlined in Table 1, identifying emerging and potential instruments and mechanism, as well as risks. Chapter 4 provides a description of the strategic budgeting approach for the SDGs, looking at medium- and long-term planning and budgeting processes, linked to public finance and

expenditure management. Chapter 5 outlines a set of entry points for the financing strategy and Chapter 6 provides a summary of priority financing instruments for development. Chapter 7 re-asserts the SDG mainstreaming governance and coordination arrangement and Chapter 8, the mainstreaming of monitoring and review processes for the INFF Road Map. Chapter 9 presents the overall Road Map of actions and measures to be executed over the short (2023), medium (2024-2025) and longer term (2025-2030)

19 In terms of the overall process adopted by the President's Administration, TWG and UNDP, Figure 1 below provides an overview of the (i) overarching questions (ii) four main building blocks (iii) stakeholder dialogue and engagement process and (iv) INFF Road Map structure. All of this diagnostic analysis of course is framed within the sustainable development context, as established by government, and as summarized in the Chapter 2 below.

Figure 1 **KYRGYZ REPUBLIC INFF BUILDING BLOCK, DIALOGUE AND ROAD MAP DEVELOPMENT PROCESS**



Chapter 2

Sustainable Development Context

2. SUSTAINABLE DEVELOPMENT CONTEXT

20 In developing the DFA based on the approach outlined in Section 1 above, it is vital to understand the context within which sustainable development is also being pursued, historically and currently.

21 The Kyrgyz Republic is a relatively small, landlocked country in Central Asia that gained independence from the Soviet Union in 1991. In the modern era, the economic ideology of the Kyrgyz Republic has been shaped by a combination of factors, including its history as a Soviet socialist state, its transition to a market-based economy, and its reliance on natural resources such as gold and hydropower. As a consequence, the government has pursued a number of economic reforms in recent years aimed at increasing foreign investment, improving the business climate, and expanding the country's trade relationships (as outlined below). At the same time, however, the Kyrgyz Republic continues to face a number of macro-economic and fiscal challenges.

22 Over the past two decades, government has made significant progress in achieving macroeconomic stability; a factor that is critical for sustained, quality and inclusive growth outturns. This has led to higher per capita incomes and a substantial reduction in extreme poverty. However, despite this progress, domestic constraints such as weak rule of law and corruption compounded by exogenous shocks such as the COVID-19 pandemic, elevated energy and food prices due to the Russian-Ukraine conflict, have caused debt levels to increase, along with budget and fiscal deficits. Economic growth and poverty reduction have largely been driven by the extractive industry, particularly gold, remittances accounting for 32.7% of GDP in 2021, as well as structural transformation as labor shifted from agriculture to services and construction. As the country enters 2023, the global economic outlook remains mixed, with poverty rates beginning to stagnate (with a strong gender dimension), combined with fiscal challenges that must be overcome to meet the national vision, medium term plan and SDGs.

23 Sustainable financing for the SDGs is crucial for resourcing long-term economic and social development, enabling government to invest in agriculture, education and the green economy for example, alongside other critical areas such as the digital economy. Given the country’s many advantages (strategic location, natural resource endowment, etc.), deploying new, innovative, and sustainable financing instruments will inevitably strengthen macro-economic resilience, and grow the private sector.

2.1 NATIONAL VISION

24 The National Development Strategy (2018-2040) lays out the vision for the republic, reflective of its unique cultural, ethnic and religious traditions that unite to create a prosperous and sustainable future. The strategy states that by 2040, Kyrgyzstan will emerge as a strong, self-sufficient, developed state with the individual in the center as the highest value along with his life, health, rights and freedoms and with a favorable and sustainable environment. Citizen’s will live in a just society, where spiritual values are based on history, culture and traditions of the Kyrgyz people. In the somewhat volatile macro-economic context presented below however, to attain this vision, levels of public and private investment must increase. Relevant to the focus of the DFA, the following national vision statements guide future investment priorities:

- Full and equal participation of women in management at all levels of decision-making in political, economic and public life is guaranteed. Government programs will continue to be implemented aimed at achieving gender equality (in education, health, services and the wider economy) and eliminating the imbalance between the opportunities of women and men.

- The diaspora will receive the necessary support to ensure close relationship with their native land. Everyone who departed in search of a better life will have the right to freely return and contribute to national development, occupying their rightful place in the society.

- Pursuit of new knowledge, healthy lifestyle, progressive spiritual values will become the main factor of human development and, accordingly, the main priority of the Development Strategy.

- Access to quality education and health and investments to promote a knowledge-based economy that provides opportunities for all those of working age, at home and abroad.

- Investment in industrial, energy, financial, transport and logistics, information and social ecosystems, based on building a new model for the economy fostering harmonious coexistence with nature. Economic diversification, circular and sustainable ecosystems, digital infrastructure and strong public private collaboration will make the republic one of the most attractive investment, business and tourist destinations within the Eurasian Economic Union (EAEU).

- The economy will be resilient to all external shocks, balancing foreign borrowing with domestic resources to remove dependency and reduce vulnerability, with a particular focus on incentivizing domestic and foreign entrepreneurs, business owners and investors and becoming a hub for creative industries, through the Creative Industries Park.

- Through investment in regional infrastructure, by 2040, the republic will become a digital hub on the Great Silk Road, connecting the information and communication spaces of Central Asia, the EAEU, the Middle East, China and Europe.

- A home to research and development expertise, part of the global gig and digital economy, and with new sustainable financing instruments that promote sustainable living, decarbonization, circular economies, partnerships and dialogue. The Kyrgyz Republic will not only be able to deliver on Agenda 2030, it will emerge a strong champion of the fourth industrial revolution, Industry 4.0 and a player in introducing to Central Asia new and sustainable ways of living, working and doing business.

2.2 MEDIUM TERM DEVELOPMENT PROGRAM (2021-2026)

25 The medium-term vision for the development of the Kyrgyz Republic is to be delivered on a five-year rolling-cycle basis; as the 2021-2026 Medium-Term Development Program. The program has been developed to improve the well-being of its citizens, following the fundamental principle of ‘leaving no one behind’. As there is no financing strategy integrated into the Medium-term Development Program, it is assumed that the plan will be resourced through government revenues, debt and grants, and supported by the domestic and international private sector. The program aims at achieving the following benchmarks:

- Ensuring the annual rate of real economic growth on average at the level of 5.0%.
- Achievement of GDP per capita up to US$ 1,500 (for reference in 2020 – US$ 1,224).
- Reducing the unemployment rate to 5.0%.
- Attracting an annual inflow of foreign direct investment in a volume of at least 15% of GDP.
- Improvement of the rating of the republic by key international indices by at least 20 positions.
- Maintaining the state external debt at the level of no more than 60% of GDP.

26 Within the framework of Program implementation, measures are envisaged in seven priority areas (i) anti-crisis measures (ii) management of reform (iii) formation of an environment for development (iv) key sectors of the economy (v) social development (vi) foreign policy and national security and (v) special priorities. Importantly, the 4th Principle of the Mid Term Program supports the DFA in that it aims towards the ’*maximum transfer to outsourcing of economic and other functions of state bodies that can be implemented by the private sector*’. (Government of Kyrgyz Republic, 2021-

2026 Mid Term Program.) To this end, government has recently adopted pro-private investment policies which provide an important entry point for sustainably financing

27 In terms of benchmarks, the medium-term program states that Kyrgyzstan currently ranks 122nd out of 189 countries in the Human Development Index, 96th out of 141 countries on the Global Competitiveness Index and 70th out of 190 countries in the Doing Business Index. Unfortunately, the country's position in these indices has been declining in recent years. However, with new policies and increased investment flows, the national vision foresees an improvement of at least 20 positions in key international ratings as a result of the implementation of this program. So far, Kyrgyzstan has made progress in 9 out of the 17 Sustainable Development Goals, however, there are still significant challenges in achieving the goals of "Life on Earth," "Industrialization, Innovation and Infrastructure," and "Peace, Justice and Effective Institutions." With the implementation of this program, significant progress is expected to be made towards achieving the SDGs targeted in the agricultural, education and green economy sectors, impacting SDG on peaceful and inclusive societies.

28 The medium-term program's implementation strategy centers around achieving the SDGs, adapted for Kyrgyz Republic, by 2030, utilizing a pre-existing system for monitoring progress. Each ministry takes on a leadership role in the implementation of SDG goals related to its mandate. In addition, it is also important to keep in mind that many SDG indicators are cross-cutting in nature, requiring strong inter-ministerial and intra-governmental coordination. Box 1 below, provides the investment priorities for the three priority sectors proposed by government; agriculture, education and the green economy.

Box 1. MEDIUM TERM DEVELOPMENT PROGRAM (2021-2026) SECTOR PRIORITIES

The Program for Medium-Term Development for 2021-2026 has established key priorities for the agriculture, education and green economy sectors, around which the proposed road map actions have been developed:

Agriculture:
Key priorities in the agricultural sector of Kyrgyzstan:

- Ensuring food security.
- Stimulating the development of medium and large processing complexes and logistics centers for exporting products.
- Consolidating small peasant farms and agricultural cooperatives
- Technological modernization of agriculture.
- Focus on organic production and development of the market for organic products.
- Supporting and developing the market for halal products.
- Using the existing natural advantages for the production of agricultural products of deep processing.
- Introducing a system of guaranteed and regulated public procurement of agricultural products for government agencies.
- Monitoring the situation with regard to food security and price regulation.
- Launching the construction of wholesale distribution centers.
- Restoring three clusters in light industry closely related to agriculture (silk fabrics, knitted fabrics, leather production)

Education:
Key priorities in the education sector of Kyrgyzstan:

- Provide conditions for high-quality, affordable education that meets the needs of the time.
- Increase preschool education coverage through various types of institutions (traditional kindergartens, child development centers, etc.) and launching a comprehensive center for child development in every city.
- The primary school will be a main area of focus, with investments directed towards support and development of teachers and updated educational standards with a focus on mathematics, physics, chemistry, biology, and information technology.
- The status and position of teachers will be changed with a 50% salary increase and a preferential mortgage program for housing acquisition.

- Businesses that invest in education will be exempt from corporate taxes for the next 10 years to increase motivation of teachers.
- The policy of building small schools will be abandoned in favor of modern educational complexes with transportation for schoolchildren provided by special school buses and a per capita financing approach.
- The process of digitalizing education will be accelerated with access to high-speed broadband internet for households and the widespread use of online resources and interactive learning technologies.
- "Kyrgyz Lyceums" will be created with an innovative approach to teaching and children's development, offering a variety of educational programs and languages of instruction.
- Primary and secondary vocational education will be emphasized, with the introduction of business patronage and relevant professional training.
- An audit of higher education institutions will be conducted and the university science sector will be strengthened with a focus on research, becoming an active part of the international scientific community and global scientific research, especially in technical, medical, and social directions.

Green Economy Including Modernizing Cities:
The Mid Term Plan links environmental sustainability and climate change with the development of Green Economy Standards and the establishment of a Green Investment Fund, supporting climate change and sustainable cities.

<u>Priorities for Environmental Sustainability and Climate Change in Kyrgyzstan:</u>

- Preservation, reproduction, and sustainability of the environment in Kyrgyzstan and its diversity.
- Tightening policy on harmful emissions and modernization of industrial facilities emitting into the atmosphere.
- Implementation of a long-term action plan for development of low greenhouse gas emissions until 2050.
- Reduction of GHG emissions in priority areas based on current emissions contribution of individual sectors.
- Revision of transport policy and reducing its negative impact on the environment.
- Maximum transition to electrical basis of energy consumption management.
- Creation of favorable environment for the "green economy" and increased access to green technologies.
- Introduction of Euro-5 standard for fuel and restrictions on import of vehicles and transport equipment not meeting this standard.
- Urban greening, preservation of mountain forest ecosystems, and increase in area of perennial artificial plantations.
- Preservation of natural water bodies with biological diversity and implementation of the national program "Water - Source of Life"
- Reclamation of territories negatively affected by former mining industry and study of possibility of recycling toxic waste, and,
- Environmental audit of industrial enterprises and improvement of regulatory and legal framework in the area of radiation safety.

<u>Priorities for Modernizing Cities in Kyrgyzstan:</u>
- Renewal or development of Master plans for the development of cities.
- Development of the central and historical parts of cities while preserving architectural appearance and cultural heritage.
- Creation of convenient and comfortable cities for residents and visitors.
- Provision of public spaces and spacious courtyards in buildings.
- Development of environmentally sustainable public transport on electric traction and gas engine fuel.
- Updating and launching of water supply and sewerage systems with modern technologies.
- Modernization of systems for providing outdoor lighting to cities, with transition to energy-saving technologies.
- Initiation of waste management program with emphasis on recycling, minimizing waste generation, safe collection, and neutralization.
- Implementation of Safe City project with components of road safety and public safety.
- Launch of functioning of public service centers with maximum automation of provision of services to the population

2.3 GOVERNMENT POLICIES TO PROMOTE THE PRIVATE SECTOR

29 Over the course of the past two decades, it has been increasingly recognized that the public sector must be the enabler of growth, and the private sector its primary engine. As a consequence, government has improved the policy framework to promote private sector growth, to address the many challenges that private sector investors – including foreign investors – face. As part of its commitment to opening the economy, among other reforms, government has also established Free Economic Zones (FEZ), symbolic of the shift to incentivizing both domestic and foreign private investors and towards a more open economic and investment ideology.[5]

30 Despite progress in promoting the private sector, the US Government International Trade Administration acknowledges that '*the investment climate is best suited for experienced investors with high-risk tolerance and flexible time horizons, with bribery being considered a normal part of doing business, while corruption and weak rule of law are ongoing challenges*.'[6] Furthermore, as the judicial system is not independent, legal protections for foreign firms are poorly enforced, and when combined with an often unpredictable legislative environment, it is difficult to ensure stability with respect to corporate tax rates, property rights, and regulations. Unfortunately, becoming a member of the Eurasian Economic Union in 2015 resulted in non-EAEU trade being negatively impacted due to higher tariff rates and shortcomings in readying for EAEU requirements, non-standardized application of common customs code, lack of qualified phytosanitary laboratories, and unclear documentation requirements continue to affect importers and exporters.

31 Aware of these issues, and how they undermine National Vision and Medium-Term Development Program, the government continues to actively strengthen private sector and foreign direct investment regimes, examples of which are illustrated below.

- ***Simplification of Business Registration Process***: In 2020, Government adopted a new law that simplifies the business registration process, making it easier and faster for entrepreneurs to start their businesses. The law allows entrepreneurs to register their businesses online and eliminates the need for a physical office address.

- ***Access to Finance***: Government has implemented policies to improve access to finance for small and medium-sized enterprises, including the establishment of a credit guarantee fund and a collateral registry to enable SMEs to use movable assets as collateral for loans.

- ***Reduction of Tax Burden***: The government has reduced the tax burden on businesses by lowering tax rates and simplifying tax procedures. In 2020, the government reduced the corporate income tax rate from 10% to 7% to encourage investment in the country.

- ***Investment Promotion***: The government has established the Investment Promotion and Protection Agency to attract foreign investors. The agency provides information and assistance to potential investors and promotes the country as an investment destination.

- ***Legal Framework***: The government has created a legal framework (Investment Law in 2003, capital and property repatriation etc.) to protect the rights of foreign investors and ensure their investments are secure. The government has also implemented policies to simplify the process of obtaining investment permits and reduce bureaucratic hurdles.

[5] FEZ "Bishkek" is in the capital – the economic and political centre of the country. FEZ "Karakol" is located at the foot of the Tian Shan mountain range on the coast of Issyk-Kul Lake – the second largest alpine lake in the world that provides tremendous opportunities for development of tourism. FEZ "Maimak" is located at the border between Kazakhstan and Kyrgyzstan at the crossroads of international communication and FEZ "Naryn" is at the Chinese border, and has significant potential for development of tourism and mining.
[6] https://www.trade.gov/country-commercial-guides/kyrgyz-republic-market-challenges

- ***Public-Private Partnerships (PPPs)***: The government has encouraged PPPs to facilitate investment in infrastructure and other sectors. PPPs enable the government to partner with private companies to finance and operate infrastructure projects.

- ***Support for Exporters***: The government has implemented policies to support exporters, including the establishment of an export promotion agency and the provision of export subsidies to help local businesses compete in international markets.

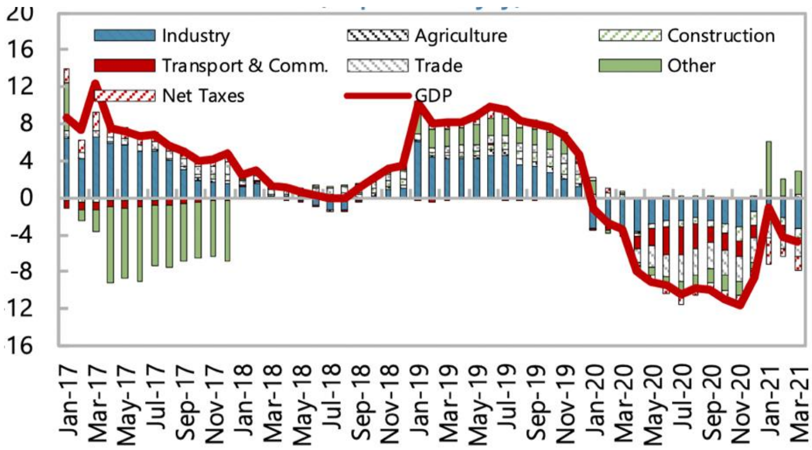
- ***Improvement of Infrastructure***: The Kyrgyz Government has invested in infrastructure development, including the construction of new roads, airports, and other infrastructure projects. These improvements have made it easier for businesses to transport goods and access markets both domestically and internationally.

2.4 MACRO-ECONOMY AND STRUCTURAL CONSTRAINTS

32 To achieve the national vision outlined above, strong macro-economic growth outcomes need to be sustained, revenues need to be increased, and a greater capital contribution from the private sector must be realized. Given that the economy remains – based on a ten-year average - heavily dependent on gold production (about 10 percent of GDP and 40 percent of exports), remittances (25 percent of GDP), and on foreign aid, diversifying production, exports and investment will be critical to attaining the national vision. In support, the DFA Road Map presented in Section 9 identifies new financing instruments and mechanisms to further accelerate growth in private capital

33 A review of historical Gross Domestic Product (GDP) for the period 2017 to 2021 (2022 growth outturns are not yet reported) as seen in Chart 1 below show highly volatile GDP performance, impacted by political transition and the global COVID-19 pandemic. Robust and sustainable economic growth requires strong public sector and market-based institutions and a particular focus on deepening financial markets and incentivizing the private sector. Export driven growth, economic diversification and reducing the fiscal costs of energy subsidies all speak to the need for greater market liberalization, addressing the concerns of private investors. Moreover, modernizing agriculture and education while increasing investment in the green and circular economy, overcoming the large infrastructure gap, strengthening rule of law and governance, improving the business environment and business and investment regulations are necessary, demands a better way to upscale resource mobilization. In addition, high levels of gender inequality continue to undermine inclusive growth and reduce economic potential. Moreover, and as noted below, risks emanating from climate change as well as constraints on production and exports, delay the delivery of improved economic resilience.

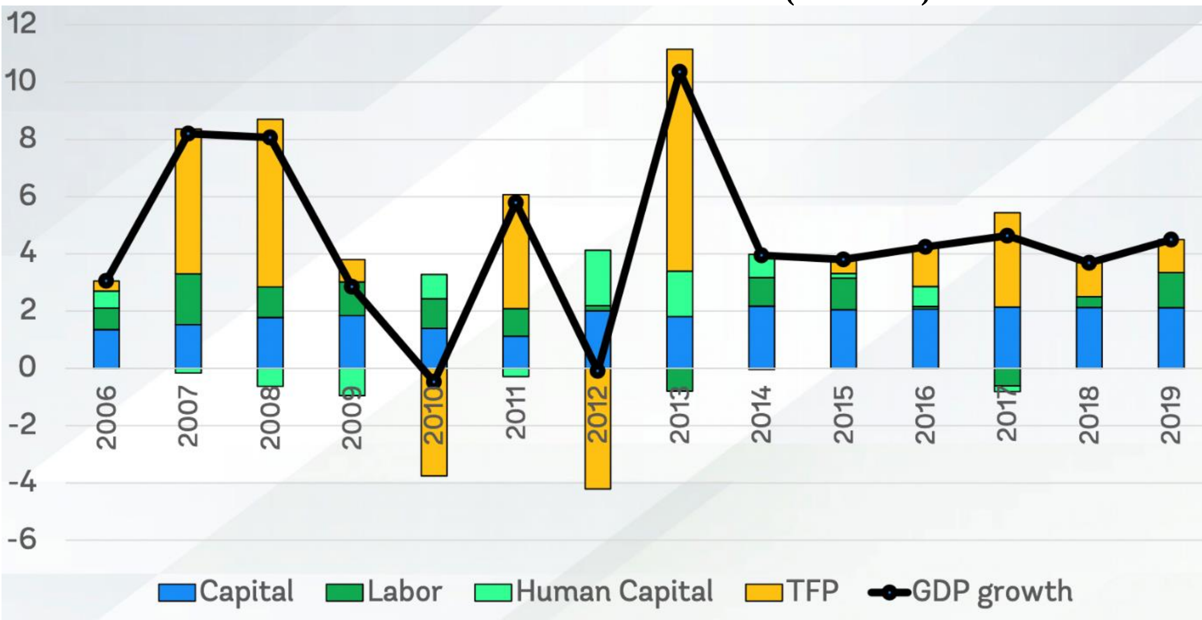
Chart 1. GDP COMPOSITION (2017-2021) (IN % Y/Y)



Source: Government of the Kyrgyz Republic and IMF

34 The historical composition of growth shows that productivity outturns have been volatile, further justifying the need to increase resilience. Over the period 2006 to 2019 (Chart 2 below) average GDP growth is recorded as 4.5 per cent, with the contribution of capital increasing from 1.8 per cent in 2006 to 40 per cent in 2019. Labor has increased from 0.7 per cent to 16 per cent, human capital from 0.3 per cent to 7 per cent and remittances from 1 per cent to 22 per cent over the same period. Productivity has increased from 0.6 per cent to 14 per cent over the same period, making investments that reduce this volatility critical to attaining the poverty reduction and inclusion.

Chart 2. GDP GROWTH DECOMPOSITION (2006-2019)

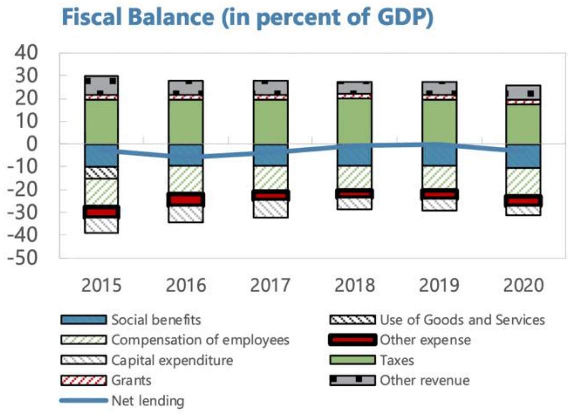


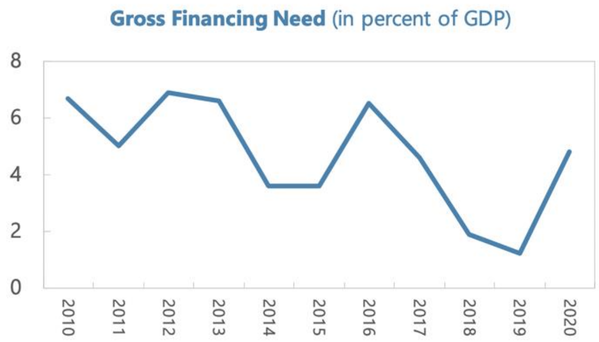
Source: Nucifora, A., (World Bank 2022), Bishkek Economic Forum, A Pathway to Recovery, Growth and Opportunity Findings of the Systematic Country Diagnostics Update

35 Following a period characterized by a robust fiscal position, the budget deficit widened in response to the COVID crisis, reflective of lower growth and revenue returns and increased spending to minimize the socio-economic impact. In 2021 the budget deficit was around -3.5 per cent, though in 2022 this rebounded to budget surplus of around 1.2 per cent as of October 2022. Currently, around 40 per cent of budget financing is mobilized from concessional external sources, and 60 percent domestically. Flipping these percentages will increase resilience to external shock. Moreover, in reducing public debt and increasing operational and allocative efficiency, putting in place a Medium-Term Revenue Strategy (MTRS) would anchor reforms that reduce public spending, increase private flows and reducing unnecessary spending . Moreover, as highlighted in Chart 3 below, improving fiscal buffers for development will remain an important source for bridging the SDG financing gap, with gross financing needs currently established at around 5 per cent of HDP, according to the International Monetary Fund. Mobilizing new financing instruments to support agriculture, education and the green and circular economies will be vital to attaining Vision 2018-2040 and Agenda 2030.[7]

[7] Observations made by the recent Public Expenditure and Financial Accountability (PEFA) assessment shows that government displays a sufficient degree of aggregate financial discipline. Tax administration has been improving, and the volume of tax arrears is relatively small and public procurement is transparent and competitive.

Chart 3. FISCAL BALANCE (% OF GDP) AND GROSS FINANCING NEEDS (% OF GDP) [8]





Source: Government of the Kyrgyz Republic and IMF

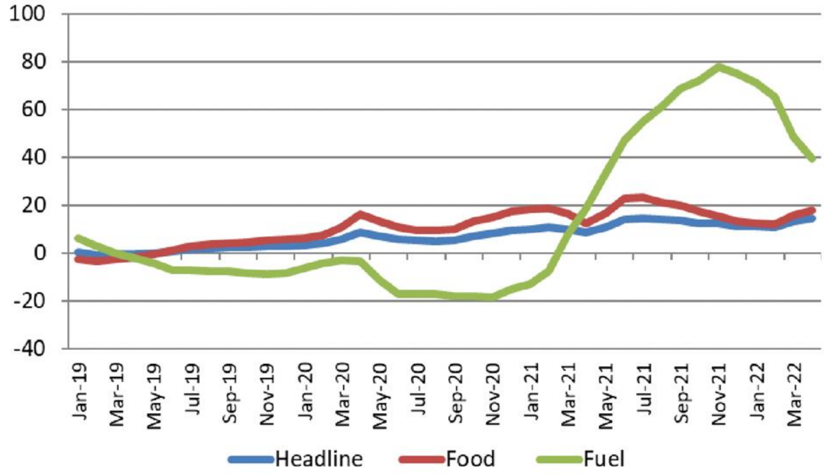
36 While the fiscal position of government improved in 2022, following a collapse in fiscal buffers in 2020 due to COVID-19, increasing public spending for critical anchor investments will require new, innovative and sustainable sources of financing need to be cultivated. This implies the need for a significant effort in deepening both financial and capital markets, crowding-in private capital and putting in place new public and private models of collaboration, such as blended finance.

37 The decline in activity as a result of the pandemic impacted exports, gold mining, industry, tourism, transport and construction. Growth, investment and poverty have also been impacted by the steady depreciation of the SOM against the US dollar, increasing public debt service costs. Moreover, following the imposition of sanction by the US and EU on Russia in February 2022 in response to the war in Ukraine, the SOM depreciated from KGS 99 per US$ from KGS 86 in February, before bouncing back and appreciating by 17% against the US$, improving public debt payment costs in the process. However, with growing enmity between the United States and China over trade, and with the US Federal Reserve and European Central Bank actively pursuing a policy of capital tightening the reduce inflation and increase capital flows, the long-term costs of financing are set to increase. Thus, the continued use of debt instruments can come at a considerable cost, with the US Federal Reserve continuing to increase interest rates through the end of 2023.

38 Energy and food price inflation have also increased substantially as a result of the war in Ukraine, impacting levels of investment and poverty rates. Core Inflation Rate in Kyrgyzstan averaged 6.07 percent from 2012 until 2023, reaching an all-time high of 18.40 percent in October of 2022 and a record low of -0.50 percent in December of 2016. The impact of high inflation in 2022 (caused by exogenous factors) on purchasing power impacted businesses and households alike, though particularly the poor, as it reduces savings. The National Bank reported annual inflation at 15.6 per cent for the period August 2021 to August 2022, as show in Chart 4 below), though as noted above, inflation is returning to the long term trend as energy prices begin to moderate. [9]

[8] The financial needs required to rollover maturing debt; defined as the fiscal deficit, plus any other transactions that require.
[9] Fertilizer prices have been rising sharply worldwide and rising input costs could impact next season's harvest, leading to elevated food
prices in the longer run.

Chart 4. HEADLINE AND CORE INFLATION (%, YEAR-ON-YEAR)



Source: NBKR

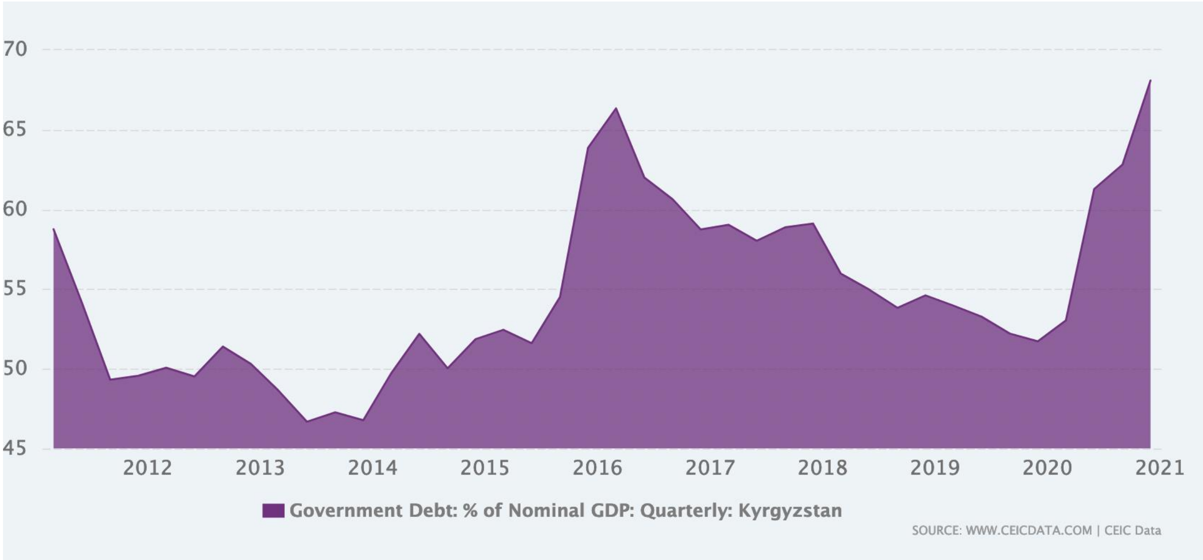
39 Made worse by the pandemic, public debt rose by 16.5 percent of GDP to 68 percent, reflecting a combined impact of the larger fiscal deficit (3.3 percent of GDP in 2020 compared to 0.1 percent in 2019), lower GDP and the weaker exchange rate. With a growing dependency on external debt denominated in foreign currency, depreciation risks are of grave concern, and any debt instruments mobilized (i.e., SDG bonds etc.) must take the overall debt position into consideration, while working to deepen capital and financial markets (See Chart 5 below)

40 Since the introduction of the national currency, the Kyrgyz Republic has had a floating exchange rate regime, i.e. the exchange rate is determined directly by the market based on supply and demand. Throughout its history, the chosen regime has proven effective in adapting to changes in global markets and the domestic macroeconomic and political situation. It should be noted that in general, a floating exchange rate helps the economy to adjust to changing external conditions by smoothing the impact of external shocks on it. The National Bank will continue to adhere to the existing floating exchange rate policy in the Kyrgyz Republic.

41 The National Bank of the Kyrgyz Republic determines and conducts monetary policy, develops and implements a uniform currency policy in the Kyrgyz Republic. According to paragraph 3 of Article 24 of the Constitutional Law of the Kyrgyz Republic "On the National Bank of the Kyrgyz Republic" The National Bank determines the procedure and conditions for operations in the interbank foreign exchange market (interbank foreign exchange market). In order to directly perform the functions and powers to implement the currency policy, the National Bank promotes the development of an effective, reliable, transparent and liquid interbank foreign exchange market.

42 In the context of exchange rate risks and risks to remittance flows, strengthening the existing Medium Term Debt Strategy (MTDS) will continue to be essential for managing risks. Measures such as increasing green taxes, removing tax distortions, reforming the real estate tax and consideration for the introduction of a carbon tax, can strengthen debt sustainability be increasing revenues, linked to an MTRS (as proposed above). In terms of decarbonization, introducing a carbon market and a carbon tax will also help incentivize capital markets while improving fiscal resilience. Developing a carbon market concept note linked to the Nationally Determined Contributions (NDCs) can emerge as an important tool in the fight for climate adaptation.

Chart 5. PUBLIC DEBT HAS INCREASED (2010-2020)



43 Maintaining macro-economic stability and reducing vulnerability to external shocks must be central to the DFA, given that existing structural and productivity factors such as energy production and consumption challenges, water scarcity, land and agricultural constraints all undermine resilience. Achieving greater resilience however requires accelerating the pace of adaptation and mitigation, in order to address the following challenges, all of which negatively impact the SDGs:

Energy Production and Consumption Challenges:

- The primary sources of energy are hydropower, coal, and natural gas.
- Hydropower is the dominant source, accounting for over 90% of the country's electricity generation.
- However, the energy sector in Kyrgyzstan is facing several challenges, including outdated infrastructure, insufficient investment, and low energy efficiency.
- Due to these challenges, the country struggles to meet its energy demand, and as a result, experiences frequent power outages.
- The high reliance on hydropower makes the country vulnerable to climate change impacts, such as droughts or floods, which can affect the availability and reliability of electricity supply.

Water Scarcity Challenges:

- Despite being home to many rivers and lakes, the Kyrgyz Republic faces severe water scarcity challenges, primarily due to climate change and inefficient use of water resources.
- The country's water resources are under significant pressure due to increasing demand for irrigation, hydropower generation, and domestic use.
- The melting of glaciers and changes in precipitation patterns caused by climate change are also affecting the country's water supply.
- Water scarcity has significant impacts on the country's economy, as agriculture accounts for a significant share of its GDP and employs over half of the country's population, and,
- The lack of access to safe drinking water and sanitation facilities in many rural areas is a significant health challenge for the population.

Land Challenges:

- Limited arable land due to rugged terrain and mountainous landscape.
- Soil degradation and erosion caused by unsustainable agricultural practices, overgrazing, and deforestation.
- Lack of land tenure security and weak land governance, leading to land disputes and conflicts, and,
- Insufficient investment in land infrastructure such as irrigation, drainage, and access roads

Agricultural Challenges:

- Low agricultural productivity and output due to limited access to modern farming techniques and technologies.
- Dependence on rain-fed agriculture and vulnerability to climate change impacts such as droughts, floods, and extreme weather events.
- Limited access to credit and financial services for farmers, hindering their ability to invest in modern inputs and technologies.
- Poor market linkages and inadequate infrastructure for storage, processing, and transportation, leading to high post-harvest losses and low profitability for farmers, and ,
- Lack of diversified crops and value chains, with a heavy reliance on traditional commodities such as wheat, potatoes, and livestock.

2.5 CAPITAL AND FINANCIAL MARKETS

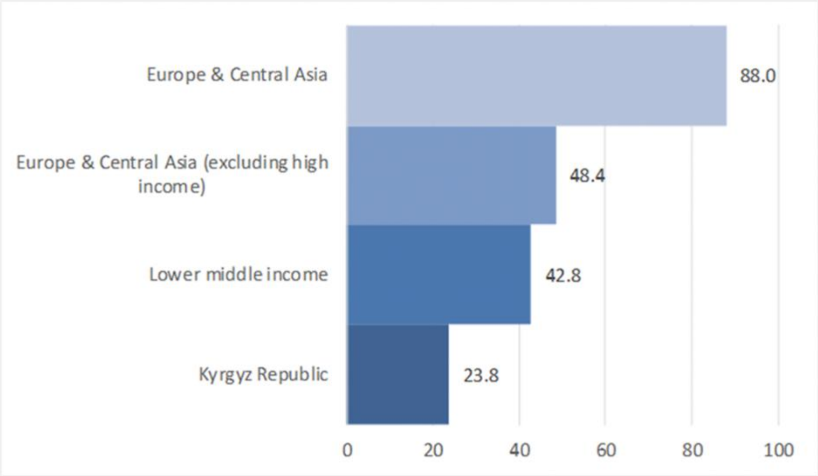
44 Capital and financial markets allow the trading of securities and stock as well as bonds, forex and derivatives markets (not operation in the country), as well as commercial lending, borrowing and saving.[10] Capital and financial market are regulated by the National Bank and Financial Supervisory Service (FSS), and include stock exchanges, commercial banks, insurance corporations, pensions funds, investment funds, and micro-finance institutions in particular. Given that both capital and financial markets are not only vital to the smooth operation of trade and commerce and productivity, the level of financial market specialization and market oversight and intermediation substantially determine the range of financial instruments and products that are available to investors and business owners. Deepening these markets – ideally through committing to both capital and financial market development road maps – must remain a key priority for funding the SDGs, given that under-developed markets reduce the range of instruments that can be used.

45 Importantly for the INFF, under-developed capital and financial markets negatively impact the potential for new domestic debt instruments as well as financial inclusion for micro, small and medium enterprises and also for households. Currently, the economy remains overly dependent on remittances and foreign aid, and has limited access to international capital markets, hampering potential liquidity for high value investments. Moreover, while the National Bank is committed to a floating exchange rate, which serves as a buffer against external shocks, high levels of dollarization and external public debt denominated in foreign currency continue to leave markets exposed to external shocks, as has occurred in recent years. Such an arrangement creates vulnerability and increases the risks of further volatility.

46 Interest rates also remain high compared to other markets, leading to high borrowing costs for small, medium and large enterprises and households, despite MSMEs traditionally being the backbone of an economy. Financial inclusion levels also reflect problems with inequality, with the large unbanked population being equally reflective of high levels of informality; particularly in the rural economy. Given the increased use of digital services and payment, a focus on financial inclusion will be n3cessary to minimize the risk of people being left behind. As a result, the supply of domestic credit and deposit penetration is low compared to other countries in the Central Asia region when compared to other lower middle-income countries, as shown in Chart 6 below.

[10] https://www.investopedia.com/terms/f/financial-market.asp

Chart 6. DOMESTIC CREDIT TO PRIVATE SECTOR BY BANKS (%OF GDP)



Source: OECD, Banking in the Kyrgyz Republic (2020) [11]

47 Importantly for the choice of financing instruments, commercial banks dominate the banking sector, accounting for almost 90 per cent of financial system assets and provide about 80 per cent of credit to the private sector[12]. In 2022, government updated the banking law, to improve commercial governance and regulatory standards and in future digital banks will also need to be licensed.[13] The activities of non-banking financial and credit organizations and other legal entities supervised by the National Bank are regulated by laws and other regulatory legal acts of the National Bank of the Kyrgyz Republic, unless otherwise provided by the constitutional Law of the Kyrgyz Republic 'On the National Bank of the Kyrgyz Republic'. Insurance providers, securities and brokerage firms only play a minor role in capital and financial markets and capital markets are shallow, as is the government securities market.

48 Given the focus of the DFA in introducing new sustainable finance instruments to the market, a key focus of the DFA must be on financial market reform and deepening, not just to finance large infrastructure and energy transition investments, but also to increase access to affordable finance products by the SMEs and households. As the government is moving towards establishing a State Export-Import Bank, alongside other reforms, putting in place both capital and financial market development road maps would appear essential, to deliver a coordinated and impactful approach.

2.6 SOCIO-ECONOMIC DEVELOPMENT

49 To achieve the SDGs by 2030, the Kyrgyz Republic has prioritized a people-centered policy framework. To this end, the National Development Strategy (NDS) outlines the provision of state guarantees for legal and judicial protection of human rights and fundamental freedoms, reducing inequality, eradicating poverty, mitigating the impacts of climate change, addressing disaster risk reduction, investing in human development, building skills and knowledge for all segments of society,

[11] https://www.oecd-ilibrary.org/sites/f9173020-en/index.html?itemId=/content/component/f9173020-en

[12] OECD (2019), Roadmap for a National Strategy for Financial Education in Kyrgyz Republic, https://www.oecd.org/education/financial-education-cis.htm.
Open URL

[13] The adopted Law of the Kyrgyz Republic dated August 11, 2022 No. 93 regulates the implementation of banking activities, the procedure for the creation, reorganization, liquidation of banks, the procedure for handling information constituting banking secrecy.

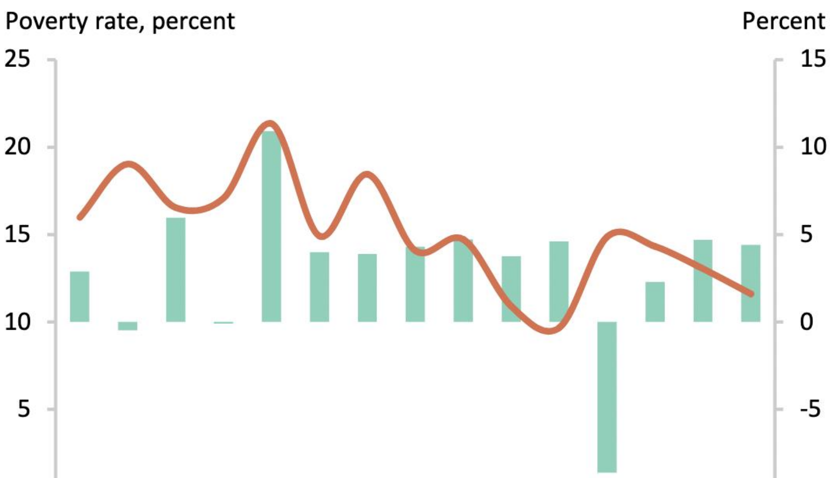
creating productive jobs and healthy lives and promoting gender equality. Alongside education, health and social protection, attaining social goals will also benefit from investments in micro and social insurance, and in risk transfers, to increase household resilience to both domestic and external shocks. Gender related priorities are mainstreamed, as outlined in Box 2 below.

Box 2. MEDIUM TERM DEVELOPMENT PROGRAM (2021-2026) GENDER PRIORITY
A significant gap in economic opportunities is observed on a gender basis. More than half a million women of working age are not part of the economically active population and are not involved in education. Over 60 percent of women are involved in informal labor relations. A critical picture is observed among women in the 20-29 age group, where the highest unemployment rate is observed, while this age is the most productive. At the highest political level, it is necessary to ensure the protection and advancement of women, which will largely ensure an increase in the well-being of the entire population. The Mid Term Plan states that it is necessary to begin the revival and formation of the image of 'Kurmanzhan-Datka' among the current generation of women, starting from an early age, supported by special projects and programs that stimulate the involvement of girls in the preschool education system, especially in hard-to-reach and remote regions of our country. It is necessary to introduce targeted projects to support women in science with a need for separate programs to develop digital skills among women. Government plans establishing a regulatory framework for the introduction of a quota system for the representation of women for receiving vocational technical education on a free basis. Girls who want to become IT specialists must study at the expense of state budget funds, but on a return basis when implementing their acquired knowledge and skills in the interests of the country. Such government support should cover training both domestically and internationally. The Stabilization Fund was created to accumulate reserves for future generations and finance urgent measures. Sources: Government of Kyrgyzstan, 2021-2026 Mid Term Program

50 Broadly, extreme poverty has largely been eliminated while general education is free, accessible and compulsory.[14] Even though the education system closed down during the pandemic, schools have since reopened. At the same time however, significant challenges still remain. For example, while extreme poverty has fallen substantially since 2000, about 60 per cent of the population still live on around US$ 5.5 per day. Despite gains, there is a lack of sufficiently disaggregated statistical data, persistent urban-rural discrepancies, continued social, insufficient capacities among central and local authorities, and limited financial and human resources to work on multiple priorities simultaneously. Moreover, the high share of the population with low income and large outflows of migrant labor suggests that the economy's growth rate in past decades has been unable to generate sufficient jobs and incomes to absorb the growing labor force.

51 At the same time the income gap compared with the average for emerging market economies has widened, but private sector development has been constrained by inadequate infrastructure, governance challenges and the non-conducive business climate. Chart 7 below shows GDP performance from 2009 to 2021, then project out to 2023, also showing the steady reduction in poverty up until 2019, after which COVID-19 elevated poverty rates (SDG 1). The forecast by the Government and World Bank – conducted in 2021 – was before the elevated energy and food prices of 2022, which can only have had a deleterious impact.[15]

Chart 7. KYRGYZ REPUBLIC / GDP GROWTH AND POVERTY RATE



[14] The UN Huma ... verty, gender inequality and gr ... AL.pdf
[15] https://th ... yrgyz-Republic-MPO-sep2021.pd

Source: Kyrgyz authorities and World Bank staff estimates.

52 Despite competitive advantages in the costs of labor and utilities, taxation, and membership in the EAEU and World Trade Organization (WTO), recent political turbulence and COVID-19 accelerated capital flight, at the same time as slowing business growth, and increasing informality. Despite positive policy changes, the business environment has been deteriorating due to poor institutional frameworks for resolving insolvency and enforcing contracts, complex tax compliance requirements, limited minority investor protection, reports of corruption, degraded infrastructure and low productivity combined with rapid wage growth, despite some progress in improving access to finance. Compared to other Europe and Central Asia countries, labor productivity is low in the Kyrgyz Republic. Even though overall labor productivity increased sharply during 2000–19. [16]

53 The following overview of the socio-economy is illustrative, providing a general backdrop to frame the focus of the DFA as it describes the four basic quadrants, before identifying the financing instruments needed to improve resourcing of sustainable outcomes. In this regard however, the following issues must be addressed in the priority sectors identified by the President's Administration:

Education

54 The quality of education remains to be one of the key problems. Almost 60 percent of children in grade 4 demonstrate "below basic" level in academic achievements.[17] Significantly, children with disabilities lag behind their peers in fundamental learning and lack access to education in mainstream schools; 40 to 60 percent of children aged up to the age of 14 have basic functional difficulties in learning and are unable to achieve fundamental skills in reading.[18] The COVID-19 pandemic worsened both quality and access to education due to the existing digital divide and skills gap among students and teachers.[19] The gender gap in education has been closing with both boys and girls have relatively high access to primary education. However, gender disparities tend to emerge more visibly at higher levels of education, such as secondary and tertiary levels, sometimes due to social and economic factors, negatively impacting employment and income futures of women. Thus, boys in the Kyrgyz Republic are less than two percent more likely to attend primary school than girls and less than half a percent more likely to attend secondary school. Women and girls in the Kyrgyz Republic have very similar literacy rates to men and boys. National goals in the education sector include:

- Countrywide coverage by preschool education

[16] World Bank Group (2020). Kyrgyz Republic - Country Economic Memorandum: Main Report.
17 National Assessment of Educational Attainments of Students in Kyrgyzstan (2017
18 UNESCO (2020). Global Education Monitoring Report 2017-2019
19 UNESCO (2020). ICT Teacher Readiness Report

- Improving quality of school education
- Improving quality of higher education
- Internationalization of all general secondary schools
- Achieving coordination between vocational education system and the labor market
- Support for migrant workers and compatriots
- Support of youth health

Agriculture[20]

55 The agricultural sector is the country's largest employer, accounting for around 20 percent of the workforce, but its share of GDP has shrunk by over three times since the mid-1990s, contributing to only 13.6 percent of GDP in 2020.[21] This is due to the fact that 75.5 percent of entities operating in agriculture are smallholder farmers accounting for 61.2 percent of overall output, with 95.9 percent of employment in the sector being informal. Other key drivers are an absence of cooperation and coordination, weak knowledge of climate-smart and efficient agricultural production, processing, marketing and management for ensuring food safety and security, ineffective water resource use causing soil infertility and erosion, a lack of targeted subsidies, and deficiencies in rural infrastructure, compounded by a lack of certification and compliance with standards.

Green Economy

56 The importance of the country's transition to the principles of a green economy is growing. The Parliament and the Government have adopted strategic documents on the development of the green economy. However, Kyrgyzstan still has obstacles[22]: Green technologies tend to be more expensive, incentives for green growth are a relatively new trend requiring more public attention, combined with lack of market demand and lack of public awareness.

57 Climate-related risks and environmental issues pose serious challenges for sustainability and productivity: high risk from urban floods, landslides, wildfires. According to Antonia Nucifora (World Bank, Bishkek Economic Forum), the following climate related changes are occurring:

- Temperature increase is above global average.
- Annual average losses from floods – about 0.5% of GDP.
- Rain-fed crop production - down by 40% because of drought and water shortage
- Annual cost of severe land and forest degradation - 16% of GDP
- 70% of pastures degraded from lightly to severe, and,
- Ambient air pollution (PM2.5) estimated to cost 5% of GDP, contributing to 11% of annual death and significant loss in productivity.

2.7 ENVIRONMENTAL DEVELOPMENT

58 Kyrgyzstan has a unique and unparalleled natural history. Not only is the republic farther from the sea than any other individual country, all its rivers flow into closed drainage systems which do not reach the sea. The mountainous region of the Tian Shan covers over 80% of the country with the remainder made up of valleys and basins. For this reason, the republic is often referred to as the 'the Switzerland of Central Asia'.

59 Environmental sustainability has been declared as a key priority for the government, with a focus on protecting and promoting the republic's natural beauty, with targeted investments towards water, land and sub-soil conservation, ecosystems and biodiversity protection, waste management, natural resource management. In 2022 the President of the Republic Sadyr Japarov launched the Jashyl Muras (Green Heritage) national campaign throughout Kyrgyzstan with the support of UNDP, with a

[20] UN (2021). United Nations common country analysis for the Kyrgyz Republic.
[21] National Statistical Committee.
[22] Brovko N. Borisenko N., "Green" Economy of the Central Asian Macroregion // Problems and Prospects for the Development of a Green Economy: International Scientific and Practical Conference. B.; 2022

particular focus on preservation of mountain ecosystems. Given the pace of changing global climate change (even with the Kyrgyz Republic's low share of global greenhouses gases at 0.03 per cent), and the potential for mobilizing SDG and green financing, a key focus of the DFA will be on climate related financing, including the development of carbon markets.

60 Given the cost of achieving climate mitigation and adaptation, the Climate Finance Center was established in 2017 as a coordination mechanism to support the mobilization of climate funding and development and implementation of investment projects and programs on adaptation. The primary areas of adaptation investment include agriculture, irrigation, hydropower, renewable energy sources, energy efficient and low carbon technologies in transport industry, healthcare, emergencies, sustainable land management, land use and forestry.[23] Given the need to increase flows at the sub-national level where frontline environmental services are delivered, and supportive of the med-term development plan to introduce a new system of inter-budgetary relations in order to increase efficiency and give incentives to municipalities to increase their own tax base, as well as eliminate the imbalance in the development of territories, ecological fiscal transfers and other mechanisms are urgently needed.

61 Over the past decades, both geophysical and anthropogenic factors have led to the worsening environmental condition in the Kyrgyz Republic. The country's decreasing quality and effectiveness of environmental governance is considered a main determinant factor of the environment deterioration, distinguishable in key environmental indicators. In 2020, the Kyrgyz Republic ranked 126th in the Environmental Performance Index,[24] having fallen from 99th place in 2018 and 105th in 2020. Environmental policy is dominated by administrative measures and enforcement mechanisms causing disincentives (environmental taxes, pollution charges, administrative fines) over incentives giving positive motivation (grants for green solutions, preferential lending for environmental initiatives). Decision-making on environmental issues is generally not based on scientifically sound principles and without quality and deep expertise.[25]

62 The Kyrgyz Republic is very vulnerable to *climate change* risks due to its mountainous terrain, the high occurrence of climate- related disasters, and the country's dependency on climate-sensitive economic sectors.[26] The scale and frequency of natural disasters associated with climate change has increased 1.5 times over the past 12 years with cascading impacts on society and the economy. Extreme climatic events such as heatwaves, hurricanes/storms, floods, and droughts cause negative health effects. Gradual climate change affecting the quality of water, food, and air also has a negative impact on the health of people around the world. In addition to physical effects, there are also issues related to mental health. A warming climate will negatively affect human health and increase mortality due to poor nutrition, heat, and infectious diseases.[27]

63 The Government allocates limited resources to climate activities, including the development of climate policy and legislative frameworks. The authorities continue the extensive practice of subsidies negatively affecting the environment and hindering the advancement of the green economy. A trend of sharp growth in net GHG emissions was identified in 2007-2017. The legislative framework and budget allocation for measures to respond and mitigate climate change remain insensitive to some groups, such as women at risk of vulnerability/ exclusion, pensioners and citizens with disabilities, youth and children, and migrants.

[23] http://cfc.kg/language/en/about-us/

24 Yale Center for Environmental Law and Policy - YCELP - Yale University, and Center for International Earth Science Information Network - CIESIN - Columbia University. 2020. 2020 Environmental Performance Index (EPI). Palisades, NY: NASA Socioeconomic Data and Applications Center

25 UNDP BIOFIN (2019). Environmental Finance Policy and Institutional Review in the Kyrgyz Republic

26 Based on: 'Climate Investment Programme. Operational Framework for Managing and Accessing Climate Finance in the Kyrgyz Republic', 2018.

27 World Bank and Asian Development Bank (2021). Climate Risk Profile: Kyrgyz Republic.

64 As a result of human activity, some plant and animal species have disappeared altogether, while others are endangered,[28] among which are iconic and culturally relevant species such as the snow leopard. Climate change and anthropogenic activities put ecosystem functions under pressure. The lack of smart and environmentally friendly economic policies and natural resource use pricing mechanisms leads to the overuse of natural resources and the further degradation of habitats. The dependency of the population on natural resources is still high: more than half of the country's population depends on meadow ecosystems (pastures), and about 18 percent depend on forest ecosystems.[29]

65 Air pollution has rapidly become a key health, environmental, social, and political issue in the country. Without adequate mitigation measures, pollution levels are set to rise in the future. Sources of emissions include the wide use of coal for heating by the population[30] and electricity generation, burning of waste, and motor transport. Official statistics of air pollution emissions by only the stationary sources, show that emissions over the 2010-2019 period increased by more than 77 percent.[31] Low energy efficiency of buildings also contributes to increased pollution, encouraged by the 60-80 percent heating subsidy by the state and municipalities which creates negative incentives to save thermal energy.[32] State institutions lack the capacity and resources to effectively address the challenges of air pollution.

66 The National Determined Contributions (NDC) presented at COP-26 in Glasgow in 2021 outline the costs of meeting the republic's climate change objectives. General implementation adaptation measures total around US$ 10 billion from own resources, the private sector, international donors, national budget funds, with a 63 per cent need for international financial support. As a lower-middle-income country prone to frequent natural disasters and affected by the impact of the COVID-19 pandemic, an investment of this magnitude will take considerable effort in resource mobilization. In the future voluntary carbon markets and carbon taxes will need to form part of the financing strategy. Moreover, as noted in the DFA Road Map presented at the end of this assessment, a much wider range of climate financing instruments are recommended, beyond the Global Climate Fund (GCF) and Global Environment Fund (GEF).

2.8 SDG Financing Needs and Priorities

67 The costing exercise undertaken by the IMF in 2019 for the Kyrgyz Republic provides sufficient insight into the level of resources required to finance key SDGs. With an SDG Index Score of 73.7 and an SDG Rank of 48 out of 163, the country has already made good progress in many areas, however there remains room for improvement for individual goals.

68 In 2019, the IMF provided provisional estimates of the additional spending required to achieve the SDGs in five sectors over the period 2019–30 (IMF 2019). The costing estimate amounts to over 100 percent of 2018 GDP during 2019–30, however, given the collapse in GDP as a result of the 2020 COVID-19 pandemic, and that only five of the major SDGs were costed, it is expected that the total cost of meeting the SDGs is likely to be in the 150-200 per cent of GDP range given the high costs of SDGs related to climate change (SDG 13), no poverty (SDG 1), zero hunger (SDG2) etc. Though bottom-up costing needs to be undertaken to determine specific SDGs costs at the sectoral and cross-sectoral level, a ballpark figure of US$ 12 to 16 billion dollars between 2022 and 2023 (conservatively) to meet financial SDG financing needs.[33]

28 Biodiversity conservation priorities of the Kyrgyz Republic till 2024. Available at: https://www.cbd.int/doc/world/kg/kg-nbsap-v3-en.pdf [in Russian].

29 Available at: https://chm.cbd.int/database/record?documentID=243111.

30 NSC and UNICEF (2019). Kyrgyzstan Multiple Indicator Cluster Survey 2018.

31 NSC (2020). Environment in the Kyrgyz Republic in 2015-2019 [in Russian].

32 UNDP BIOFIN (2019). Op. cit.

33 2 The costing methodology mainly follows the IMF Staff Discussion Note by Vitor Gaspar and others, Fiscal Policy and Development: Human, Social and Physical Investment for the SDGs, forthcoming. Excel-based templates designed by the IMF Fiscal Affairs Department (FAD) are used in costing health, education, water and sanitation, and road, with country-specific parameters calibrated by staff. Good performers in the health sector refer to those scored above 70 under the third Sustainable Development Goal (SDG3). Countries with expected per capita GDP below 3000 dollars that fall into this category include Honduras, the Kyrgyz Republic, Morocco, Moldova, Nicaragua, Uzbekistan, and Vietnam

69 As a detailed costing has not been undertaken, the results of the IMF 2019 SDG costing are provided below, and as stated above, as this is the year prior to the COVID-19 pandemic, the overall findings likely still resonate. According to the IMF costing exercise, three infrastructure sectors―roads, water, and electricity require additional expenditure amounting to 63 percent of 2018 GDP (nearly two thirds of which is accounted for by investment in roads), while the health and education sectors require additional expenditures of 18 and 25 percent of 2018 GDP, respectively. If we assume average annual real GDP growth of 4.5 percent during 2019–30, the total additional expenditure required by these five sectors to meet the SDGs amounts to 6.6 percent of GDP over the course of the 12-year period, of which 3.9 percent of GDP comprises expenditures in the infrastructure sectors and 2.7 percent of GDP expenditures in the education and health sectors. A summary of the five sectors reviewed and their costing needs are provided below:

- ***Health***. The sector is characterized by relatively ample human resources and moderate pay to doctors and has delivered reasonably good outcomes—one of the good performers among countries with similar per capita income.3 However, compared with other good performers, there seems to be room to have a more efficient allocation of medical staff and make the doctors' wage more competitive. The costing exercise keeps a constant ratio of doctors (1.9 doctors per 1000 population) and assumes a gradual decline for other medical staff to the average of good performers (from 6.6 per 1000 population in 2018 to 5.4 in 2030). It also assumes a gradual convergence in doctors' wage as a ratio to per capita GDP from 5.8 to 8.1 during the same period, closing half of the wage gap between the Kyrgyz doctors and that of the high-pay good performers. Demand for health service is assumed to follow population growth as projected by the United Nations. Relative to the baseline where the country spends a constant share of GDP on wages, the exercise suggests a cumulative 18 percent of 2018 GDP additional spending would be needed to meet the growing demand up to 2030.

- ***Education***. Though enrollment rate is almost universal for primary and secondary education in the Kyrgyz Republic, it is relatively low for pre-primary and tertiary education (below 50 percent). Moreover, anecdotal evidence suggests a deterioration of education quality in recent years. The costing exercise assumes a gradual improvement of average enrollment from its current level (58 percent) to the average of Caucasus and Central Asia (CCA) countries (69 percent) during 2019. As a conservative estimate, student-teacher ratio (15.1) and teachers' wages to per capita GDP ratio (3) are kept as constant. The resulted additional spending amounts to around 25 percent of 2018 GDP to keep up with the expected expansion of student-age population and to facilitate higher enrollment.

- ***Road***. Road costing is highly tentative owing to data limitation. The methodology aims to estimate the length of new road needed based on the targeted improvement in access—measured by rural access index to capture the connectivity of remote areas—and the predicted trend for economic and population growth.4 Assuming an improvement of the rural access index to the average for emerging and developing Europe (from 76 percent to 81 percent), an extra 1900 kilometers of road will need to be built with an estimated cost of 40 percent of 2018 GDP.[34]

- ***Water***. The methodology is developed by the World Bank which measures the infrastructure needs for affordable, safe, and sustainable access to water and sanitation services.5 The estimated investment needs are around $955 million, or 12 percent of 2018 GDP.

[34] For the Kyrgyz Republic, the unit cost is estimated as the average of four recent road construction projects (Bishkek-Osh, Bishkek-Naryn-Torugart, Taraz-Talas-Suusamyr, and Alternative North-South Road), which is around $1.2 million per kilometer, much higher than global average ($0.5 million). As these are long-distance roads, the implied unit cost would overstate the cost for local roads. Consequently, only international and state roads are considered in the exercise, which are measured at 9841 kilometers. See World Road Transport Organization, Road Transport in Kyrgyzstan–2013, Bishkek 2013. Information on the four road projects can be found in Data Collection and Survey on Osh City Road Transportation in the Kyrgyz Republic by Japan International Cooperation Agency Katahira & Engineers International, March 2016.

- ***Electricity***. The Kyrgyz Republic enjoys almost universal access to electricity and stands well regarding SDG on electricity. However, the sector is in financial distress and suffers from under-maintenance and under-investment.6 To keep the sector running, the rehabilitation needs alone are estimated at $865 million, or 11 percent of 2018 GDP.

70 Table 4 below provides the cumulative additional spending during 2019-30 for health and education, stock of new investment for road, water and sanitation without considering depreciation, and rehabilitation cost for electricity. The SDG costing for these sectors includes only additional spending on human resource. Moreover, given that the Kyrgyz Republic has achieved universal access to electricity and has a high share produced by hydropower, only rehabilitation cost is included in the SDG costing.

Table 4. Additional Cumulative SDG Spending Between 2019-30 for Five SDGs

#	*Sector*	*GDP %)*
1	Health	17.7
2	Education	24.6
3	Road	40.7
4	Water and Sanitation	11.8
5	Electricity	10.7

Source: IMF,

71 Despite dependence on public funds for financing the SDGs in the sectors mentioned above, the reality is that future fiscal challenges require a new approach to financing sustainable development to be adopted including a stronger role for the private sector, incentivizing and de-risking, and in aligning and integrating market-based solutions to support SDG attainment. To this end, and concluding from the preceding analysis, implementation of the INFF will be critical to:

- Mobilize additional financing to support sustainable development priorities.
- Better manage an increasingly complex financing landscape.
- Enhance coherence across different financing policies, ensuring synergies, inconsistencies and trade-offs, and align them to medium and long-term sustainable development priorities.
- Identify, adopt and streamline the wide variety of tools and instruments emerging in other contexts.
- Enhance the transparency of financing flows.
- Match different types of financing – domestic and international, public and private – to their most appropriate use and in achieving greater impact vis-à-vis national priorities and needs.
- Better align support from international partners with the Kyrgyz Republic’s own national priorities and develop policy requests to the international community on financing issues that affect national development, but over which it may have little or no control.
- Overcome existing impediments to financing sustainable development.

72 The INFF links to the growth agenda, building from the countries natural endowments in order to capitalize on agriculture and agri-business with a potentially large outreach to rural population (65%) with direct poverty reduction impacts. Minerals, hydropower and solar energy can also be tapped to diversify the natural resource base and tourism can invest against strong cultural, historical heritage and natural beauty. Labor-intensive, skill-based production can support both the young and educated population and people with disabilities by providing equal pay of equal value. Opportunities for growth include increasing integration into the global economy by capitalizing on WTO and EAEU membership, and BRI opportunities, with the country’s proximity to large markets for agricultural products with growing East-West trade that transits Central Asia also being supported by access to virtual markets globally with information and communications technology (ICT) development to leverage high productivity growth opportunities. Changes in regional and global trade patterns – including a switch from off to near-shoring – will shorten many value chains with a potential to benefit

regional trade flows. Trade patterns and discrepancy in data on imports from China need to be carefully monitored. In this sense, investing in the digital economy (and indeed digital agriculture) and Industry 4.0 will provide considerable returns to growth, revenue and jobs. Investing into agenda, based on recommendations made in the 2022 Bishkek Economic Forum

- ***Productive and Competitive Private sector***: Catalyze private sector-led growth including in agriculture (including digital agriculture) through deeper trade integration and stable macro-fiscal framework, as well as new models for crowding in private capital

- ***Effective Public Sector***: Build an effective state based on the rule of law, high governance standards, strong financial market supervision and strengthened risk-management capacities

- ***Enhanced Human Capital***: Promote inclusion by investing in human capital (educational and training systems) and improved public services, with reforms in social protection,

- ***Green Economy and Climate Change Resilience***: Implement climate change strategies focusing on land productivity, restoration and climate-resilient infrastructure, linked to new climate financing instruments.

2.9 IMPLICATIONS FOR SDG FINANCING

73 The sustainable financing context provided above informs the subsequent DFA sections and the selection of road map priorities. Moreover, as the DFA focuses on the period 2023-2030, and with the world embracing the digitalization for markets, industries and sectors, the road map must not just identify policy and instrument for 2023, but also provide some vision and direction of carriage up until 2030 and perhaps beyond.

74 This section highlights that under-developed capital and financial markets reduce the potential range and number of new instruments that can be called upon to reduce the SDG financing gap. Upper income economies with more developed markets have greater options. For this reason, putting in place both capital and financial market development road maps is imperative, if the range of future instruments it to increase. Critically important, is realizing that while the Kyrgyz Republic is a sovereign nation, certain drivers of change such as the emergence of digital economies, the open banking revolution, decarbonization, mobile payments and rise of thematic bonds are a globally revolution that can’t be avoided.

75 The implications of this section for reducing macro-economic volatility, for increasing resilience, and for closing the SDG financing gap is that a combination of policy, institutional and financing instrument transformation are now required to increase the range of resources available to the three priority sectors (agriculture, education and the green and circular economies, as well as digitalization as a critical cross-cutting investment area). The public and private, domestic and international domains all need to align to support the SDGs, and as this DFA makes clear, aligning public sector spending remains the largest single flow to meeting this objective and to enabling private capital within the sectors identified by the President’s Administration.

Chapter 3

The Kyrgyz Development Finance Landscape

3. THE KYRGYZ DEVELOPMENT FINANCE LANDSCAPE

76 This section provides a description of the current financing ecosystem, financing trends, risk analysis and policy and institutional binding constraints. It looks at existing emerging and potential financing instruments and mechanisms, providing a comprehensive summation of all major components of the financing landscape, including market intermediation functions, across the public and private, domestic and international areas. It also includes details on sub-national financing for Batken, Jalal-Abad and Naryn oblasts. In reading this section, it is worth noting that the private sector accounts for 75 per cent of GDP, but productivity has been persistently negative.

3.1 DOMESTIC PUBLIC FINANCE [35]

77 Domestic public finance constitutes a significant financing flow in the Kyrgyz Republic, and is therefore the primary investor in sustainable development. The government fiscal year runs from 1st January to 31st December. Government leads national strategy development and is the national policy maker and market regulator. The Ministry of Finance (MoF) is responsible for Public Finance Management (PFM), but also for creating the conditions for ensuring socio-economic progress and sustainable development through the formation of state economic policy, determining the priority of the country's economic development and increasing the investment attractiveness of the country and creating favorable conditions for doing business. The ministry has a wide mandate and with NBKR is vital for financing of SDGs and development and deepening of financing markets.[36] The following laws in particular are relevant to public finance:

- ***PFM Law (2016):*** The primary legislation providing for PFM is the revised Budget Code enacted in 2016, which came into effect at the beginning of 2017. The Code prescribes how the budget is to be structured, prepared, enacted, executed and reported. The code also outlines the management of state and municipal debt, budgets of the Social Fund of the Kyrgyz Republic, Mandatory Health Insurance Fund under the Government of the Kyrgyz Republic, and also determines the status of participants in the budget process and legal basis for responsibility at violation of budget legislation. The Budget Code also provides for medium-term fiscal planning and the use of program budgeting in the planning and management of government agencies. The Budget Code aims to encourage sub-national economic development, attracting investments and grants, managing municipal property, formulation, approval and execution of local budget are referred to issues of local importance. A new law on state administration and self-governance bodies" was adopted in 2021.

- ***Procurement Law (2022)***: The 2022 Public Procurement Law requires transparent and competitive procurement throughout the public sector, with legislation supported by other regulatory legal acts providing sound principles for the procurement of works, services and supply contracts. State bodies, budgetary institutions, local self-government bodies, state enterprises procure within the framework of the law.

- ***Tax Code (2021)***: Signed into law in 2022, the 2021 Tax Code adopted by the Jogorku Kenesh aims to optimize tax administration, ensure the stability of the tax system, further improve the digitalization of tax procedures, create equal conditions for doing business and reduce the shadow component of the economy. The Code outlines the general tax regime for income tax, sales tax and value added tax (VAT), also outlining the mandatory threshold for VAT registration. Tax incentives are also provided for key growth industries, though improvements to the application of taxes to support the green and circular economy transition is needed. The

[35] In 2021, a Public Expenditure and Financial Accountability (PEFA) was undertaken, from which observations have been drawn.

[36] The ministry's mandate covers macroeconomic, antitrust, tariff, licensing, investment, foreign trade, fiscal policies, policies in the field of public-private partnerships, state material reserves, economic and regional development, management state property, technical regulation and metrology, as well as in the field of development of halal industry, trade, development of entrepreneurship and optimization of the regulatory framework of business regulation, development of free economic zones.

administration, collection and enforcement of taxes is undertaken by the State Tax and Customs Services which function as self-standing units of government. Given the need for a Medium-Term Revenue Strategy (MTRS), revisions to tax policy will be necessary.

- ***Law on the Chamber of Accounts (2004), the last amended in 2020***: The law defines the status, goals, objectives, principles, functions, powers, rights and responsibilities of the Chamber of Accounts of the Kyrgyz Republic.

- ***Internal Audit (2009), the last amended in 2018***: The law regulates relations associated with the implementation of internal audit of state bodies and institutions, and states principles and bases of its conducting and functioning. This Law cover ministries, state committees, administrative departments, other state bodies, and other executive bodies, bodies of the state social insurance and pension system, local self-government bodies, their subordinate organizations, state enterprises.

78 Within the constitutional, legal and regulatory regime outlined above, the domestic public finance is described in detail below. Given the role that the public sector will have in incentivizing transition to a more sustainable way of working, the analysis that follows outlines entry points for reform, as the widening the resource base to support sustainable development.

3.1.1 General Government Revenues

79 General government revenue ranges from 33.3 per cent of GDP in 2017, increasing to around 39.5 per cent in 2022, with tax revenues ranging from 19.3 per cent of GDP in 2017 to 26.7 per cent in 2022. Medium-term fiscal outturns are impacted by exogenous factors including changing remittance flows, currency depreciation and fluctuations in gold output and global prices (gold constituted up to 10 percent of GDP and 40 percent of exports). The COVID-19 pandemic negatively impacted public finances, leading to a fiscal deficit of 3.3 percent of GDP in 2020 compared to 0.1 percent in 2019, despite government cutting capital and goods and services spending. In 2022 deficit raised to 5.6 percent to GDP due to increase in wages and pensions and start of big infrastructure projects. Donor financing also fell short by 2.4 percent of GDP as a result of the political events in October 2020, highlighting the need to increase the resilience of public finances. Combined with debt distress, largely resulting currency depreciation, the need to strengthen tax policy and administration to raise more revenue is imperative. Table 5 below provides an overview of general government finances, showing the impact of the pandemic, accompanied by an increase in debt to GDP ratio (up to 67.6 per cent in 2020 with slight decrease in 2022 – to 58.3 percent), though it has since fallen back below 60 per cent in line with the fiscal rule) and the increasing dependence on domestic debt.

Table 5. General Government Finances (percent of GDP)

	Actual					*Est.*	*Projected*		
	2017	***2018***	***2019***	***2020***	***2021***	***2022***	***2023***	***2024***	***2025***
Revenue	33.3	32.5	32.5	30.8	34.0	39.5	36.3	36.7	36.2
Of which: Tax revenue	19.3	20.2	19.6	17.4	20.5	26.7	25.7	25.8	25.5
Expense	29.2	27.9	27.4	30	28.3	33.9	34.7	34.4	34.3
Gross operating balance	4.1	4.6	5.1	0.9	5.7	5.6	1.7	2.3	1.9
Net acquisition of nonfinancial assets	7.9	5.2	5.2	4.1	6.5	10.7	6.2	6.9	6.7
Overall balance (net lending/borrowing)	-3.7	-0.6	-0.1	-3.3	-0.8	-5.2	-4.6	-4.5	-4.7
Primary net lending/borrowing	-2.9	0.4	0.8	-2.3	0	-4.2	-3.5	-3	-2.8
Total state government debt [3/]	58.8	54.8	51.6	67.6	60.8	58.3	57.9	57.8	58.8
Of which domestic debt	5.8	7.8	8.3	9.7	10.3	11.5	13.7	16.8	19.7

Source: Government and IMF Estimates and Projects (Article IV Consultation (2021 and 2022)

80 As a unitary Presidential Republic, the State government comprises central and local governments. Tax sources for the period 2012 to 2021 are provided in Table 6 below, showing the increasing importance of VAT and excise taxes in particular. Moreover, the tax-to-GDP ratio is higher

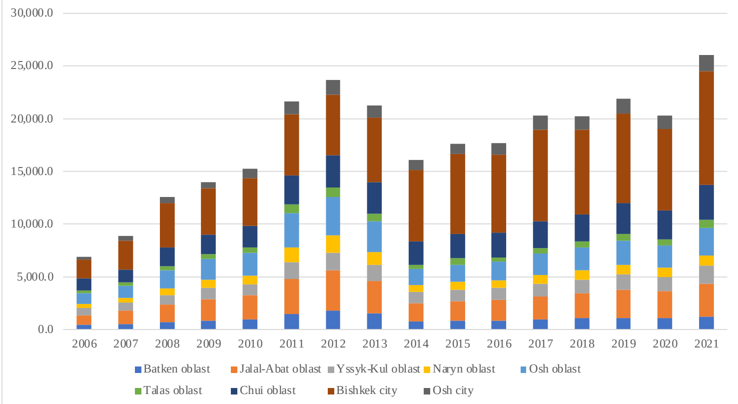
than that of selected country comparators such as Turkey, Turkmenistan, and Uzbekistan and higher than Lower- and Middle-Income Country (LMIC). As noted in the World Bank Monthly Economic Update of May 2022, the budget ran a surplus of 1.2 percent of GDP thanks to strong revenue performance, with revenues increasing to 47.3 percent of GDP from 40.4 percent in 2021 driven mainly by tax revenues.[37]

Table 6.	**GENERAL GOVERNMENT TAX REVENUES (SOMS MILLION) (2012-2021)**									
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
Tax Revenue	**63,911**	**72,842**	**82,639**	**84,655**	**93,810**	**103,368**	**116,614**	**121,526**	**106,929**	**151,185**
Income and corporate tax	18,537	17,221	19,635	21,773	22,253	24,392	26,702	29,818	32,351	39,972
Income	7,134	7,545	8,542	9,514	10,594	11,110	11,474	12,862	12,151	15,325
Corporate Tax	4,098	4,268	4,300	4,111	3,659	4,301	5,504	6,465	8,356	13,601
VAT	25,769	30,083	32,663	33,221	39,297	45,131	52,786	50,912	39,461	63,634
Property	1,724	2,065	2,210	2,286	2,495	2,625	2,810	2,950	2,804	3,081
Excise	2,827	4,090	6,334	7,757	9,059	9,506	10,296	9,945	8,994	11,371
Other Fees and Taxes	-1	88	7	2	3	2	1	34	3	2,002
Etc.	15,055	19,296	21,790	19,616	20,703	21,711	24,019	27,866	23,316	31,126
Non-tax revenues	**17,252**	**19,770**	**26,780**	**34,328**	**26,816**	**30,255**	**25,711**	**32,314**	**33,304**	**44,903**

Source: Kyrgyz Republic Ministry of Finance

81 The fiscal deficit averaged 4 percent of GDP during 2014-2018, which is higher than the proposed fiscal rule threshold and at the maximum average level of cyclically adjusted deficit, which prevented the public debt-to-GDP ratio from rising at that time. Given ongoing fiscal challenges, an MTRS would need to focus on reducing revenue losses, improving the VAT refund mechanism, improving taxpayer segmentation, reducing tax exemptions and strengthening tax administration though improving e-filing, taxpayer registration, and risk-based auditing). (IMF, Article IV Consultation, 2021). Reducing fossil fuel subsidies and increased taxes on carbon and environmentally unsustainable activities can also be included. Moreover, the potential to enhance fiscal decentralization as part of an expanded MTRS, Chart 8 provides a summary of state revenue contributions for the period 2006-2021, showing the dominant performance of Bishkek. Between 2011 and 2019 state revenue collection experienced zero growth, though collections increased in 2021. (See Chart 8 below)

Chart 8. STATE GOVERNMENT REVENUES (2006-2021) (SOMS MILLIONS)



Source: Ministry of Finance

82 The Concept of Fiscal Policy of the Kyrgyz Republic for 2015-2020 outlined the primary fiscal space challenges as follows:

- Insufficient level of transparency in formation and distribution of revenues of the Social Fund of the Kyrgyz Republic.

[37] https://www.worldbank.org/en/country/kyrgyzrepublic/brief/monthly-economic-update

- Establishment of a number of non-tax payments by by-laws as well as lack of systematic legal regulation of their administration.
- Inability to make quality government decisions due to the lack of reliable statistical and registration information on the sectors and subjects of entrepreneurship in the classification adequate to the objectives of the fiscal policy pursued.
- Insufficient involvement and motivation of local self-governments in the management and increase of local tax collection.
- Duplication of business registration by state bodies and lack of operative cooperation in information exchange between them.
- Lack of uniform application of tax legislation norms by different state institutions: fiscal agencies, law enforcement bodies, judicial bodies, Jogorku Kenesh of the Kyrgyz Republic in practice leads to numerous and lengthy court proceedings on tax legal relations.
- Uneven distribution of tax burden, accompanied by an extensive and not always reasonable list of exemptions from taxes and other obligatory payments, a significant level of shadow economy, significant burden on the employer on contributions to the Social Fund of the Kyrgyz Republic.
- The presence of ambiguities and gaps in the legislation, which does not fully meet the tasks of administering mandatory payments by fiscal and law enforcement agencies, on the one hand, and the needs of taxpayers to ensure the fulfillment of obligations under them, on the other hand.
- Inefficient administration of taxes and other obligatory payments to the budget, primarily due to the low staff capacity of the bodies responsible for the development and implementation of fiscal policy in the country.
- Lack of system of tax culture formation among taxpayers and officials of all branches of government, in society as a whole. Over the period of statehood of the Kyrgyz Republic in the country a very negative stereotype of behavior of citizens in relation to the performance of tax obligations, which destroys the very foundations of the state. The lack of understanding among a significant part of the population that paying taxes is the main responsibility prevents the growth of competitiveness of the legal economy, overcoming systemic corruption, and increasing the ability of the state to fulfill social obligations.[38]
- The IMF recommends better accounting for imports from the PRC (and, accordingly, customs revenues should increase) and reducing tax exemptions.

3.1.2 OBLAST REVENUE TRENDS

83 The fourth Principle of the Mid Term Plan is the ‘creation of strong and independent regions, including through investing in them and promoting the formation of points of regional growth. A new up-to-date model of the administrative-territorial structure is required that meets the requirements of the time and the needs of society.’ (Government of Kyrgyz Republic, 2021-2026 Mid Term Plan). Under reform of the territorial system, the Mid Term Program targets the following approach, of relevance to the decentralization of sustainable financing solutions:

- Phased decentralization of public administration, providing for the transfer of executive powers from the central level in the territory.
- Establishing clear distinctions: central level - strategic planning, policy development, monitoring and evaluation of its implementation; territorial level - the practical implementation of state policy on the ground.
- Introduction of a new system of inter-budgetary relations in order to increase efficiency, give incentives to municipalities to increase their own tax base, as well as eliminate the imbalance in the development of territories.

[38] The state of the business environment and enterprise performance" (BEEPS), conducted by the European Bank for Reconstruction and Development and the World Bank, which show that the frequency of bribes in Kyrgyzstan is very high compared to the average for Central Asia.

84 One area where other countries have made considerable progress, is fiscal decentralization. Even though the Kyrgyz Republic is a unitary state, increasing fiscal decentralization is probably now vital to increase revenue mobilization, and from an SDG point of view, regions and municipalities in effect constitute front line service delivery units, where innovate and sustainable instruments will need to be deployed. Moreover, instruments such as ecological fiscal transfers, municipal PPPs and apex SME funds can be developed to support local economic development and resilience.

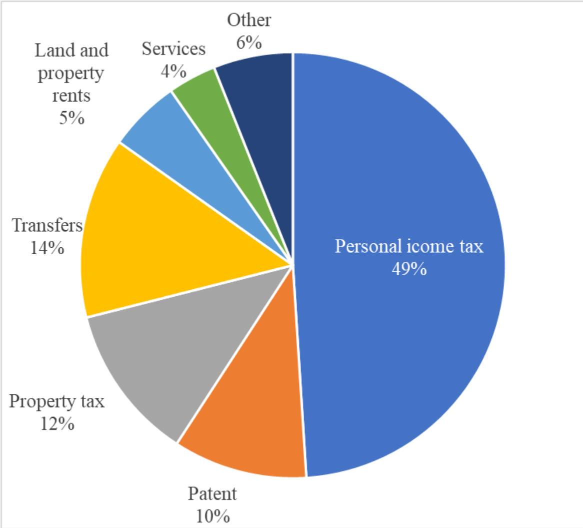
85 Urban and rural municipalities remain important public and municipal services providers, particularly in the water and sewerage, local roads, solid waste management and in the maintenance of school buildings and specific social programs. In moving towards a whole-of-society approach, the regions will therefore be increasingly relied up on execute the National Vision, but also to increase the use of innovative and sustainable financing to expand fiscal resources. While the according to the organic budget law (Section 54), the equalization transfer is intended to 'cover the financial gap between the level of income and the needs of local budgets', the reality is that high operating costs and limited discretionary finance impede investment at the regional level.[39]

86 Urban and rural municipalities derive their revenues from three major sources: (i) shared taxes; (ii) locally administered taxes; and (iii) transfers from the central government. The term "shared" refers to taxes that are collected by the central government (although local governments may be involved in their administration), with fixed shares of the proceeds transferred to local governments based on origin, that is, according to the jurisdiction where the tax was collected. Local governments derive significant revenues from the so-called simplified taxation system: a single tax and a patent-based tax. These are forms of business tax that replace several taxes. These taxes can be chosen by individual entrepreneurs and firms that do not reach the threshold for paying value-added tax (VAT). The largest single shared tax is the personal income tax (PIT).

87 Local governments are authorized to impose their own taxes on various forms of property, specifically, buildings, land, and vehicles, as set out in the Tax Code and the organic budget law. As noted above however, the law and tax code do little to incentivize local governments to diversify their revenue base, though changes to public investment planning to integrate new financing instruments can emerge (as it has in Indonesia and Malaysia for example) as an important additional source of financing. Local governments revenue sources as of 2021 are provided in Chart 9 below, highlighting the need to introduce new instruments to diversify revenues and improve access to financing.

Chart 9. LOCAL REVENUE SOURCES (2021)

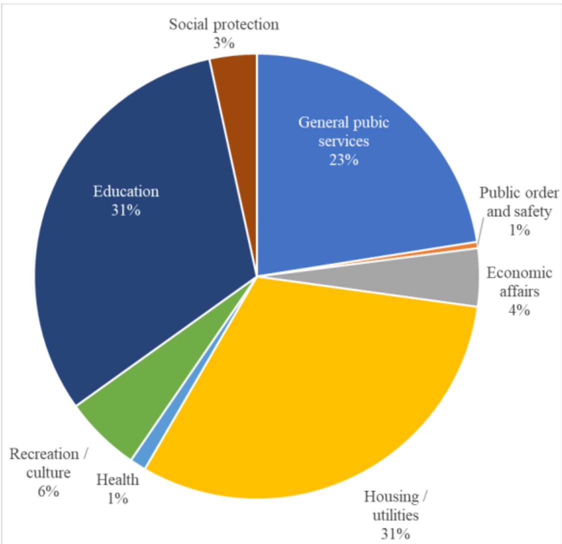
[39] To simplify the methodology begins with a calculation of the "revenue capacity" of each jurisdiction. Revenues for this purpose include both shared taxes (the PIT, sales tax, and patent-based taxes) and local taxes on property (including taxes on land, buildings, and vehicles) as well as revenue from the rental of municipal land. For this purpose, jurisdictions are classified into four groups: (1) Bishkek and Osh; (2) oblast-level cities; (3) rayon-level cities; and (4) aiyl okmotus. The potential yield of each revenue source is determined by the MoF, based on a representative jurisdiction in each group.



Source: MoF (2022)

88 In terms of SDG localization, and the three primary priorities identified for the INFF, Chart 10 provides local sectoral spending priorities for 2021, showing the dominance of education (34 per cent), housing and utilities (28 per cent) and general public services (22 per cent), with health at 1 per cent, recreation at 6 per cent, social protection at 4 per cent and economic affairs at 5 per cent. While some the SDGs related to education (SDG 4), health (SDG 3) are integrated here, climate (SDG 13), gender (SDG 5), affordable and clean energy (SDG 7), sustainable cities and communities (SDG 11) and Climate Action (SDG 13) are not. Discussions with a number of oblasts confirmed that direct alignment of public spending with the SDGs is not explicit, and not reported.

Chart 10. LOCAL EXPENDITURE PRIORITIES (2021)



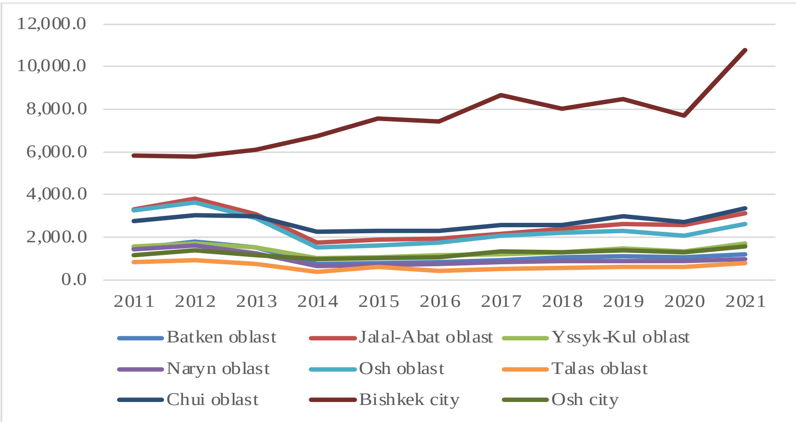
Source: MoF (2022)

89 The Republican Budget and the sum of local budgets together make up the State Budget. For Batken, Jala-Abad and Naryn (where DFA discussions were conducted), SDGs are not formally integrated or aligned to oblast annual or medium-term plans, and developing SDG budget tagging would be useful to quantify current spending towards sustainable development. To get a sense of the fiscal transfers provided to local governments and local government revenues when compared to the total general government budget, in 2021 an initial budget of KGS 293.2 billion provided only KGS 3,6

billion at fiscal transfers to the local governments, against total local government spending of KGS 21.6 billion. Local revenues therefore cover around 80 per cent of local government spending.[40]

90 As outlined in Chart 11 below, Bishkek City remains a dominant generator of local government revenues, with all other oblasts seeing a reduction in local revenue collection from a peak in 2012. As discussed with Batken, Jalal-Abat and Naryn officials, it is necessary to increase sustainable financing resources at the local government level, and though oblasts are legally allowed to issues bonds, they currently do not. What is clear however that a strong focus on local revenue mobilization, public investment alignment with the SDGs and adopting of new instruments to strengthen private financing will be an important element of any SDG localization support.

Chart 11. OBLAST STATE REVENUES (MILLION SOMS) (2011-2021)



Source: National Statistic Committee (2022)

3.1.3 GOVERNMENT EXPENDITURE PRIORITIES

91 Government revenue and expenditure constitute a larger share of GDP than in neighboring countries. The Republican Budget and the sum of local budgets together make up the State Budget, though total General Government Expenditure (GGE) also includes the Social and Mandatory Health Insurance Funds as well as by transfers from the Republican Budget. Wage and non-wage recurrent costs dominate expenditure prioritization, with government-financed capital and recurrent expenditures accounting for about 88 percent of total expenditures.[41]

92 The budget of the Kyrgyz Republic faces sustainability challenges, as made evident by the COVID-19 crisis. Lack of resilience to external shocks, lack of funding in the health, education and infrastructure sectors, limited sub-national funding (block grants and regional revenue sources), budget credibility challenges (difference between planned and actual spending) and large subsidies to the energy sector which reduce fiscal space for the SDGs, and other priorities.

93 According to the 2020 Public Expenditure Review (PER) published by the World Bank in 2020, 'the quality of public spending–defined by the objectives of supporting growth and addressing the needs of the poor and the vulnerable–needs strengthening. This is especially so given much higher spending on wages and salaries than in comparable countries: 8.8 percent of GDP in the Kyrgyz Republic versus about 5 percent of GDP in the Caucasus and 4 percent of GDP in Kazakhstan; similarly, spending on goods and services is high in relative terms. (World Bank, PER, 2020). A wage rate hike was introduced in 2021 and in January 2022 the minimum wage has been revised SOMs 1,970 per month.

[40] https://www.pefa.org/sites/pefa/files/2021-10/KG-Aug21-PFMPR-Public%20with%20PEFA%20Check.pdf
[41] https://openknowledge.worldbank.org/bitstream/handle/10986/35789/Kyrgyz-Republic-Public-Expenditure-Review-Creating-Fiscal-Space-for-Inclusive-Growth.pdf?sequence=1&isAllowed=y

94 Table 7 below provides an overview of government recurrent expenditures for the period 2012 to 2021. Given that the budget is the primary source for a substantial amount of SDG related expenditure, fiscal space will be key. The recent wage hike has had an impact on wage recurrent costs, with the increase seen between 2019 and 2021. Since 2012, subsidies have tripled and social benefits have doubled.

Table 7. GOVERNMENT RECURRENT EXPENDITURE (SOMS MILLION) (2012-2021)

Items	2012	2013	2,14	2015	2016	2017	2018	2019	2020	2021
Expenditure	**107,240**	**104,271**	**121,304**	**134,572**	**151,559**	**166,024**	**157,796**	**167,844**	**171,874**	**211,701**
Expenditure for realization of current activity	**100,023**	**86,600**	**95,585**	**105,252**	**115,961**	**124,910**	**129,098**	**136,118**	**147,409**	**165,337**
Compensation of employees	35,170	36,783	40,451	44,984	50,856	53,607	48,803	52,047	60,908	65,177
Social contributions	4,963	5,133	5,457	6,048	6,845	7,342	6,369	6,812	7,845	8,413
Business trips	658	743	925	1,065	1,177	1,335	1,405	1,535	595	1,188
Utilities	3,134	3,070	3,247	4,227	4,137	4,703	4,017	3,794	3,902	4,169
Rent Payments	208	288	327	367	448	466	482	481	464	571
Transportation services	971	1,089	1,221	1,371	1,298	1,420	1,319	1,360	1,201	1,642
Acquisition of other services	7,138	8,057	8,165	9,954	9,345	9,973	8,970	9,256	7,804	10,631
Acquisition of medical supplies	831	1,031	1,128	1,182	1,473	2,460	922	664	1,249	2,584
Acquisition of food supplies	3,224	3,720	3,980	4,200	4,281	4,675	4,281	4,396	2,852	4,314
Interest	2,929	2,993	3,499	4,129	5,153	5,926	7,156	7,787	8,465	8,437
Subsidies	2,404	2,562	3,400	3,531	5,062	5,348	4,559	4,409	4,146	6,049
Grants	162	158	210	275	502	479	11,081	11,215	13,559	15,407
Social benefits	16,622	20,056	22,733	24,228	24,389	25,862	29,030	31,481	33,814	36,078
Other expenditures	21,609	917	842	905	996	1,314	705	883	605	677
Expenditures for acquisition of non-financial assets	**7,217**	**17,672**	**25,719**	**29,320**	**35,598**	**41,113**	**28,698**	**31,726**	**24,465**	**46,363**

Source: Kyrgyz Republic Ministry of Finance (2023)

95 A functional classification of state budget expenditures for the period 2012-2021 is provided in Table 8 below, highlighting a shift towards greater spending on expenditures for acquisition non-financial assets in the state budget, rising from 6.7 percent in 2011 to 24.8 percent in 2017 and 21.9 – in 2021. This was mainly at the expense of reduced expenditures on economic affairs. While other government functions roughly maintained the structure of expenditures. As noted in the previous chapter, considerable additional spending is required to achieve the SDGs with the three infrastructure sectors of roads, water, and electricity requiring additional expenditures amounting to 63 percent of 2018 GDP (nearly two thirds of which is accounted for by investment in roads). Both health and education sectors require additional expenditures of 18 and 25 percent of 2018 GDP, respectively, despite falling in recent expenditure priorities. New sources of financing are therefore required to increase resourcing for the SDGs, through new instruments, mechanisms and partnerships, supported by a major drive towards improved revenue collecting and widening of the tax base and improved fiscal savings through changes to subsidies and improvement in the commercial viability of state-owned enterprises.

Table 8. STATE BUDGET FUNCTIONAL EXPENDITURES, 2012–21 (% OF TOTAL)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
General public services	10.2	10.3	10.3	10.5	10.3	10.3	12.0	12.2	12.5	11.0
Defense, public order and safety	9.3	10.9	11.2	11.0	10.5	9.9	10.9	10.6	11.6	10.5
Economic affairs	20.7	3.8	3.7	4.0	4.1	3.8	3.8	3.3	3.0	3.7
Environmental protection	0.5	0.5	0.5	0.5	0.5	0.4	0.5	0.4	0.4	0.3

Housing and community amenities	3.2	3.4	3.3	3.1	3.3	3.2	3.1	2.9	3.0	2.7
Health	10.6	11.3	9.9	9.5	8.8	9.7	8.6	8.3	10.0	9.8
Recreation, culture and religion	2.3	2.6	2.4	2.4	2.5	2.2	2.7	2.4	2.1	2.1
Education	20.2	20.8	18.5	18.9	20.0	19.4	21.2	21.4	23.2	20.7
Social protection	16.3	19.5	19.2	18.4	16.5	16.2	19.1	19.5	20.0	17.3
Expenditures for acquisition non-financial assets	6.7	16.9	21.2	21.8	23.5	24.8	18.2	18.9	14.2	21.9

Source: Kyrgyz Republic MoF.

96 An overview of general government expenditures for the sector for the period 2021 and 2022 (January to April) is provided below (See Table 9) in GDP percentage terms. As noted above, capital spending needs to be increased and new sources of financing – including through Public Private Partnerships – need to be identified and integrated into the strategic budgeting, public investment and procurement process. There is also a need to increase fiscal space for investing in human capital and physical infrastructure while improving expenditure management and budgetary institutions, and at the same time streamline current expenditures, especially the wage bill and subsidies, and better target social assistance programs.

Table 9. General Government Expenditures (2021-2022) (% of GDP)

	2021 (Jan-Apr)	2022 (Jan-Apr)
Total expenditure (incl. net lending)	38.8	46.2
Total expenditure	39.8	44.4
Current expenditure	35.6	38.4
Wage	12.0	12.1
Transfer and subsidies	4.0	4.5
Social Fund expenditures	11.6	10.6
Interest	2.1	1.8
Purchase of other goods and services	3.7	6.7
Capital expenditure	4.2	6.0
o/w foreign financed	3.1	3.2
Net lending	-1.0	1.7
Overall balance	1.6	1.2
Financing	-1.6	-1.2
External	-1.0	-0.7
Domestic	-0.6	-0.5

Source: Ministry of Finance.

97 The Green Economy Program 2019-2023[42], clearly states that the country's practice of "brown fiscal instruments" are so-called "environmentally harmful" subsidies from the state budget. According to the OECD definition, subsidies are the result of government actions that provide benefits to consumers or producers in order to maintain their income or reduce their costs. If these actions are harmful to the environment, the subsidies associated with these actions are defined as "harmful. The main "harmful" subsidies in the Kyrgyz Republic are in the form of:

- Financing of infrastructure projects (construction of roads, irrigation facilities), including with funds from official development partners.
- Financing of intensive agricultural development without regard to the value of ecosystems, including at the expense of official development partners.
- Regulation of tariffs (energy, housing and communal services and agriculture), and,
- Tax and other incentive programs in the agribusiness sector.

[42] Program of development of "green" economy in the Kyrgyz Republic for 2019-2023, approved by the Decree of the Government of the Kyrgyz Republic № 605 of November 14, 2019

98 As a result, NDS identified as a vision for environmental sustainability that: "Ensuring environmental sustainability with the ***country's economic growth will be achieved by minimizing negative environmental impacts***, increasing the effectiveness of environmental protection requirements and incentives, and using reliable data to make environmentally meaningful decisions. In Kyrgyzstan, natural resources should cease to be an expenditure part of the budget and move to the revenue part.

99 Subsidies are a significant burden on the budget. Agricultural subsidies alone divert 13.4 billion SOMS (2021) from the budget each year. Subsidies in electricity and heating are estimated at over 4 billion SOMS per year (UNDP-BIOFIN; 2019; 2021). Part of the subsidies form the so-called quasi-fiscal deficit, which is a hidden deficit resulting from the implementation of measures related to public policy, but not financed directly from the state budget. In Kyrgyzstan, the sources of quasi-fiscal deficit are all tax exemptions, preferential tariffs for energy, irrigation water supply, restructuring of debts of entities to the state and other subsidies.

100 The lack of accounting for quasi-fiscal deficits gives false signals to decision makers about the real sustainability of the public finance system in the country. Moreover, it is obvious that eliminating subsidies and reducing quasi-fiscal operations will provide additional fiscal space for Kyrgyzstan's sustainable development. As a result, a thorough analysis of subsidies (state support) and quasi-fiscal deficits is needed for their effectiveness and real impact on the well-being of the stated beneficiaries. This will complement the INFF roadmap with meaningful measures to mobilize resources for sustainable development as part of the 2030 Agenda.

101 Government also operates Regional Development Funds (See Box 3 below) to ensure the efficient use of financial resources in accordance with the priorities of the socio-economic development programs of the regions. The funds are essential in promoting economic and social development in the Kyrgyz Republic and fostering cooperation between different nations, and aligning these funds to the SDGs wherever possible will support the process of SDG localization.

Box 3. REGIONAL DEVELOPMENT FUNDS IN THE KYRGYZ REPUBLIC

Regional Development Funds (RDFs) are government institutions established in the Kyrgyz Republic to implement socio-economic development programs for oblasts (regions), rayons (districts), cities, and ayil aimaks (municipalities). These funds aim to support the initiatives of the local community, local self-government bodies, state bodies, and finance economic projects of business entities aimed at improving the living standards of citizens, creating conditions for regional economic development by improving the infrastructure of the territories, improving the quality of services provided, and creating jobs in the regions. The objective of the funds is to ensure the efficient use of its financial resources in accordance with the priorities of the socio-economic development programs of oblasts, rayons, cities and aiyl aimaks.

At the end of 2022 there were 47 Regional Development Funds in Kyrgyzstan, including 7 oblast funds, established by the plenipotentiary representative of the President of the Kyrgyz Republic in the oblast and local state administration in the rayon. The financial resources of RDFs are formed at the expense of various sources, such as deductions from mineral deposits, national budget allocations, lending to business entities, sponsor aid, and royalties from international institutions. The funds are most often used for major repairs and construction of buildings of educational institutions and sports facilities, purchase of agricultural special equipment, development of master plans, and other projects aimed at regional development. Financial resources of the funds are formed at the expense of:

- The amounts of deductions credited to the republican budget for the development and maintenance of local infrastructure allocated to the Regional Development Funds in the amount of 2% of revenues of persons engaged in the development (extraction) of mineral deposits (regulated by the Code of the Kyrgyz Republic on non-tax revenues);
- Funds allocated from the national budget;

- Funds received as a result of lending to business entities through the Bank, placing the Fund's funds on deposit accounts in the Bank and equity participation of the Fund in joint economic projects with business entities;
  - Sponsor aid and voluntary contributions.
  - Charitable or grant assistance.
  - Royalties from international institutions for joint research work, and,
  - Other funds determined by the Cabinet of Ministers of the Kyrgyz Republic.

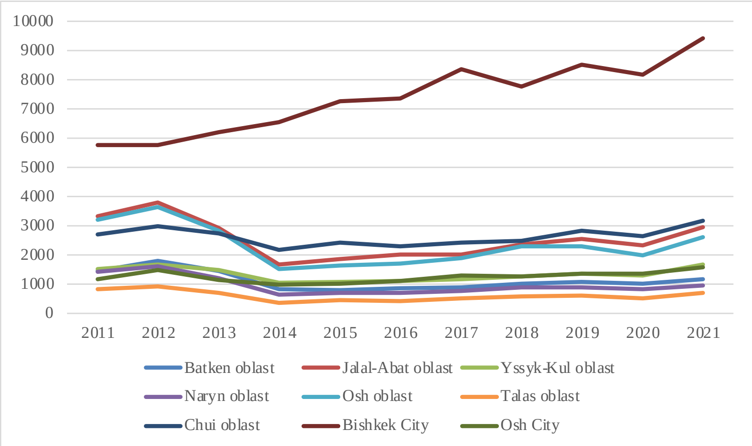
The funds are most often used for major repairs and construction of buildings of educational institutions and sports facilities, purchase of agricultural special equipment, development of master plans, etc. It was planned to spend 3.0 billion Soms in 2022, of which 0.9 billion Soms were allocated from the republican budget.

3.1.4 Oblast Expenditure Trends

102 According to the World Bank 2021 PER, before 2006 each oblast determined their sector expenditures based on its priorities and capacity to generate revenues, resulted in large differences in financing across oblasts for the same type of services. While PFM reforms have reduced inequalities between the oblasts and allowed greater funding to be made available for key sectors, the PER highlights service delivery differences across all Oblasts, including for education, health and social protection. Options for improving public financing are provided in Box 4 below.

103 Chart 12 below provides expenditures by oblast for the period 2011 to 2021, showing expenditures for Bishkek outpacing all other oblasts, with expenditures in 2021 reported below the level of 2012. Given the size of the SDG financing gap, and the important of local spending for most of the SDGs, new financing instruments are going to be needed alongside a focus on revenue mobilization and strategic budgeting to better align spending with the SDGs.

Chart 12. Oblast State Expenditures (Million Soms) (2011-2021)



Source: Ministry of Finance (2022)

Box 4. Ways to Strengthen Public Financing in the Kyrgyz Republic

Here are some ways to strengthen public financing:

Increase tax revenue: Increasing tax revenue can provide a stable and reliable source of financing for public programs and services.

Improve tax administration: Improving the efficiency and effectiveness of tax administration can increase the amount of tax revenue collected.

Control public spending: Implementing effective budget control measures and reducing waste can help to ensure that public funds are used effectively.

Diversify financing sources: Diversifying financing sources can help to reduce the dependence on any one source of financing and reduce the risk of financial instability.

Increase transparency: Improving transparency in government spending and financial management can help to reduce corruption and ensure that public funds are used effectively, as fully mainstreamed into the 2021-2026 Mid Term Program.

Strengthen financial management systems: Strengthening financial management systems, including accounting and reporting, can improve the transparency and accountability of public finances.

Promote investment: Promoting investment can increase the availability of financing for public programs and services.

Encourage private sector engagement: Encouraging private sector engagement in public financing can provide additional resources and expertise to support public programs and services.

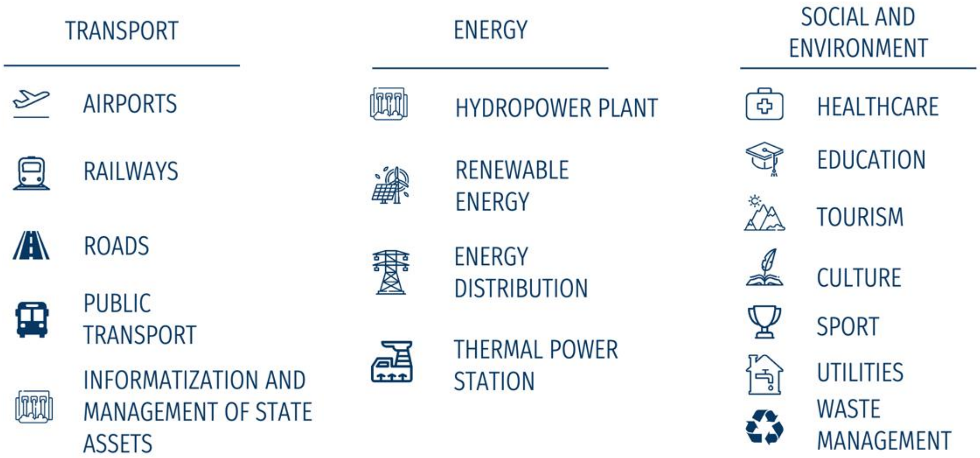
3.1.5 PUBLIC PRIVATE PARTNERSHIPS (PPPS)

104 The first law on PPPs was adopted in 2009, updated in 2016, and now PPPs are regulated by the 2021 PPP Law and supporting bylaws adopted in 2021 and 2022, including the strategic Program of public-private partnership development in the Kyrgyz Republic for 2022-2026. In 2014 a project development support facility was established in the Investment Promotion Agency with a primary aim to identify, assess, support and monitor PPP projects as well as consult investors and facilitate long term partnership with mutual benefits. By 2017 a total of 15 PPPs had been identified, with 1 at the implementing stage and 1 signed agreement. By 2019 some 23 PPPs had been identified, with 3 under implementation, and 1 signed agreement. By 2021 a total of 55 PPP projects have been identified, at different stages of procurement.

105 The 2021-2026 Mid Term Program acknowledges the importance of PPPs as a financing instrument for public goods. The Mid Term Program outlines steps put into practice PPP mechanisms by improving the quality of projects, improving public administration and strengthening human potential in the field of PPP, raising awareness of the PPP mechanism, and developing PPP financial instruments. The application of PPPs covers the transport, energy and social and environmental areas, as provided Figure 2 below. The following factors hinder the development of PPPs: [43]

- Imperfect regulatory framework.
- Fiscal risks and lack of effective mechanisms to manage them.
- Lack of financial instruments to support the commercial viability and financial attractiveness of PPP projects.
- Insufficient capacity of state and local authorities.
- Insufficient level of sectoral evaluation of the needs in modernization of infrastructure.
- Lack of plans for a pipeline of PPP projects.

Figure 2 PPP PRIORITY SECTORS IN THE KYRGYZ REPUBLIC

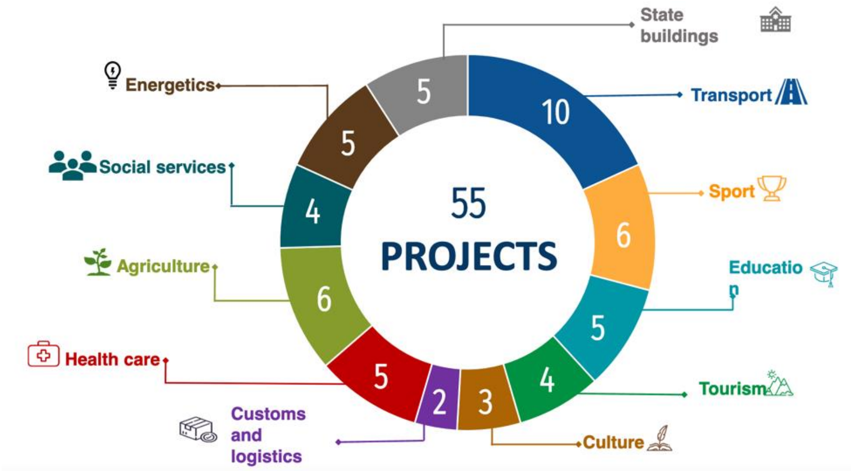


[43] Ba approved by
Dec

Source: KRG PPP Center [44]

106. The PPP pipeline is slowly expanding, and as of 2021, the three projects at the implementation stage (Establishment of hemodialysis centers, Children's Cinema Reconstruction and electronic ticketing in public transport) range from € 10 million, US$ 300,000 and US$ 2 million respectively. After the new law was adopted in 2021, 6 PPPs were entered to agreements. The success of exiting PPPs needs to be assessed. Larger PPPs such as the US$ 30 million construction of the customs and logistics complex and US$ 234 million construction of the tunnel at Too-Ashuu Pass show potential for scaling for bigger impact. Figure 3 shows the number of PPPs by sector, as of 2021.

Figure 3 KYRGYZ REPUBLIC PPP PORTFOLIO BY SECTOR (2021)



Source: KRG PPP Center

107. As an important source of blended finance, and with many priority sectors directly aligned to the SDGs, PPPs are likely to form an increasingly important source of blended financing for priority areas outlined by the President's Administration. The procurement law needs to be updated to better govern PPPs, PPP regulations and guidance to spending units needs to be upgraded, and improved transaction advisory is necessary to improve the socio-economic viability of concessions. Building capacities to undertake market feasibility studies, strengthening pipeline development, commercial and economic viability and improving transaction advisory will require greater installed capacities to be established.

108. In terms of strengthening national PPP regulations, perhaps establishing a countrywide PPP taxonomy and a national PPP pipeline, a more rigorous approach to using PPPs as a source of private financing of public goods must be a priority for many of the SDGs, including the infrastructure and energy sectors, but also including education and agriculture.

Box 5. WAYS TO DE-RISK PPPS IN THE KYRGYZ REPUBLIC
There are various ways that PPPs can be de-risked in the Kyrgyz Republic,

[44] https://www.unescap.org/sites/default/d8files/event-documents/03.%20PPP%20Center%20of%20the%20Kyrgyz%20Republic.pdf

- ***Improved PPP due diligence During Design and Procurement***: Careful evaluation of the project and its viability to reduce the risk of financial loss is key, imply the application of financial, social and environmental safeguards and clarity on revenue offtakes and potential contingent liabilities.
- ***Investment grade credit ratings***: High credit ratings indicate lower risk and increase the appeal of PPP projects to investors.
- ***Insurance coverage***: Insurance coverage can reduce the risk of financial loss from events such as political unrest or natural disasters.
- ***Stable legal and regulatory framework***: A stable legal and regulatory environment provides greater certainty and reduces the risk of legal challenges and policy changes.
- ***Sharing of risks and rewards***: Allocating risk and reward between the public and private partners can reduce the overall risk of the project.
- ***Strong project management***: Effective project management can reduce the risk of delays and cost overruns, making the project more appealing to investors.
- ***Adequate financing***: Adequate financing reduces the risk of financial shortfalls and makes the project more attractive to investors.
- ***Performance guarantees***: Performance guarantees, such as bonds or letters of credit, can be used to provide assurance that the project will be completed on time and within budget.

3.1.6 Pension Funds

108 The pensions market is dominated by one state and one non-state fund. The state pension system (managed by the Social Fund) provides for universal coverage of all eligible population, with the Social Fund including the state social insurance fund, state accumulation pension fund, the fund of mandatory medical insurance and the fund of improvement of workers. Social benefits in total absorb about 25 per cent of total General Government Expenditure (GGE) (200 billion KGS in 2019) and pension and other long-term social benefits are mainly paid through the Social Fund which is financed by earnings-related contributions (about 60 per cent of income) and subsidies from the budget (about 40 per cent of income).

109 The pension system in the Kyrgyz Republic consists of several pillars as outlined in Table 10 below. The reform of 1997 transformed the old pay-as-you-Go (PAYG) system into three separate components: the basic part of pension, the insurance part of pension under the pension plan, and the insurance part of pension under the pension plan. Each part is calculated based on its own rules, whereby these parts are added and combined into one payment. The basic part of the pension is a state-guaranteed benefit financed by the republican budget. The insurance pensions under the DB and the NDC plans are financed by contributions paid by employers, employees, and the self-employed. The pensions under the DB plan are calculated using the insured service before 1996, while the pensions under the NDC plan use the insured service starting from January 1, 1996, when the individual record management system was implemented. A supplementary mandatory funded pillar was implemented for all employees of the formal sector in 2010, with a contribution of 2 percent of the wage. Starting from January 1, 2012, men born before January 1, 1964, and women born before January 1, 1969, who have only 15 years before reaching their full retirement age have been allowed to opt out of mandatory enrollment. *(World Bank, PER, 2021)*

Table 10. Design of the pension system in the Kyrgyz Republic

Reform of 1997	Reform of 2010
PAYG System	Funded Pillar

Basic part of the pension	Insurance pension under the DB plan for service periods accrued before 1996	Insurance pension under the NDC plan for contributions starting from January 1, 1996	Mandatory component	Voluntary insurance
Financed by the transfers from the republican budget	Financed by contributions paid by the employer at 15 percent, and the worker at 8 percent or 10 percent depending on the date of birth; reduced rates for the self-employed and some categories		2 percent contribution rate for those born after January 1, 1964 (men), and January 1, 1969 (women)	Voluntary additional contributions paid by the enrolled persons and the employers

Source: Kyrgyz Republic Law No. 57, dated July 21, 1997, On State Pension Social Insurance, Centralized Databank of Legal Information of the Kyrgyz Republic: http://cbd.minjust.gov.kg/act/view/ru- ru/557/410?cl=ru-ru.
Note: See Annex 2 for details.

110 Funding for the basic pension was transferred in full to the national budget in 2015 and currently amounts to 3.5 percent of GDP. This is projected by the World Bank PER to increase to 5.2 percent of GDP by 2050, as the population covered by the basic pension ages and reaches retirement age. It is projected that the total burden of pension to the state budget will rise to 6.2 percent of GDP by 2050, as the population covered by the basic pension retires, although most of the increase will take place after 2030. (World Bank PER, 2021) Social Fund expenditures are included in the general government expenditures (and provided as a separate budget law) with pension payments comprising over 80 percent of Social Fund expenditures (See Table 11 below providing a complete overview of Social Fund based on the 2022 budget law). Improvements to the pension systems to support social security in line with the International Social Security Standard (ISSS) is required.

Table 11. BUDGET OF SOCIAL FUND FOR 2022 AND FORECAST FOR 2023-2024, MILLION SOMS

Name	2020 (fact)	2021 (the specified budget)	2022 (project)	2023 (forecast)	2024 (forecast)
In total income	56 056.1	62 284.8	68 511.1	71 991.6	75 585.8
GDP (%)	9.4	9.7	9.6	9.3	9.0
Pension fund	51 561.7	57 119.5	62 812.2	65 967.8	69 218.8
State accumulation pension fund	1 814.2	2 078.0	2 259.8	2 389.5	2 527.1
Fund of compulsory medical insurance	2 381.9	2 742.1	3 058.6	3 232.0	3 414.6
Fund of improvement of workers	298.3	345.2	380.5	402.2	425.3
In total expenses	56 635.9	61 840.3	67 265.3	71 334.1	75 017.8
Pension fund	51 561.7	57 119.5	62 812.2	65 967.8	69 218.8
State accumulation pension fund	1 814.2	2 078.0	2 259.8	2 389.5	2 527.1
Pension fund	52 261.9	56 675.1	61 445.7	65 310.4	68 650.8
State accumulation pension fund	1 814.2	2 078.0	2 259.8	2 389.5	2 527.1
Fund of compulsory medical insurance	2 361.5	2 742.1	3 079.1	3 232.0	3 414.6
Fund of improvement of workers	198.3	345.2	480.8	402.2	425.3
Deficit/surplus	-579.9	444.5	1 245.7	657.4	568.0
Deficit covering sources	579.9	-	-	-	-
Account balances of SFKR	579.9	-	-	-	-

GDP	598 344.5	643 629.4	713 744.7	772 622.3	840 207.6
Pension fund	51 561.7	57 119.5	62 812.2	65 967.8	69 218.8

Source: Law of the Kyrgyz Republic on the 'Budget of Social fund for 2022. forecast for 2023-2024"

111 One of the factors constraining development is the exclusion from the pension insurance system of employed individuals, as well as the insufficient coverage of agricultural producers and individual (private) entrepreneurs, whose contributions are lower than in the formal sector of the economy. In addition, lack of gender equality in the market place impacts pension fund size and viability, as a result of lower contributions. Given that women live longer than men, and workforce participation is lower than for men, this also means that far fewer women have access to pensions in their old age; impacting poverty rates. These are major factors in the imbalance of the pension system. As a result, the country has a low ratio of citizens paying contributions - to pensioners: the real ratio is 1.2 contributors per pensioner (the minimum recommended ratio is 3). [45] Extending state pension system coverage (and revenue generation) to those not covered -- along with other administrative reforms can be important contributions pension fund sustainability.

3.1.7 PUBLIC DEBT

112 The structure of Kyrgyzstan's external public is provided in Figure 4 below, totaling some US$ 4.2 billion as of February 2021. Based on the MoF published data[46], as of February 28, 2021, the size of the public debt (external and internal) of the Kyrgyz Republic amounted to 4,948.57 million US dollars (419,391.28 million SOMs), of which 85.1 percent is public external debt (US$ 4, 212.41 Million) and 14.9 percent is the state internal debt (US$736.16 million). In terms of creditors, there are four major creditors that dominate official debt to Kyrgyzstan, as follows:

Bilateral Debt:

- China Exim Bank (79.8 percent of all official bilateral debt and 42 percent of total public debt);
- International Cooperation Bank of Japan (10.6 percent of all official bilateral debt and 5.69 percent of total public debt).

Multilateral Debt:

- World Bank Group (35.4 percent of official multilateral debt, 16.02 percent of all public debt);
- Asian Development Bank (31.5 percent of official multilateral debt and 14 percent of total external public debt.

113 While public debt has been increasing even during the COVID-19 crisis, the IMF Debt Sustainability Analysis (DSA) only placed sustainability risks at the moderate level. According to the IMF. without additional fiscal space and concessional financing, large new infrastructure projects such as the China–Kyrgyzstan–Uzbekistan railway and Kambarata-1 hydropower plant would further increase public debt. These risks could be compounded by escalation of regional conflicts, the reemergence of the pandemic, shortages of power supply due to the ageing electricity infrastructure or a sustained reduction in gold prices. On the upside, a new wave of immigration from Russia could improve the short-term growth outlook.[47]

114 The majority of public debt is external, with a balance of bilateral and multilateral creditors. Given that all external debt is denominated in foreign currency, if the exchange rate weakens (as it has) sustainability risks will likely emerge. While the development of domestic capital markets will take time, domestic debt levels are increasing and it is expected that the transition from external to domestic debt will likely accelerate. While the SOM collapsed with the Ruble following the imposition of

[45] The concept of development of the pension system of the Kyrgyz Republic (approved by the Decree of the Government of the Kyrgyz Republic № 670 of November 24, 2014)

[46] See http://minfin.kg/ru/novosti/mamlekettik-karyz/tyshky-karyz/struktura-gosudarstvennogo-vneshnego-dolga-kr-po-s7161

[47] https://www.imf.org/en/News/Articles/2022/12/02/kyrgyz-republic-staff-concluding-statement-of-the-2022-article-iv-consultation-mission

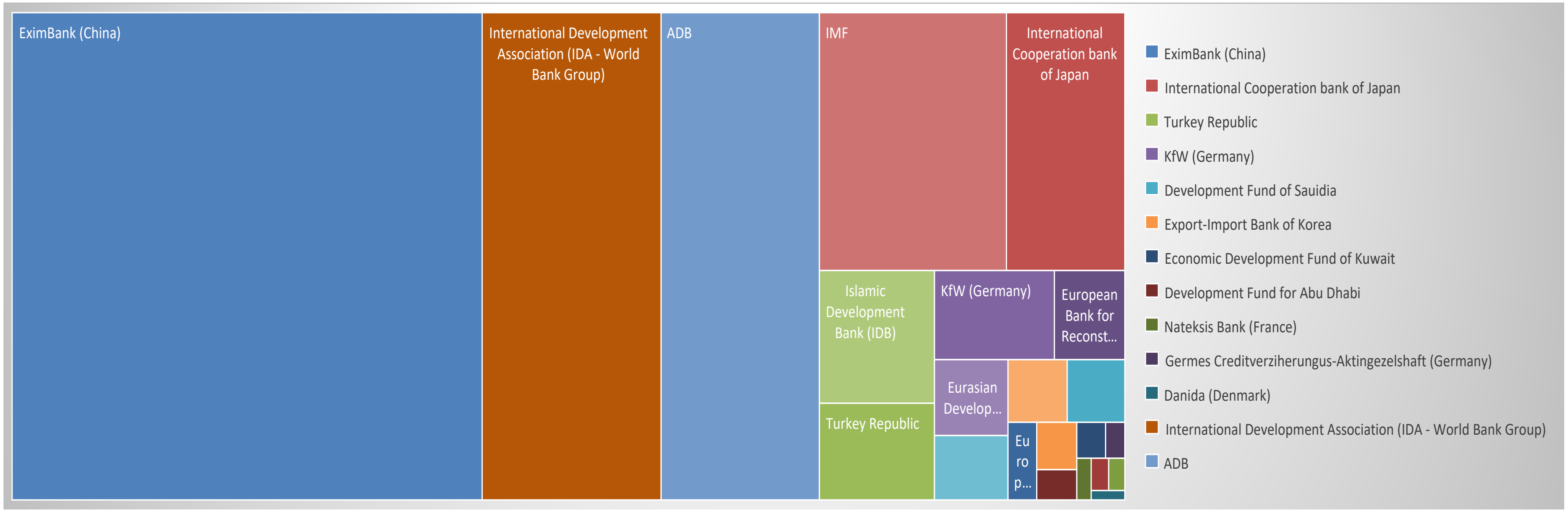
sanctions on Russia by the US and EU, luckily for the government the Ruble rebounded, in fact appreciating against the US$ and €, as well as other major currencies. Further depreciation due to external pressures could further raise public debt and this factor needs to be carefully considered in suggesting SDG related thematic bonds.

3.1.8 State Owned Enterprises

115 Since its independence in 1991 government privatized thousands of State-Owned Enterprises (SOEs), significantly reducing the state footprint in the economy. The impact has been that the share of the private sector in the Kyrgyz Republic is higher than regional comparators, with the private sector accounting for more than 75 percent of GDP, compared to 60 percent in Kazakhstan and less in the other countries of Central Asia. (World Bank, PER, 2021). While as of 2022 there are 38 SOEs still operating centrally, many of these operate in strategically and economically important sectors including energy, mining, transport, and banking. Moreover, according to the State Property Management Fund, ten open joint stock companies and four LLCs will be privatized as part of an ongoing optimization process, which includes plans to merge 40 state-owned enterprises. Moreover, four open joint stock companies are planned to be transferred to the National Energy Holding and ten JSCs and eight LLCs will be liquidated.

116 According to 2020 World Bank '*Integrated State-Owned Enterprises Framework (iSOEF) Assessment*' and statistics of the State Property Management Fund of KR SOEs can be broadly classified in two groups according to their legal status: 32 JSCs, fully or majority state-owned, and 98 SOEs, non-corporatized public entities which are fully state owned, and are remnants of the former Soviet system of state ownership. There are also 6 SOEs functioning as limited liability companies, but due to small size these are not included into the analysis. With a few exceptions, the largest Kyrgyz SOEs have adopted JSC legal status and are subject to more stringent governance and reporting requirements, as well as closer oversight from the state. In contrast, SEs do not always comply with minimum corporate governance standards, including annual financial reporting. Most SEs are relatively small in terms of revenues and assets, and they are grouped in sectors such as "Agriculture and Forestry" (33 SEs), "Other Activities" (a residual miscellaneous category, including 44 SEs), "Communication" (7 SEs) and "Mining" (also 7 SEs), among others.

Figure 4 TREE MAP OF KYRGYZSTAN'S EXTERNAL PUBLIC DEBT (2021)



Source: UNDP Debt Management Options for the Kyrgyz Republic (2021)

Table 12. SOEs SORTED BY LEGAL STATUS AND ECONOMIC SECTOR (2018)			
Sectors	**JSCs**	**SEs**	**Total SOEs**
Agriculture, forestry, and fishing	-	33	33
Mining	3	7	10
Manufacturing	2	5	7
Energy & Energy Construction	13[8]	1	14
Transportation	2	7	9
Information and Communication	2	7	9
Financial	7	0	7
Other	3	44	47
Total	**32**	**104**	**136**

Source: State Property Management Fund (2019).

117 The iSOEF Assessment also states that as of 2018, the SOE sector generated revenues equivalent to 22.6 percent of GDP and employed a modest 2 percent of the country´s working age population. Following a state acquisition of Kumtor Gold Mine, the value of SOEs to GDP would have increased considerably. SOE-sector total assets reached almost 50 percent of GDP during the same year. The energy sector comprises the majority of SOE assets - 48.5 percent of total SOE-sector assets and 62 percent of non-financial SOE assets. It also holds 91 percent of non-financial SOEs liabilities, equivalent to 21.2 percent of the country's GDP.[48] Moreover, most SOE revenues and assets are concentrated in a few firms (mostly JSCs) that provide essential goods and services in key economic sectors. According to 2018 data reported by the SPMF, the largest 15 SOEs (by assets) accounted for 93.9 percent of total SOE-sector revenues and represented 92.6 percent of total SOE-sector assets. These 15 SOEs are all JSCs except for one SE, the national railway company Kyrgyz Temir Zholu. These large-scale SOEs operate in key strategic and economically important sectors, including mining, energy, transportation, and financial intermediation.

Box 6. IMPACT OF KUMTOR GOLD MINE ON LOCAL MONEY MARKETS

- ***Increased Foreign Investment***: The Kumtor mine was one of the largest foreign investments in the Kyrgyz Republic, and had attracted significant foreign investment into the country, until a return to state ownership.
- ***Boost to local economy***: The mine has provided jobs and generated significant tax revenues for the Kyrgyz Republic, which has had a positive impact on the local economy.
- ***Stabilization of local currency***: The influx of foreign investment from the Kumtor mine has helped to stabilize the local currency, the Kyrgyz Som, by increasing demand for the currency.
- ***Improved access to financing***: The increased foreign investment has improved access to financing for local businesses and entrepreneurs, as well as for the Kyrgyz government.
- ***Increased demand for local goods and services***: The increased economic activity generated by the Kumtor mine has increased demand for local goods and services, which has had a positive impact on the local economy.

However, it is important to note that the impact of the Kumtor mine on the local money markets has not been uniform or entirely positive. For example, some local communities have experienced negative impacts, such as environmental degradation, and the government has faced challenges in balancing the benefits of the mine with the needs of local communities. Additionally, the Kyrgyz Republic remains heavily dependent on the

48 https://openknowledge.worldbank.org/bitstream/handle/10986/35581/Kyrgyz-Republic-Integrated-State-Owned-Enterprises-Framework-iSOEF-Assessment.pdf?sequence=1&isAllowed=y

mine for its economic stability, which creates a degree of vulnerability in the event of any disruption to the mine's operations.

118 This DFA notes that concern about the financial performance of many of the SOEs is ongoing, despite the efforts of the Action Plan on the Implementation of the National Development Program of the Kyrgyz Republic until 2026, which has focused on improving the management of state assets. When combined with large subsidies in the energy sector, many of the remaining SOEs appear to be operating below par, warranting concerns over contingent liabilities, including for non-corporatized SOEs. While optimizing state ownership and improving the management of state assets is a key priority for government, given the size of energy subsidies, energy related SOEs also need to be seen in the wider context of transition to a decarbonized society, with direct implications for the attainment of SDG 7 on affordable and clean energy and SDG 13 on climate action.

3.1.8. NBKR / Securities Market

119 The bond market is constituted by both government and corporate bonds, with the public debt management strategy determined by the Ministry of Finance of the country. The issuer of STBills and STBonds is the Ministry of Finance of the Kyrgyz Republic. The National Bank serves as a financial agent for government securities issuance. The issuance of government securities is carried out weekly through auctions conducted by the National bank.[49] Direct participants (commercial banks, institutional investors and Closed joint stock company «Central Depository»), have the right to participate in government securities auctions through Automated Trading System directly. The owners of government securities of the Kyrgyz Republic can be both legal entities and individuals (residents and non-residents). In terms of the government bond market, bonds include:[50]

- STBills are short-term (3, 6, 12 months) discount government securities of the Kyrgyz Republic. The par value of 1 STBill is equal to 100 Soms. STBills are issued in non-documentary form as records on accounts.
- STBonds are the long-term (above 1 year) coupon Government securities of the Kyrgyz Republic. The par value of 1 STBond and the parameters of the issue are determined by the issuer (Ministry of Finance of the Kyrgyz Republic) at the time of issue. STBonds can be issued in non-documentary and documentary forms.

120 The National Bank issues paperless notes as short-term securities as an instrument of monetary policy designed to regulate the money supply in circulation. Notes are put into circulation for a period of 7 to 364 days and are placed at a discount and redeemed at par value. The notes are placed at weekly auctions. Direct participants (commercial banks and institutional investors) have the right to participate in the auctions.

121 Bond markets – like the rest of the financial market – are under-developed and there is considerable scope for further development, particularly the issuance of SDG, green, climate, gender and other thematic bonds, as can be seen by the success of the US$ 800 plus million SDG bond successfully issued in Uzbekistan. An Assessment by UNDP in 2021 on the Feasibility of Impact Bonds in the Kyrgyz Republic[51] recommended development over social impact bonds, though labor market impact bonds were reviewed as were conservation impact bonds. Bond market volumes for state treasuries and secondary market activity can be found here.[52]

[49] The National Bank of the Kyrgyz Republic is the apex institution in the financial sector in Kyrgyz Republic. It was established in 1991 and transformed by the Resolution of the Jogorku Kenesh of the Kyrgyz Republic of March 6, 1992.
[50] https://www.nbkr.kg/index1.jsp?item=1567&lang=ENG
[51] https://www.undp.org/sites/g/files/zskgke326/files/2022-06/INFF%20FInal%20Report.pdf
[52] https://www.nbkr.kg/index1.jsp?item=121&lang=ENG

3.2 DOMESTIC PRIVATE FINANCE

122 The domestic private market share in the republic reflects the relatively under-developed financing markets, weak capital markets, a large informal economy and unbanked population. Given the direct focus on crowding-in private capital and on developing financing instruments for the SDGs that overcome the financing large financing deficit, a key focus of the INFF must be on developing private finance as a sustainable source promoting sustainable development. Moreover, given that the private sector is not well positioned to support the green, energy, digital and decarbonization transitions, this section looks at the structure of commercial banking sector, capital markets, digital banks, Islamic finance, micro-finance, private insurance markets, portfolio investment, angel investment, non-governmental flows and the role of development banks.

123 The National Bank provides a summary of the main market operators in the financial system, as summarized in Table 13 below. Since 2017, the number of commercial banks has increased from 22 to 23, though insurance companies, micro-finance organizations, credit unions and exchange offices have reduced. Given the ongoing global digital transition, the years ahead will likely see a radical restricting of financial operators, between consolidation and new entrants.

Table 13. FINANCIAL SECTOR CATEGORIES AND NUMBER OF UNITS

	2017	2018	2019	2020	2021	2022
Banks	22	22	23	22	22	22
Non-Bank Financial Institutions						
Insurance companies	19	17	17	17		
Investment funds	9	4	3			
Stock exchanges	1	1	1	1	1	1
Pension funds	2	2	2	2	2	2
state	1	1	1	1	1	1
private	1	1	1	1	1	1
OJSC "Guarantee fund"	1	1	1	1	1	1
Microfinance organizations	150	142	137	134	133	130
of which:						
microcredit companies	96	95	89	87	86	87
microcredit agencies	47	39	39	38	37	34
micro-finance companies	7	8	9	9	10	9
Credit unions	110	106	95	92	88	84
Pawnshops /1	669*	0	0	0		
Exchange office	396	413	401	387	379	467
Special-purpose credit organizations /2	1	1	1	1	1	1
Credit bureaus	…	2	2	2	2	2

Source: The State Service of Financial Market Regulation and Supervision under the Government of the Kyrgyz Republic, the web-site of the Ministry of Justice of the Kyrgyz Republic, NBKR.

1/ according to the adopted Act of KR "On amendments to the Act of KR "On licensing" on July 31, 2009, the activity of pawnshops since November 1, 2009 is not more licensed by NBKR.

2/ since 2007 - FCDCU, since May 2009 - FCSDCU and Specialized Fund for Refinancing the Banks, since September 2009 - FCSDCU, Specialized Fund for Refinancing the Banks and the Development Fund of the Kyrgyz Republic, since May 2010 - FCSDCU and Specialized Fund for Refinancing the Banks, since August 2011 - FCSDCU, since August 2012 - Financial Company of Credit Unions (FCCU).

124 In order to develop the non-banking financial market of the Kyrgyz Republic, in accordance with articles ten and seventeen of the constitutional Law of the Kyrgyz Republic "On the Government of the Kyrgyz Republic" The Government of the Kyrgyz Republic approved the Strategy for the Development of the Non-Banking Financial Market of the Kyrgyz Republic for 2021–2025. The aim of this strategy is to strengthen the country's securities market into one of the main mechanisms for the implementation of investment programs, creating conditions for the effective attraction of private savings and free funds of private business, foreign capital to solve the growing problems of

capitalization of the economy, as well as provide opportunities for realizing the interests of various categories of investors. The strategy focuses on three main areas of investment, as follows:

- Reducing the level of investment risk in the market through ensuring proper protection of the legitimate rights and interests of investors.
- Active formation of a portfolio investors through the development of collective forms of savings and ensuring proper principles for their investment.
- Carrying out reforms on legislation and public administration aimed at creating real conditions for regulating the stock market and its institutions, and,
- Taking a set of measures to ensure the expansion of the circle of institutional investors in the form of pension and investment funds, as well as insurance companies that create an environment that encourages commercial banks to become participants in the securities market.

125 The Kyrgyz Republic has several development funds established in collaboration with various countries, including Hungary, Uzbekistan, and Russia. The Hungarian-Kyrgyz Development Fund aims to support projects in the fields of education, culture, and health, while the Uzbek-Kyrgyz Development Fund focuses on improving economic cooperation between the two countries. The Russian-Kyrgyz Development Fund is aimed at supporting joint investment projects in various sectors, including energy, transport, and agriculture. These development funds (See Table 14 below) are essential in promoting economic and social development in the Kyrgyz Republic and fostering cooperation between different nations.

Table 14. BILATERAL DEVELOPMENT FUND CHARACTERISTIC IN THE KYRGYZ REPUBLIC

Development Funds	Hungarian-Kyrgyz	Uzbek- Kyrgyz	Russian- Kyrgyz
Mandatory provisions	At least 30% of Hungarian component in future projects	Joint stand-alone projects	At least 30% of participation of Russian investor the capital or at least 70% of products are exported to Russia or at least 50-70% of the loan amount are allocated to the purchase of high-tech equipment from Russia
Own contribution	At least 15% of the money	At least 15-20% of general needs of the project	At least 15-20% of the project value
Interest Rates	1.5-7.25 per cent per annum	5 per cent per annum or higher	4-8 per cent per annum
Maximum funding amount	5 million	8 million	25 million
Authorized capital	16 million	50 million	500 million

3.2.1 COMMERCIAL BANKING SECTOR

126 As of end of 2022, the National Bank of the Kyrgyz Republic (NBKR) states that there are 22 commercial banks currently trading in the country.[53] As a well-regulated market, and with sound financial market statistics provided by the NBKR, development trends in the banking sector are well reported.[54] Commercial banks are engaged in the domestic bond market, with domestic public debt being mostly held by commercial banks (50 percent) and the social security fund (30 percent).

127 At the end of 2022, fourteen banks with foreign capital are operating in the Kyrgyz Republic: Demir Bank, National Bank of Pakistan, Halyk Bank, Finca Bank and Kompanion Bank are fully

[53] https://www.nbkr.kg/index1.jsp?item=69&lang=ENG
[54] The NBKR reports regular data using the IMF recommended Standardized Report Forms (SRFs) and covering the central bank balance sheet (SRF 1SR), other depository corporations (SRF 2SR), and
other financial corporations (OFCs, SRF 4SR)

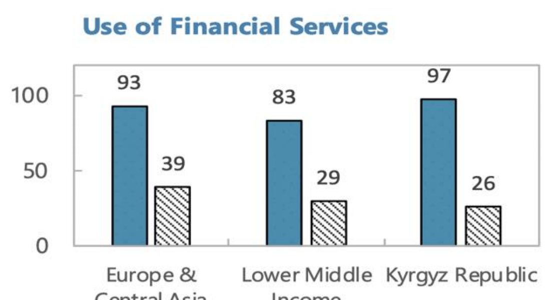
foreign owned. Other banks are partially foreign-owned: Optima Bank, Bank of Asia, Kyrgyzkommertsbank, Bai-Tushum, Tolubay, Amanbank, Eurasian Savings Bank, KICB and Kyrgyz-Swiss Bank.

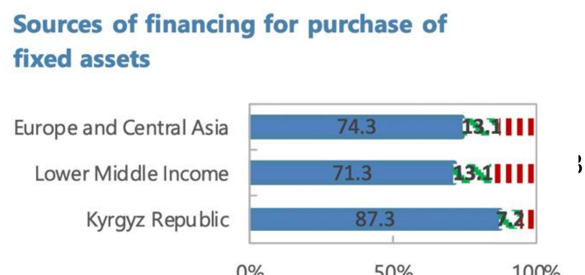
128 The Kyrgyz banking system remains well capitalized with still sizeable, non-performing loans (NPLs). NPLs increased from 11.1 percent in 2021, to 12.8 percent in 2022. Net capital adequacy ratio decreased from 24.9 percent to 22.7 percent in 2021. Total assets in the Kyrgyz banking system in 2021 equaled approximately USD 4.3 billion. Thirty percent of private loans are dollar-denominated. As of May 2022, the Kyrgyz Republic's three largest banks by total assets were Kyrgyz Investment and Credit Bank (KICB; approximately USD 435.0 million), Optima Bank (approximately USD 484.0 million), and Aiyl Bank (approximately USD 650.0 million).[55] An overview of the status of banking operations in the republic as of June 2022 is provided below:

- Aggregate assets of the banking sector increased by 5.7 percent year-to-date and totaled KGS 381.8 billion (at the end of 2021 – KGS 361.1 billion).
- Volume of the credit portfolio of clients of the banking sector increased by 4.6 percent year-to-date and amounted to KGS 190.1 billion (at the end of 2021 – KGS 181.8 billion):
- The share of non-performing loans in the credit portfolio of the banking system made 12.8 percent or KGS 24.3 billion (at the end of 2021 – 11.1 percent or KGS 20.2 billion).
- Total liabilities of the banking sector increased by 2.9 percent year-to-date and amounted to KGS 318.4 billion (at the end of 2021 – KGS 309.4 billion).
- Aggregate deposit base of clients of the banking sector increased by 2.7 percent year-to-date and amounted to KGS 249.5 billion (at the end of 2021 – KGS 242.9 billion).
- The net total capital of the banking sector being applied to calculate the prudential standards set by the NBKR increased by 23.8 percent year-to-date and amounted to KGS 64.8 billion (at the end of 2021 – KGS 52.4 billion). The share of foreign contribution in capital of the banking system made 25.9 percent or KGS 10.7 billion of the paid up authorized capital of the banking sector (at the end of 2021 – 29.2 percent or KGS 10.8 billion).
- The total capital adequacy ratio of the banking system made 25.8 percent (at the end of 2021 – 22.2 percent) with the standard of 12.0 percent, the leverage ratio of the banking system made 17.0 percent (at the end of 2021 – 14.5 percent) with the standard of 6.0 percent.
- The liquidity ratio of the banking system made 74.9 percent (at the end of 2021 – 71.3 percent) with the standard of 45.0 percent. Return of assets of the banking sector (ROA) was 4.9 percent (at the end of 2021 – 1.2 percent), and return on equity (ROE) made 33.3 percent (at the end of 2021 – 7.8 percent). The total financial intermediation (assets/GDP) made 48.9 percent (at the end of 2021 – 49.9 percent).

129 Over 97 per cent of firms use a checking or savings account, whereas only 23 per cent of firms have a bank loan or credit. Moreover, some 87.3 per cent of firms finance investments internally, as shown in Chart 13 below, comparing the Kyrgyz Republic to country comparators.

Chart 13. COMPARATIVE USE OF FINANCIAL SERVICES AND SOURCES OF INVESTMENT FINANCE





Source: IMF Article IV Consultation (2021)

130 With financial markets being relatively shallow, commercial markets can be characterized as having inadequate access to finance, with credit to the economy at 28 percent of GDP in 2020. Interest rate spread and collateral requirements by banks are high relative to regional comparators due to lack of competition, high credit risk, high operating costs, and information asymmetries. Constraints to finance include high interest rates, with only around 25 per cent of enterprises having bank loans or lines of credit, with investment financing by firms being far below the ECA average and a high collateral to loan ratio of 250 per cent.

131 As a result, the government launched its National Financial Inclusion Strategy (NFIS) in April 2022 aimed at making financial services more accessible, efficient, and affordable for households and businesses across the country. For businesses the lack of correspondent accounts is a primary complaint of Kyrgyz businesses and is an opportunity for foreign banks. Moreover, the rise of eCommerce and digital banking will transform the sector, driving down transaction costs and increasing financial inclusion. Developing and expanding e-wallet and mobile banking technologies, will drive down costs and improving hedging instruments could also drive down foreign currency funding, which has a 5–6 percent hedging cost due to currency fluctuations. Moreover, greater competition can be achieved in the banking sector by incentivizing the entry of new banks and exit of failed ones.

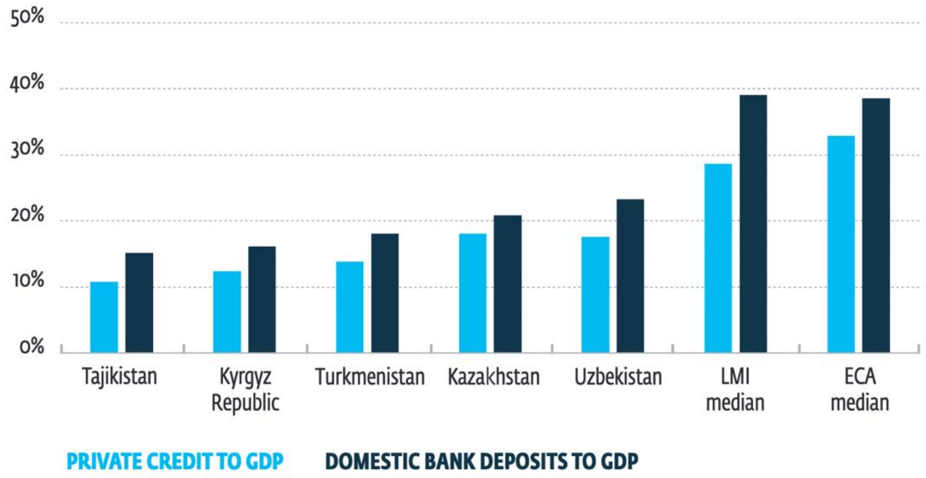
3.2.2 Capital Markets

132 Capital markets are under-developed in the Kyrgyz Republic, which presents itself as an opportunity for future development, and for the further expansion of the private sector. In order to develop capital markets, significant institutional strengthening is needed, including at the policy and legislative levels. Strengthening of the capacity of the State Service for Financial Market Regulation and Supervision (SSRSFM), as well as the strengthening of the Law on Securities Market (LSM) and the Law on Investment (LOI) is required. SSRSFM does not have the right mandate or resources to fulfill its role, and the LSM and LOI do not sufficiently protect investors. [56]

133 In addition, and to further the development of capital markets, a more diversified economy is required with a deeper base of investors. This would entail making the pension and insurance sector an environment conducive to foreign investment and mobilizing retail savings through collective investment vehicles such as mutual funds. Furthermore, according to IFC, a more developed government bond market would also need to be established in order for a yield curve to be established that capital market participants can then use as a benchmark for pricing financial products with a longer tenure. As a result, the primary and secondary government bond markets remain very shallow and nonfunctioning. (ibid) Chart 14 below provides a useful country and regional comparator showing private credit and domestic bank deposits to GDP for Central Asia, with Kyrgyzstan marginally ahead of Tajikistan.

[56] https://www.ifc.org/wps/wcm/connect/bf774f5f-c99d-4838-83b8-f0833b2edbe5/CPSD-Kyrgyz-Republic.pdf?MOD=AJPERES&CVID=nCEA2p3

Chart 14. **PRIVATE CREDIT AND DOMESTIC BANK DEPOSITS TO GDP, CENTRAL ASIA, 2017**



Source: World Bank FinStats (2020)

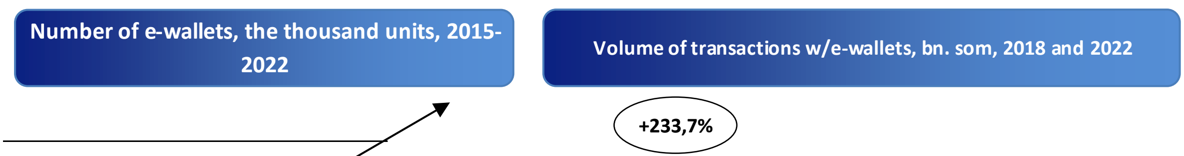
134 Investments to upgrade market infrastructure for the government and corporate bond markets and equity market would help accelerate capital market development. Ideally, a Road Map for Capital Market Development would be formulated, to include linkages with sustainability. Among other factors not having access to international capital markets should be used as a driver of reforms, given the need to increase investment for the SDGs.

3.2.3 DIGITAL BANKS [57]

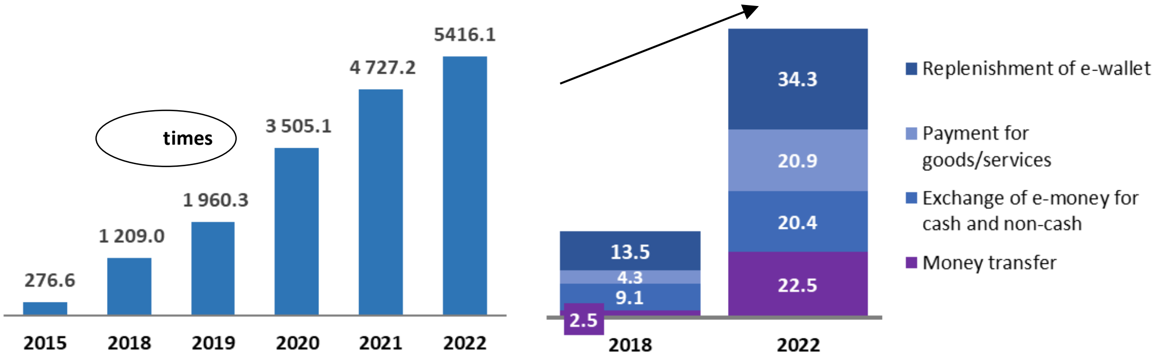
135 Government is making progress in developing the digital economy. Publications such as the '*Main Directions for Digital Transformation of Banking Service*' for 2020-2021, and the Concept for Development of Digital Payment Technologies for 2020-2022, have been developed and adopted to increase digital payment usage and fintech development. While the NBKR is yet to establish the use case and regulations for the use of Central Bank Digital Currencies (CBDCs) and there are currently no plans for licensing digital banks, the reality is that following countries such as Indonesia and Malaysia by establishing regulations for the digital banking transition will provide the foundation for the next generation of frictionless and inclusive banking. Learning from experiences of African countries on how to expand financial inclusion using Fintech will be important. Undertaking empirical research using household surveys to demonstrate how Fintech can help households share risks would also assist in risk management.

136 According to reports by NBKR, since 2015, e-wallet adoption has grown steadily, rising 19.6 times from 276,600 accounts in 2015 to more than 5.4 million accounts in 2022. NBKR reports that between 2018 and 2022 volume of replenishment of e-wallets grew 2.5 times from SOMs 13.0 billion to SOMs 34.3 billion KGS and volume of transactions with online stores grew 4.8 times and reached SOMs 20.9 billion, indicating openness to these new technologies. The growing demand – against a regulatory regime that is under-developed – highlights the large potential for establishing digital banks in the years ahead. Figure 5 shows the number of e-Wallets and e-Wallet transfers according to NBKR, for the period 2015-2022.

Figure 5 **NUMBER OF E-WALLETS AND E-WALLET TRANSACTIONS**



[57] Digitalization actions are drawn from the Action Plan for digitalization of management and development of digital infrastructure in the Kyrgyz Republic for 2022-2023.



Source: NBKR Annual Reports for 2018 and 2022.

137 Considerable investment is needed in the digital banking ecosystem, all of which in part call for government too to offer more digital services. In this regard, the World Bank investment through Digital CASA aims to increase access to more affordable internet, crowd-in private investment in the ICT sector, and improve the government's capacity to deliver digital government services, by contributing to the development of a regionally integrated digital infrastructure and enabling environment.[58] Moreover, a February 2020 fintech note by the World Bank notes several challenges hampering the growth of the Kyrgyz fintech industry, which will need to be overcome if SDG related digital transformation of services and financial inclusion are to be met. These include low Internet penetration compared to regional benchmark, and an underdeveloped ICT infrastructure. Moreover, an uncertain business environment for innovative products offered by non-traditional players, and an unclear and unstructured government and regulatory strategy on digital financial services as instrument for inclusion has established an unfavorable environment for fintech development.

138 In the education sector, digital transformation needs to focus on the development of an educational platform 'Electronic School based on the information system 'Smart School', develop and implement a parent app and platform 'Learning Passport' to support educators, children and parents. In the social sector, it will be vital to develop and implement an information system that allows people with disabilities and people who were forced to interrupt schooling to receive education remotely, as part of the digital Transformation of Social Assistance. Such a transformation will undoubtedly link to automated systems, which need to be invested and maintained. Digital skills training will also be necessary.

139 Foundational investments are required for the country to benefit from the emerging digital economy transition, and while digital banks are only one part of the equation, the pace of global adoption is increasing. In February 2022 UNDP issued a report entitled 'Key Priorities For Digitalization of The Government of The Kyrgyz Republic', which outlines strategic investment areas and options.[59]

3.2.4 Islamic Finance

140 Although the vast majority of people in Kyrgyzstan are Sunni Muslims, Islamic banking only has a market share of around 1.5 % of the total market share of the bank sector. However, in the context of the CIS, the government has been progressive in its approach to expansion, for example, the country became the first jurisdiction in the CIS region to stipulate requirements in the relevant chapter to the Civil Code regulating Islamic financial transactions and in 2022, two local state-owned commercial banks successfully obtained a license to operate under the Islamic window. Thus, as of the beginning of 2023, 5 commercial banks and 8 microfinance institutions are eligible to operate under the Islamic financing principles.

[58] https://projects.worldbank.org/en/projects-operations/project-detail/P160230
[59] https://www.undp.org/kyrgyzstan/publications/key-priorities-digitalization-government-kyrgyz-republic

141 The Kyrgyz Republic was the first CIS country to incorporate principles of Islamic Finance into the economy, in 2006, some years after the Islamic Finance revolution had already taken hold in countries such as the United Arab Emirates (UAE). In 2006, with Islamic Development Bank assistance, Eco Islamic Bank launched the first pilot project following which in 2009 the concept of Islamic Banking was included in laws on “Banks and banking in the Kyrgyz Republic” and “National Bank of the Kyrgyz Republic”. Moreover, the Kyrgyz Republic is a member of the Islamic Development Bank (IDB), an international financial organization with its mission to support economic and social development in the Muslim countries. The main goal of the IDB is to increase the level of economic and social development in the member countries of the IDB by participating in the financing of projects and programs and currently, the National Bank, with the assistance provided by the IDB, is implementing a project to create a full-fledged Islamic bank in the territory of the Kyrgyz Republic within the framework of promoting Islamic finance.[60] Table 15 below provides updated data on the share of loans in the banking system based on Islamic Financing principles, showing a projected uptick in 2021 that needs to be verified.

Table 15. ISLAMIC FINANCING SHARE ON TOTAL BANKING LOAN PORTFOLIO

Indexes	2017	2018	2019	2020	2021
Assets to GDP (%)	38.8	39.0	42.2	48.4	55.0
Loans to GDP (%)	21.6	21.0	28.6	n/a	30.3
Deposits to GDP (%)	23.9	23.0	26.0	n/a	35.0
Share of financing based on Islamic Principles in total loan portfolio (%)	0.9	1.4	1.4	1.5	5.0

Source: Challenges for Islamic Banking Industry: The Kyrgyz Republic Experience by Zhoraev, A and Yüksek, A (2021)

142 Though the Islamic banking industry is only in its nascent stages (one pilot bank, four banks with an Islamic window, and eight microfinance institutions, two of them under the Islamic window), the potential for expansion is significant, as has happened in Malaysia. Moreover, as Islamic Finance (i.e., Zakat, Takaful and other Shariah compliant products and services etc.) is highly amendable to support the SDGs, the growth of the sector will need to be accompanied by a clear road map for linking collections and transparent use, to sustainable outcomes. It should be noted that on March 3, 2023 the Concept of development of an Islamic Economic Platform, covering measures on Takaful, Zakat, Sukuk, Islamic banking, etc. was adopted. In order to implement the Concept an Action Plan will be developed, which will involve all relevant ministries and agencies.

3.2.5 MICRO-FINANCE

143 The micro-finance sector in the Kyrgyz Republic is robust, representing nearly 10 percent the market size of the banking sector. Trade accounted for 12.5 percent of the total loan portfolio of the banking sector, followed by agriculture (25.7 percent) and consumer loans (34.1 percent). The microfinance sector in the Kyrgyz Republic is rapidly growing (See Table 16 below). In 2021, around 133 microfinance companies, 88 credit unions, 390 pawnshops and 379 currency exchange offices operated in the Kyrgyz Republic. Over the last five years, the three largest microfinance companies (Bai-Tushum, FINCA, and Kompanion) transformed into banks with full banking licenses.

144 The document “Main directions of microfinance sector development in the Kyrgyz Republic for 2022-2025” approved by NBKR Decree in 2021 points out the following weaknesses of non-bank financial institutions (NBFIs):[61]

- The presence of a large number of small NBFIs with a low level of financial stability.
- Inadequate resource supply due to limited access to funding sources and high cost of external funding.
- Low level of corporate culture and management of a significant number of small and medium NBFIs.
- High dependence on migrants' income, remittances, dollar volatility, and,
- Weak institutional capacity of professional associations and second-tier organizations.

[60] https://www.nbkr.kg/index1.jsp?item=3437&lang=ENG
[61] https://www.nbkr.kg/contout.jsp?item=3206&lang=ENG&material=84608

145 Table 16 below shows the total value of loans for the micro-credit sector from 2017 to 2021, showing a nearly 200 per cent gain over the period. Construction and mortgages have increased some circa 500 per cent, transport related loans by circa 400 per cent and consumer loans have also increased by circa 300 per cent, over the period. What is remarkable, given the effective interest rates reported against loan categories for the period is that the costs of borrowing remain extremely high, partly as a result or the central bank policy rate, but also because of the risks and costs of lending. Whereas commercial banks are the main external provider of capital, as their collateral requirements represent a bottleneck, microfinance institutions are a major provider of unsecured loans to SMEs at the lower end of the market, especially in agriculture and consumer sectors.

Table 16. CREDITS OF MICRO-FINANCE ORGANIZATIONS BY VALUE AND INDUSTRY (SOMS '000)

Period		Loans, total	Industry										
			Industry	Agri.	Transport	Comms.	Trade and commerce	Procurement and processing	Construction and mortgage	Services	Consumer loans	Loans to financial institutions	Other
Q1	2017	9,943,330	108,460	2,888,219	108,450	610	1,661,598	17,694	663,491	1,208,367	2,361,962	558,094	366,385
Q2	2017	10,673,051	122,909	3,053,535	120,648	787	1,645,991	16,639	795,117	1,224,894	2,648,956	613,296	430,280
Q3	2017	11,503,323	134,650	3,103,959	124,987	1,163	1,677,461	17,497	983,643	1,218,846	3,198,522	562,884	479,712
Q4	2017	11,732,995	136,641	2,883,819	135,153	1,081	1,662,660	7,351	1,008,215	1,309,165	3,517,022	526,151	545,740
Q1	2018	12,264,457	154,871	3,451,863	154,859	1,260	1,818,636	53,048	971,893	1,614,233	3,153,361	441,072	449,361
Q2	2018	13,770,016	173,310	4,046,382	182,882	2,011	1,933,038	6,510	1,152,892	2,220,949	3,439,722	566,395	45,923
Q3	2018	15,083,175	181,149	4,336,399	175,987	1,734	1,986,382	10,508	1,374,444	2,734,004	3,577,262	657,202	48,103
Q4	2018	15,965,353	184,088	4,519,862	196,727	1,557	2,101,547	11,742	1,273,619	3,020,220	3,880,242	703,438	72,311
Q1	2019	16,638,540	180,142	5,047,301	227,007	1,562	2,204,660	12,787	1,219,485	3,074,463	3,926,154	683,399	61,578
Q2	2019	18,237,949	182,044	5,508,799	244,490	2,162	2,393,874	8,661	1,513,079	3,198,756	4,338,863	776,894	70,325
Q3	2019	20,294,918	185,734	5,765,941	283,032	2,088	2,619,880	7,855	2,024,533	3,408,914	5,120,554	769,700	106,687
Q4	2019	21,137,824	190,460	5,834,887	316,526	2,419	2,664,935	5,539	2,147,805	3,469,049	5,583,035	806,863	116,305
Q1	2020	21,153,282	193,151	6,046,734	336,010	2,599	2,635,363	13,063	2,064,700	3,409,118	5,549,214	765,822	137,508
Q2	2020	21,609,646	181,204	6,229,719	333,668	2,526	2,685,505	12,729	2,129,383	3,452,641	5,680,556	751,751	149,962
Q3	2020	22,014,551	178,377	6,157,333	326,420	2,677	2,666,657	11,972	2,200,750	3,417,707	6,055,159	776,149	221,349
Q4	2020	22,240,990	197,714	6,297,060	341,799	246	2,652,913	12,061	2,156,792	3,230,577	6,334,637	777,735	239,458
Q1	2021	23,237,300	211,780	7,066,912	347,833	47	2,771,583	11,662	2,137,293	3,209,384	6,545,025	701,646	234,137
Q2	2021	24,770,198	221,046	7,395,159	369,159	10	2,917,577	10,389	2,557,811	3,082,306	7,163,659	838,920	214,162
Q3	2021	26,375,992	216,185	7,159,362	383,808	-	3,015,953	10,994	3,157,559	2,720,151	8,643,195	889,681	179,103
Q4	2021	27,108,749	209,136	6,942,791	426,941	-	3,316,275	10,019	3,236,371	2,430,310	9,538,269	820,253	178,384
Q1	2022	27,380,124	212,668	7,291,686	422,256	-	3,206,586	10,161	3,121,690	2,551,381	9,518,515	902,883	142,299
Q2	2022	26,752,492	225,154	6,867,045	392,491	-	3,206,633	2,357	3,076,203	2,552,213	9,468,849	887,848	73,698

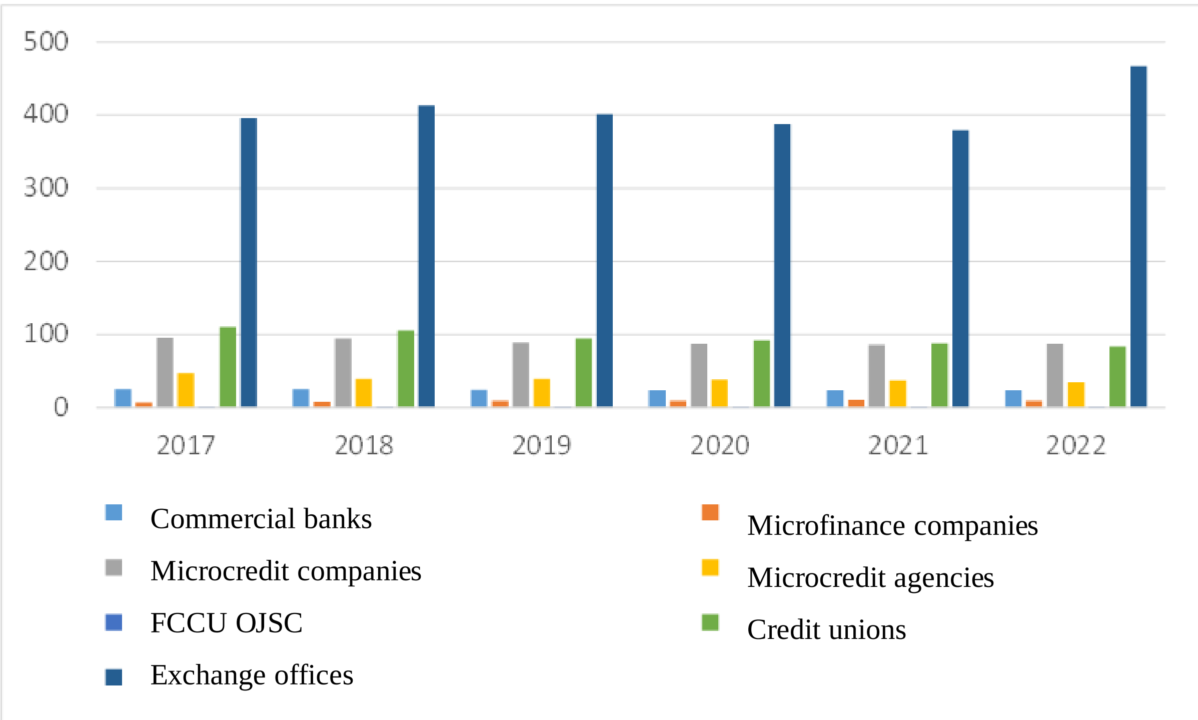
Table 17. EFFECTIVE INTEREST RATES FOR MICRO-FINANCE BY SECTOR (SOMS '000)

Period		Average weighted interest rates	Industry										
			Industry	Agric.	Transport	Comms.	Trade and commerce	Procurement and processing	Construction and mortgage	Services	Consumer loans	Loans to financial institutions	Other
1 quarter	2017	31.37%	27.22%	31.22%	29.81%	39.64%	30.48%	14.46%	33.25%	33.59%	33.88%	19.49%	30.41%
2 quarter	2017	31.27%	28.11%	31.40%	29.51%	39.21%	30.26%	14.32%	32.86%	33.34%	33.80%	18.63%	30.05%
3 quarter	2017	31.19%	27.79%	30.96%	29.22%	36.77%	29.94%	14.82%	32.59%	32.98%	33.80%	17.87%	30.08%
4 quarter	2017	31.15%	27.93%	30.92%	29.76%	36.07%	29.19%	14.99%	31.84%	33.06%	33.63%	17.41%	31.11%
1 quarter	2018	30.83%	28.29%	30.69%	29.66%	34.79%	30.46%	22.93%	31.19%	32.05%	32.78%	16.86%	30.66%
2 quarter	2018	30.71%	28.36%	30.84%	30.12%	34.55%	30.30%	13.54%	31.41%	32.27%	32.19%	16.14%	28.31%
3 quarter	2018	30.35%	28.42%	30.80%	29.71%	34.43%	28.70%	14.26%	31.72%	32.44%	31.42%	16.03%	28.73%

4 quarter	2018	30.40%	28.32%	31.00%	29.50%	34.40%	28.70%	14.19%	31.08%	32.49%	31.55%	16.19%	30.04%
1 quarter	2019	30.22%	28.60%	30.87%	28.69%	34.04%	28.71%	15.34%	30.73%	31.97%	31.38%	15.96%	31.00%
2 quarter	2019	30.11%	28.81%	30.49%	28.31%	32.89%	28.81%	17.15%	30.64%	31.44%	31.88%	16.16%	29.63%
3 quarter	2019	30.03%	28.45%	30.28%	27.64%	32.57%	28.93%	16.48%	30.46%	31.15%	31.77%	16.03%	27.65%
4 quarter	2019	30.02%	28.20%	30.29%	27.78%	32.61%	29.00%	17.43%	30.28%	31.07%	31.77%	15.78%	27.84%
1 quarter	2020	30.09%	28.75%	30.16%	27.97%	31.94%	29.48%	16.46%	29.83%	30.73%	32.21%	16.00%	27.99%
2 quarter	2020	26.85%	25.23%	26.01%	28.30%	31.83%	28.02%	15.53%	29.81%	23.50%	29.54%	16.05%	28.56%
3 quarter	2020	30.10%	28.46%	29.61%	28.22%	31.50%	30.64%	15.52%	29.76%	29.59%	32.76%	16.14%	29.42%
4 quarter	2020	29.84%	28.07%	29.90%	28.25%	31.03%	29.86%	16.47%	29.32%	30.09%	31.67%	16.23%	29.39%
1 quarter	2021	30.75%	28.43%	30.40%	28.19%	34.00%	30.96%	16.36%	29.09%	30.67%	33.46%	16.22%	29.46%
2 quarter	2021	30.65%	28.36%	30.61%	28.03%	34.00%	30.74%	15.99%	28.90%	30.55%	33.27%	16.18%	30.28%
3 quarter	2021	30.30%	28.28%	30.62%	27.96%	-	30.37%	15.67%	29.05%	30.06%	32.16%	16.17%	30.08%
4 quarter	2021	29.11%	28.28%	29.67%	27.63%	-	27.38%	14.41%	28.31%	29.45%	30.70%	16.20%	29.70%
1 quarter	2022	29.22%	28.71%	29.66%	27.15%	-	28.25%	15.49%	27.84%	29.71%	30.86%	16.26%	29.86%
2 quarter	2022	30.21%	29.02%	30.70%	26.94%	-	30.12%	20.70%	28.04%	29.99%	32.10%	16.56%	29.61%

146 Chart 15 below provides an overview of the number of micro-finance companies operating in the banking sector, showing a reduction in micro-credit companies and agencies, implying ongoing market consolidation.

Chart 15. MICRO-FINANCE COMPANIES AND THE KYRGYZ BANKING SYSTEM



Source: NBKR (2021)

3.2.6 INSURANCE MARKETS

147 According to the results of the first half of 2022, revenues of 14 privately owned insurance companies of Kyrgyzstan increased by 23% y-o-y and amounted to KGS 1.2 billion (~EUR 14.36 million). At the same time, the largest part (85%) was received from insurance premiums, according the National Statistical Committee of the Kyrgyz Republic. The National Statistics Committee reported that as of the end of Q2 2022, insurance companies received about 124 million SOMs in profit, which is 29.5% less than in the corresponding period of the last year.

148 Since the beginning of the year, 3,700 insurance cases have been registered, of which 57% corresponded to voluntary private medical insurance. Voluntary property insurance (60.5% of their total volume) and private medical insurance (more than 17%) corresponded to the main sums of insurance payments. Moreover, as of July 1, 2022, the amount of insurance under the signed contracts is 809 billion, an increase of one third compared to the corresponding date of the previous year. amounted to som. The largest increase in the sum insured was noted in liability and personal voluntary insurance contracts.[62]

149 Given the role of insurance in de-risking investment and in risk-transfers for many sectors, and with strong linkages to creating resilient communities, including Islamic Insurance (Takaful), the growth of the insurance industry will be vital to attain a number of SDGs, including climate action.

3.2.7 ANGEL INVESTMENT AND VENTURE CAPITAL

150 The Angel Investment industry – like the Venture Capital Market - is new in the republic and of limited but growing market value. Given the worsening global economic environment and challenges emanating from the conflict between Russia and Ukraine, attracting will require incentivizing and de-risking capital, in key sectors.[63]

151 Private equity markets in the republic have considerable room for expansion with examples such as the Highland Capital Fund or Tredstone Capital (private equity vehicles) providing an example of the potential for further expansion. Another example is FasterCapital which is an online incubator which is operating and helping accelerate / incubate startups. Angel investments provide equity – normally taking a stake in the business – by providing pre-seed funding, seed funding followed by Series A and Series B funding rounds. Faster Capital supports the development of pitch decks, business plans and financial models before passing these across its extensive network of more than 100,000 potential investors. TechFarm is another example of a venture capital firm that has previously invested in a number of startups in Kyrgyzstan. TechFarm is looking to raise a US$ 5 million fund to invest in pre-seed and seed startups across fintech, e-commerce, AI & Machine Learning, mobile gaming and education. Given the importance of financing promising SMEs, a focus in the years ahead on establishing networks for angle investor and promoting venture (even adventure) capital will be part of the evolution to a more diversified financing ecosystem.

3.2.8 NGO FLOWS

152 The civil society sector in the Kyrgyz Republic is one of the strongest in Central Asia, though accusations have been made that draft laws threaten the independence of groups.[64] CSO representatives are engaged with the government at the national and local levels through numerous consultative public councils at the state ministries and agencies. There are currently over 19,538 CSOs registered in the country, although only around 6,452 are operational.[65] Philanthropy however is almost non-existent due to economic conditions and poor implementation of tax legislation, which has been argued discourages donations. According to the law on charitable organizations, CSOs have the right to carry out economic activities (selling goods and services), but the resulting income is taxable unless the CSO qualifies as a charitable organization, a status almost impossible to maintain because of operational restrictions.

153 As noted above, little is documented regarding financial flows. In 2021, the parliament adopted amendments to the Law on Non-Commercial Organizations (NCOs), which require most CSOs to upload new annual financial reports detailing income and expenditures from foreign sources on the State Tax Service website. Of the many organizations, many focus on women's rights, such as the Union of Women Entrepreneurs and the Forum of Women's Non-governmental Organizations (NGOs).

[62] http://www.stat.kg/en/news/s-nachala-goda-otmechalsya-rost-dohodov-strahovyh-kompanij/
[63] https://pdf.usaid.gov/pdf_docs/PA00TZD9.pdf
[64] https://www.hrw.org/news/2022/11/18/kyrgyzstan-draft-law-threatens-independent-groups
[65] https://www.icnl.org/resources/civic-freedom-monitor/kyrgyz

3.2.9 Development Finance Institutions

154 A number of DFIs have active investments or investment pipelines in Kyrgyzstan providing capital in the form of grants, or in the form of loans with a particular focus on large infrastructure and banking projects, or smaller non-commercial projects. DFIs, such as the EBRD, IFC, Aga Khan Foundation and the Islamic Development Bank play a crucial role in the Kyrgyz economy capitalizing on the large underserved rural population, low banking penetration and Kyrgyzstan's position as a Central Asian functioning democracy. DFIs currently have a limited impact on SMEs in particular.

155 The 2019 World Bank enterprise survey shows that the biggest obstacles to private sector investment are as follows: (i) practices in the informal sector (ii) political instability (iii) corruption (iv) inadequately educated workforce (v) low access to finance compacted by lack of trust in financial markets, and (vi) tax rates. In terms of increasing transparency and accountability, the Program for Medium-Term Development outlines the following measures to combat corruption:

- Transformation of the law enforcement system towards crime prevention and development of state policy.
- Study of possibility of creating a single investigative body and toughening criminal liability.
- Continuation of Safe Cities project and improvement of regulatory framework for combating organized crime.
- Toughening personnel policy and measures taken to suppress international drug trafficking, and,
- Strengthening independence of judicial system, improving administration of justice through technology, and guaranteeing right to judicial protection.

156 Investment opportunities to strengthen the private sector include strengthening the business environment, investing in innovation and education, alternative financing instruments and digital and climate related investments. Lack of financing on research and development remains a major constraint to innovation, intellectual property rights development and building a future ready society.

Box 7. Ways to Combat Corruption in the Kyrgyz Republic

Here are some ways to strengthen combat corruption based on international best practices:

- ***Strong anti-corruption laws:*** Having well-enforced anti-corruption laws in place can help to deter corruption.
- ***Independent anti-corruption agency:*** An independent anti-corruption agency can investigate and prosecute corruption cases.
- ***Transparency and accountability:*** Promoting transparency and accountability in government processes can reduce opportunities for corruption.
- ***Public education and awareness:*** Raising public awareness about the harmful effects of corruption can help to build support for anti-corruption measures.
- ***Whistleblower protection:*** Protecting whistleblowers who report corruption can encourage individuals to come forward with information about corrupt practices.
- ***Improved governance:*** Improving governance and reducing bureaucratic hurdles can reduce opportunities for corruption.
- ***Strengthening the justice system:*** Strengthening the justice system and ensuring that those who engage in corruption are held accountable can help to deter corruption.
- ***International cooperation:*** Collaborating with international organizations and other countries can help to reduce cross-border corruption and improve the overall global fight against corruption

3.3 International Public Finance

157 International public financing flows continue to have an important contributory impact in meeting the financing needs of the Kyrgyz Republic, particularly at the policy level. Flows can be disaggregated by traditional Official Development Assistance (ODA) and non-traditional (non-OECD) bilateral and multilateral support, international financing institutions and climate action related funds. The role of ODA partners was particularly important during the COVID-19 pandemic, allowing government to balance its budget, though the biggest impact of ODA is probably the policy agenda that it promotes, including, for example Agenda 2030. Support from multilateral and bilateral institutions (grants, concessional loans and market-based credit) must be seen in the context of technical assistance and policy and investment advisory, which provides considerable investment into meeting Vision 2018-2040.

3.3.1 Official Development Assistance (Grants and Loans)

158 The Addis Ababa Action Agenda (AAAA) has reaffirmed the importance of official development assistance (ODA) as contained in the Monetary Consensus and Doha Declaration and also emphasized the importance of ODA as a catalyst for larger, blended financial flows, based on the understanding that ODA for MICs will never be very large. The AAAA Agenda highlighted the importance of ODA for the poorest and vulnerable countries, and it plays an important role in supporting lower-middle-income economies such as the Kyrgyz Republic. Chart 16 below provides an overview of the total net and gross ODA received by the republic, by largest donor and priority sectors. [66]

159 OECD reports that in 2020 ODA partners provided some US$ 445 million in new ODA support, up from US$ 344.9 in 2019. The bilateral share declined from 54.6 per cent in 2018 to 34 per cent in 2020, as COVID-19 set in and IFI's and the EU ramped up support to bridge the fiscal and budget deficit. The Asian Development Bank (ADB) remains the largest investor with some US$ 90.41 million averaged over the two years, followed by EU institutions (US$ 50.75 million), United State (US$ 46.59), International Development Association (IDA) (US$ 44.25), Germany (US$ 26.55) and Japan (US$ 25.31) among other smaller flows. The ADB, IMF and World Bank were considerable financiers during the COVID-19 pandemic, providing macro-fiscal support in particular.

160 Some 25 per cent of all bilateral flows go to other social infrastructure, health and population (25 per cent), economic infrastructure (16 per cent), education (15 per cent), production (7 per cent), multi-sector and other (5 per cent each) and less than 1 per cent as humanitarian assistance. Of course, non-traditional donors are major investors in the country, including China, Turkey and the Gulf States, though data on such flows are not reported. Given the impact of the COVID-19 pandemic, and now the war between Russia and Ukraine, EU member state ODA is naturally being re-purposed to deal with more than 9 million refugees in Europe and a recovery and reconstruction price tag assessed to be between US$ 360 billion and US$ 1.1 trillion.

[66] https://developmentfinance.un.org/official-development-assistance

Chart 16. ODA FLOWS TO KYRGYZ REPUBLIC FROM 2018-2020

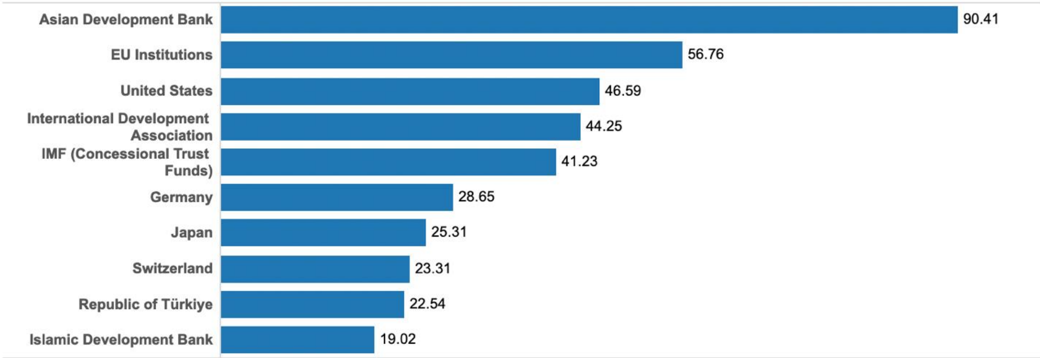
Receipts for Kyrgyzstan

	2018	2019	2020
Net ODA (USD million)	378.4	342.9	445.1
Net ODA/GNI (%)	4.7	4.2	6.0
Gross ODA (USD million)	477.1	422.9	543.1
Bilateral share (gross ODA) (%)	54.6	44.9	34.0
Total net receipts (USD million)	441.9	374.8	448.9

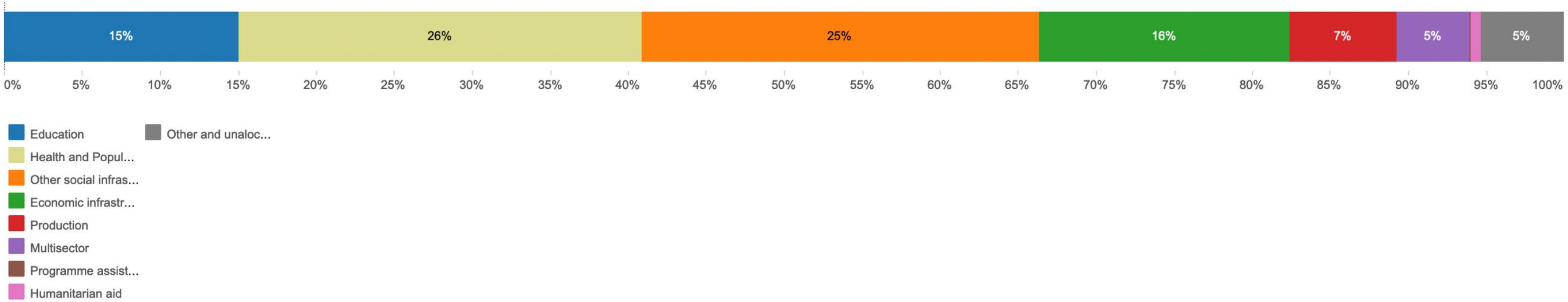
For reference

	2018	2019	2020
Population (million)	6	6	7
GNI per capita (Atlas USD)	1,220	1,240	1,160

Top Ten Donors of Gross ODA for Kyrgyzstan, 2019-2020 average, USD million



Bilateral ODA by Sector for Kyrgyzstan, 2019-2020 average



161 Regional investors in the country are vital to the government, with most flows being debt instruments, with up to 35 per cent grant component. As can be seen by the number of international bilateral and multilateral creditors, borrowing has remained vital to infrastructure and other investments. In September 2022, Kyrgyzstan, Uzbekistan and China signed an agreement on the construction of a railway between the countries, with the final investment depending on the results of a feasibility study. The Eurasian Fund for Stabilization and Development (EFSD) – with Russia the primary investor – has a regional fund of some US$ 8.5 billion, providing another important public finance flow to support sustainable development.[67] Despite the Kyrgyz Republic being a founding member, the impact of sanction on Russia is likely to negatively impact fund disbursement. EFSD loans and credits are repayable, have finite maturities, and carry interest, and the fund also extends grants for social projects of the Fund member states on a non-repayable and non-reimbursable basis. The Turkish Cooperation and Coordination Agency (TIKA) – for example – provided US$ 80,988,380 million between 1993 and 2018. With assistance from the Republic of Turkey totaling some US$ 1,073,050,000 from 2005 to 2018. TIKA has reduced spending in recent years, and data after 2018 is not publicly available.[68]

3.3.2 Climate Fund Flows

162 The Kyrgyz Republic is committed to the implementation of the 2030 Agenda for Sustainable Development. The Sustainable Development Goals have been included in public policies and are reflected in the National Development Strategy (2018–2040) of the Kyrgyz Republic, and the “Unity, Trust, Creation” (2018–2022) Program of the Government of the Kyrgyz Republic, based on people centered approach. Moreover, the updated Nationally Determined Contribution (NDC) of the Kyrgyz Republic is based on the decisions of the Conference of the Parties to the Framework Convention on Climate Change and the Paris Agreement, and has a price tag of US$10 billion, to be financed from national revenues, private sector, international donors with a forecast of 63 per cent to be financed from international financial support.

163 So far, the republic has only received some US$ 38.6 million for two projects, one focused on carbon sequestration through investments in forests and one on climate services and diversification for livelihoods. Flows from the Global Environment Facility (GEF) – once co-financing is included – extend to over US$ 451 million. While not all GEF funds are climate related, as a significant contributor to bridging the climate financing gap, they can be catalytic in terms of mobilizing additional flows and leveraging new investments.

Table 18. GEF Total Funding Received by the Kyrgyz Republic and Co-Financing

Trust Fund	***Project Type***	***Number of Projects***	***Total Financing***	***Total Co-Financing***
GEF Trust Fund	National	24	$31,302,188	$136,251,612
		31	$178,556,346	$275,827,625
Special Climate Change Fund	Regional/Global	1	$5,000,000	$35,220,000
Trust Fund		1	$3,500,000	$5,000,000

3.3.3 Other Official Flows

164 Other official flows (OOF) are defined as official sector transactions that do not meet official development assistance (ODA) criteria. OOF include: grants to developing countries for representational or essentially commercial purposes; official bilateral transactions intended to promote development, but having a grant element of less than 25%; and, official bilateral transactions, whatever their grant element, that are primarily export-facilitating in purpose. This category includes export credits extended directly to an aid recipient by an official agency or institution (official direct export credits); the net acquisition by governments and central monetary institutions of securities issued by

[67] https://efsd.org/en/about/mission_and_resources/
[68] http://www.donors.kg/en/agencies/104-tika

multilateral development banks at market terms; subsidies (grants) to the private sector to soften its credits to developing countries; and, funds in support of private investment. Unfortunately, no OOF data is available for Kyrgyzstan.

3.4 INTERNATIONAL PRIVATE FINANCE

165 While remittances continue to be vital for the Kyrgyz Republic, other international flows are not entirely stablesuch as Foreign Direct Investment (FDI) inflows in 2020 declined significantly, and portfolio inflows have contracted in recent years. This negatively affects the potential for increasing economic sustainability and attracting additional capital and investment partners. Volatility in both FDI and portfolio inflows results from many factors, including lack of investment opportunities, investment climate and business environment concerns including corruption and wider trends related to increasing de-globalization, which have been compounded by COVID-19 lockdowns and sanctions on Russia, among other factors. Yet, attracting FDI and portfolio inflows must remain vital to government, not just to increase investment flows, but also to support technological transfers, triangular and south-to-south cooperation.

166 Currently, no international private finance flow of note reports against particular SDGs, in certain flows (e.g., inflows to support the coal industry) have a negative impact on sustainability. While there could be some double-counting in relation to national and international private financing, totals are likely to be small and time taken for recordation does not make sense. Of great significance however is the impact of the ongoing war in Ukraine. Since the beginning of the conflict, the Kyrgyz economy has shown resilience to the worst impacts of the war. According to the Border Guard Service of the State Committee for National Security, some 479,096 Russian nationals arrived in the country during the first nine months of 2022, leading to commercial banks reporting historically high profits,[69] with foreign currency transactions increasing by some eight hundred per cent.[70] As a result real GDP grew by 7 percent in the first ten months of this year driven by gold production, transportation, trade, and agriculture (including digital agriculture).[71] At the same time inflation increased to 15.4 percent in October (y/y), as a result of high global food and fuel prices and in the first nine months of 2022 imports increased by nearly 80 percent, partly because of higher oil prices while gold exports were negligible. Net inflow of money transfers from abroad declined by 12.8 percent through September 2022, and international reserves fell to below four months of prospective imports.

3.4.1 FOREIGN DIRECT INVESTMENT

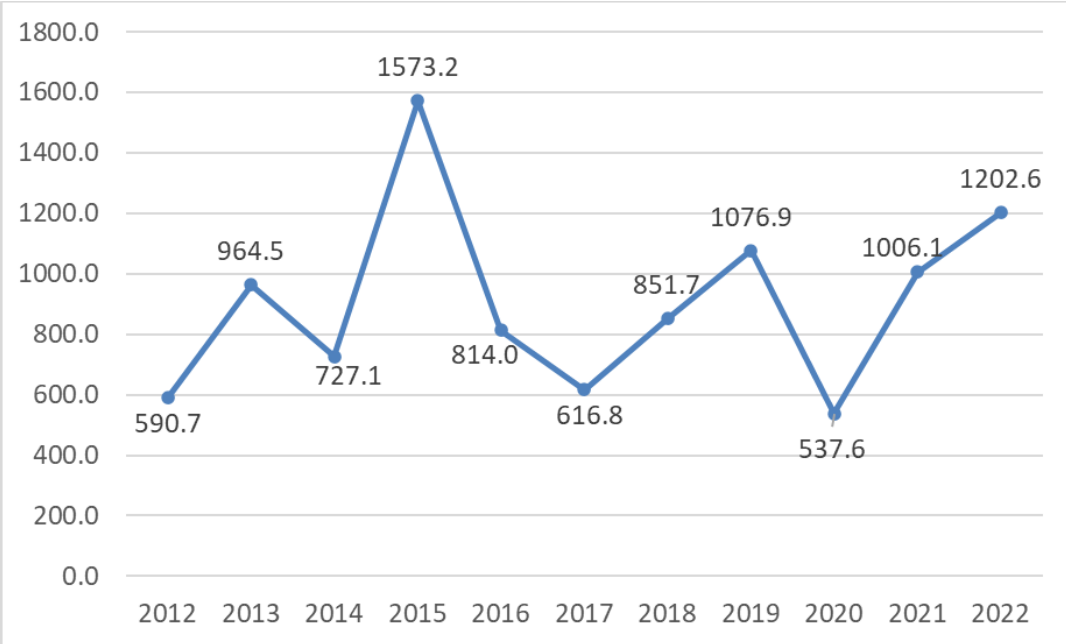
Foreign direct investment (FDI) refers to direct investment capital flows into the country and is the sum of equity capital, reinvested earnings and other capital. According to the National Statistics Committee of the Kyrgyz Republic, the average inflow of foreign direct investment in Kyrgyzstan in 2012-2022 was 905.6 million USD (see Figure 17). In 2020, a record low of USD 537.6 million was reached for the eleven-year period under review. The biggest collapse in investment flows was in the electricity, gas, steam and air conditioning supply (by 99.9%), transportation and storage (by 96.5%), construction (by 56.7%), and other sectors. Nevertheless, FDI inflows recovered, reaching $1,202.6 million in 2022. The year-to-year volatility reflects large single investments in some years that are not repeated in others. For example, in 2022, FDI inflows into the mining industry were 4.4 times the annual average for the past 11 years. Another example is the sharp increase in FDI in 2015 in the Financial and insurance activities (3.8 times the average investment from 2012 to 2022), construction (3.2 times), electricity, gas, steam and air conditioning supply (3.5 times), manufacturing (by 83.0%), etc.

Chart 17. FDI (% OF GDP) TO THE KYRGYZ REPUBLIC (1995-2021)

[69] https://economist.kg/novosti/2022/11/18/banki-kyrgyzstana-poluchili-rekordnuju-za-vsju-istoriju-pribyl-pochti-v-20-mlrd-somov/

[70] https://economist.kg/novosti/2022/11/21/obem-valjutnyh-operacij-v-kombankah-vyros-v-vosem-raz/

[71] https://www.imf.org/en/News/Articles/2022/12/02/kyrgyz-republic-staff-concluding-statement-of-the-2022-article-iv-consultation-mission

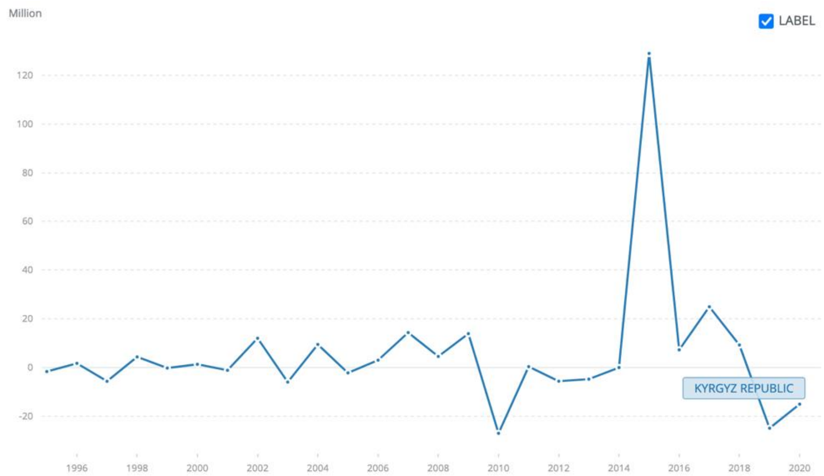


Source: National Statistic Committee (2023)

3.4.2 PORTFOLIO INVESTMENT

167 According to World Bank data, Portfolio inflows to the Kyrgyz republic peaked in 2015 as circa US$ 130 million, but collapsed into negative territory in 2019, as a result of factors such as political turmoil. As of December 2021, Foreign Portfolio Investment was reported at 0.0 %. Developing portfolio investment requires identifying policy actions and interventions across the economy and in key sectors where short-to-medium term reforms could unlock investment flows. As noted above, development of capital markets and FDI must remain an important focus of investment, as many countries have seen an uptick in portfolio inflows even as FDI contracts. Chart 18 below provides World Bank statistics on portfolio inflows for the period 1995 to 2020.

Chart 18. KYRGYZ REPUBLIC PORTFOLIO INFLOWS (US$) (1995-2020)



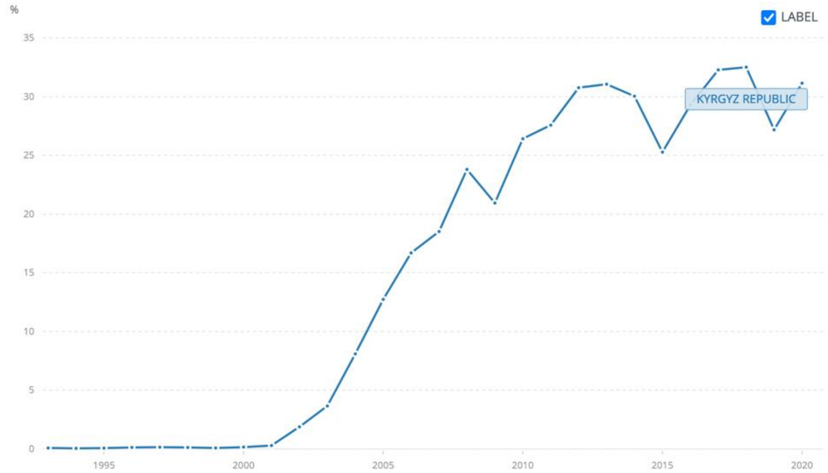
3.4.3 REMITTANCES

168 Remittances are a lifeline for the Kyrgyz Economy, and despite concerns regarding the negative impact of the pandemic and crisis between Russia and Ukraine, remittance flows along the major remittance corridors (i.e., Russia) remained buoyant during the pandemic. However, even though NBKR data for Q1-Q3 2022 show a 9 per cent increase in remittance inflows, over the same period in 2021, given the importance of remittances considerable downturn in remittances would impact negatively on macro-economic stability.

169 More than 1 million Kyrgyz nationals – roughly one in every six people – live and work in Russia, making the value of remittances of critical importance to the economy. Contrary to the expected collapse of remittance flows in 2022[72], remittance inflows increased, although the net inflow was the lowest in five years.

170 In 2021, Kyrgyzstan received more than US$2.7 billion in remittances, of which 98 % coming from Russia, equaling around 30 percent of gross domestic product. A contraction of 20 per cent would constitute a 6 per cent contraction in GDP. Reduced remittances hit purchasing power and probably imports, given that imports takes significant share of population consumption With approximately half the money sent to Kyrgyzstan from abroad going to the 20 percent most impoverished households, poverty rates would appear to be set to increase, with a decrease in remittances having varied impacts on different genders due to traditional roles, economic conditions, and cultural factors. Chart 19 highlights the growing significance of remittance flows to the economy, with a contraction of 20 per cent putting the government and country under considerable financial pressure.

Chart 19. REMITTANCE FLOWS AS A PER CENT OF GDP (1995-2020)



Source: World Bank (2022)

3.5 CONCLUDING REMARKS

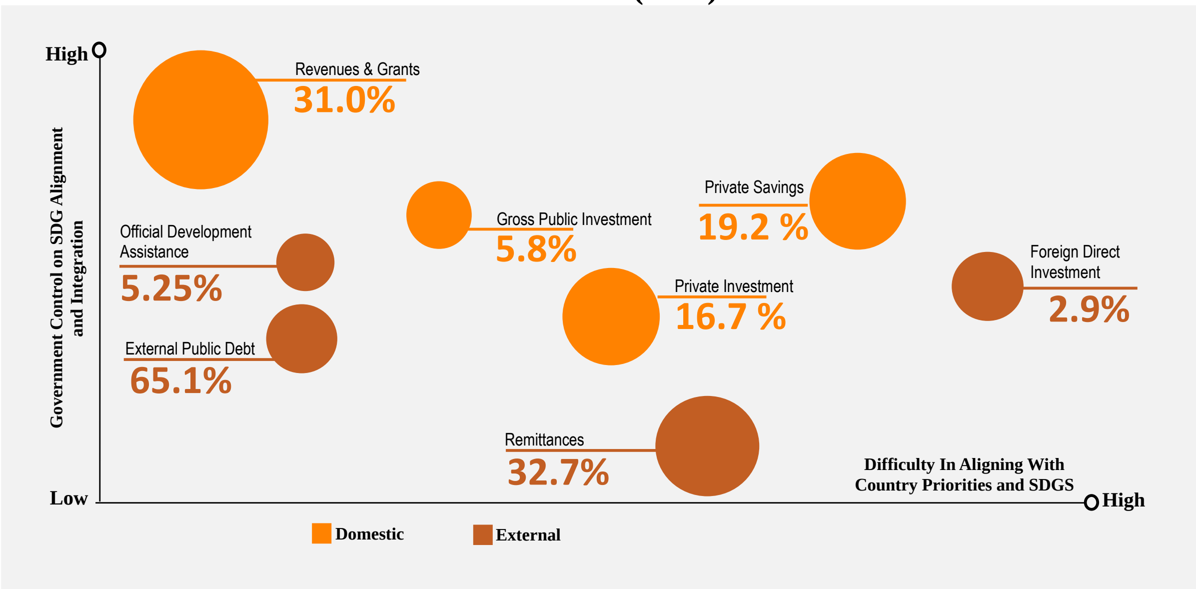
171 The diagnostic above outlines the primary flows in the economy across public and private, domestic and international investors. Two decades of strong poverty-reducing growth are now being called into question, as external shocks that could affect international financial flows, including remittances, FDI, portfolio flows, and ODA, carry significant risks, at a time when financing the SDG financing gap has never been more important. Critical to the road map will be identifying financial instruments that can be deployed as part of a new way of working, with a particular focus on crowding in private capital through new incentives of blending to de-risk, but also scaling up old approaches to increase infrastructure investments at the same time. From a social welfare point of view, the risks of

[72] https://eurasianet.org/kyrgyzstan-national-bank-predicts-20-decline-in-remittances

leaving people behind is high, and the need for new investments to support inclusive and green growth will define the success of Vision 2018-2040.

172 Figure 2 below provides an approximation of the main financing flows in the economy, government control in relation to flow SDG alignment and the difficulty of aligning with the SDGs. Private flows are harder to align, unless incentivized through tax or non-tax measures or de-risking through blending or guarantees. The relative position of each flow is indicative.

Figure 2. OVERVIEW OF KYRGYZ FINANCING FLOWS (% OF GDP) AND ALIGNMENT WITH THE SDGS (2022)



Source: Authors based on data from the Ministry of Finance, IMF Article IV and World Bank World Development Indicators

Chapter 4

Integrated Planning & Budgeting

4. INTEGRATED PLANNING AND BUDGETING

173 This section provides a concise overview of the current integrated national and regional planning and budgeting system. Given the growing importance of public spending as FDI, portfolio flows, ODA and potentially remittances reduce, identifying entry points within which the various financing instruments and road map elements will be executed is important. The section provides an overview of the PFM system, medium term planning and budget cycle as well as PFM reform priorities and identifies entry points to secure SDG alignment and integration within existing systems.

4.1. MEDIUM- AND LONG-TERM DEVELOPMENT VISION

174 As noted in the socio-economic context section, the National Vision 2018-2040 did not formally integrate Agenda 2030 into the NDS, however, in terms of priorities and targets, there is great crossover with the SDGs. For example, the National Vision states that an innovative economy is the only possible development pathway and that Kyrgyzstan needs new industries such as high-tech, green and eco-friendly. The vision also notes that the time of giant plants for production has passed, and that smart and mobile enterprises bring technological solutions to the market are set to dominate. Moreover, the National Vision states that one of the key tasks is the formation and maintenance of modern production infrastructure, without which economic development is impossible. (NDS, Pg. 72)

175 In particular, under Task 7.6 on Public Finance reform, a ***change in philosophy and principles of development financing*** is needed with a gradual departure from dependence on 'donor' financial resources to domestic mobilization. Another step will be a real transition to program budgeting and change in the budget planning and execution system based on program approach. Under Task 7.7 on external debt management, government see the long-term debt policy aimed at ensuring and maintaining sustainability of public external debt. Priorities regarding the structure of public debt, including the need to diversify the portfolio, will be formulated by the governmental medium-term debt management strategies based on regular analysis of risks and costs of the debt portfolio. Emphasis will be placed on the possibilities of borrowing in domestic market, including to stimulate development of domestic financial market. The role of domestic debt instruments as an affordable and reliable source of financing budget needs will be enhanced. (NDS Pg. 94).

176 In terms of the transition to strategic budgeting, directorates of national programs and government agencies will implement results-based management program financing as the dominant principle of resource mobilization, tying well with the INFF. Moreover, achieving the desired vision of development by 2040 depends on change management at each stage of the national investment cycle, the proper identification of priorities, and clear and accountable implementation of each objective. Goals and objectives must be measurable with a constant monitoring of progress, careful monitoring of indicators, as well as integration of change management systems, as promoted by the SDGs and the INFF.

4.2 MEDIUM TERM DEVELOPMENT PLANNING

177 As noted in the National Vision, unless results-based and programmatic approaches to developing bankable investments are accelerated, investments may not be as impactful as planned. The collapse in remittances, FDI, portfolio flows and risks of further currency depreciation mean that the national budget – as the central tool of policy – must integrate these changes and reforms through the PFM system. With the economy remaining heavily tilted towards the public sector, and characterized by high government spending, any budgeting for the SDGs (B4SDGs) approach will need to incorporation of new ways of working, and new instruments into the existing and evolving PFM system.[73]

[73] https://sdgfinance.undp.org/sites/default/files/UNDP%20Budgeting%20for%20the%20SDGs%20-%20Guidebook_Nov%202020.pdf

178 The World Bank (2020) Public Expenditure Review (PER) and August 2021 Public Expenditure and Financial Accountability (PEFA) assessments online a wide range of proposed reforms, many of which are both enabling to Agenda 2030 and to ushering in a more diverse range of financing instruments and mechanisms. These works – and the insights they provide – have been incorporated as they represent the current state of knowledge. Given that the INFF is to be executed by mainstreaming within established leadership and decision-making systems, the INFF Road Map will need to be integrated and delivered through those structures.

4.2.1 Public Finance Management System

179 The PFM system (regulated by the 2016 PFM Law – the Budget Code) is well developed, and is reflective of a unitary state of government. The system aimed to reflect a normative longer-term vision, three-year rolling and annual planning and budgeting cycle, alongside an annual budget cycle informed by a medium-term fiscal, budget and expenditure framework that allocates resources to policy priorities. The increased focus of strengthening Program Based Budgeting (PBB), which along with the Main Directions of Fiscal Policy (MDFP) allows a bottom-up programmatic approach to be taken to public investment planning, would allow new ways of working (new instruments, partnerships and ways of incentivizing) to be integrated into public investment plans.

180 The three-year MDFP with expenditure ceilings for each spending agency, reflects the basis for sectoral allocations. The aggregate budget resource envelope in the MDFP is based on economic forecasts. Sector expenditure ceilings are generally based on the two previous years' budget allocations, with some adjustment for new spending initiatives in line with government priorities. In other words, the government combines remnants of its legacy PFM system based on incremental budgeting with the more progressive and outcome driven PBB approach. The draft ceilings are sent to the spending agencies to prepare their budget submissions, and this provides an extremely important entry point for the INFF, where road map priorities and new instruments will need to be aligned and integrated.

181 The MDFP is submitted to the Council of the Cabinet of Ministers (CCM) and which may transfer resources within the budget, thus revising the ceilings. The CCM can determine intersectoral budget allocations to align with the NDS, and therefore the CCM will need to be engaged in the INFF, as reforms outlined in the road map must lead to changes in development financing for the sectors. Where certain sectors are more amenable to crowing-in private capital, changes to ways of working, catalytic impacts and leverage would be expected.

182 The PEFA notes that as far as aggregate financial discipline is concerned, the PFM system in the Kyrgyz Republic has kept the fiscal deficit within bounds, but it has proved less effective in ensuring that the actual pattern of expenditure is in line with budget plans that are intended to reflect government policy priorities. (PEFA, 2021, Pg. 118). In this context, effective resource allocation can be improved through the real subordination of medium-term fiscal planning to strategic planning of activities and services both at the macro level, but also at the level of individual spending units. The same modality should be implemented in municipalities. Budget execution has however been undermined by the fragmentation of public investment planning, volatile macro-economic and fiscal outturns, and the incompleteness of the presentation of investment in medium-term projections. As the Budget Code provides for medium-term fiscal planning and the use of program budgeting in the planning and management of government agencies, strengthening PBB will go hand-in-hand with B4SDGs. In this sense, aligning the INFF with the PBB process is vital, given that public investment decisions are made, procured and implemented at that level.

183 As government prefers to implement the INFF through mainstreaming into existing policy making, planning, budgeting and execution systems, linkage with the PBB process will be vital for introducing news ways of working, piloting and scaling. Moreover, given the growing role of the regions in fiscal and expenditure programs, SDG localization should be moved forward ot strengthen sub-national alignment with the SDGs.

4.2.2 BUDGET CALENDAR GUIDELINES [74]

184 A clear calendar for each stage of budget preparation is issued in January each year, though there have been delays in the process. Budget preparation is based on Section IX of the Budget Code, Articles 80-102. In accordance with this the Minister of Finance issues the budget timetable each year in January. The Ministry of Finance provides the macro-economic forecast by the end of March, and revenue forecasts are prepared by 10 April. Ministries and other budget users hold public consultations on their strategic plans before sending their proposals to MoF by 1 May. The MoF creates a list of projects consistent with the expenditure ceilings of spending agencies and submits this to the government office for approval by the Cabinet of Ministers before it is included in the budget.[75] Following discussions with budget users MoF submits the draft Main Directions of Fiscal Policy document, with expenditure ceilings for each budget user, to the Government in early June. Once approved, this document serves as the operational budget circular, providing the basis for the preparation of budget submissions and thereafter for discussions between MoF and budget users.

185 Revised ceiling figures, taking into account revisions to the economic forecast, are scheduled to be issued in mid-July, and final proposals, after further discussion with budget users and consultations with the public, are submitted by MoF to the Government in mid-September. It will be important for the INFF Road Map to align with the budget calendar as it seeks B4SDG entry points, such as influencing the budget call circular guidance.

4.2.3 PLANNING AND BUDGETING FRAMEWORK

186 The INFF has a strong planning and budget framework to align and integrate with, though strengthening will be needed for Road Map priorities to be fully mainstreamed at the level where program level investments are made. While PBB was initiated a decade ago, considerable work will be needed to strengthen the process to the point where national programs integrate proposed INFF measures and instruments. While the National Bank has obvious capacities in the macro-fiscal policy space, strengthening the capacity of the Ministry of Finance in the strategic budgeting process for SDGs will be required.

187 PBB and medium-term expenditure planning in the Kyrgyz Republic began in the mid 2000s, but only limited meaningful progress in transforming the way in which budgets are preparedhas been made since then. The piloting of PBB procedure started in 2011 with 6 ministries. In 2017 the PBB formally became one of the pillars of the budget process in Kyrgyzstan. The A Program Budgeting Rulebook was adopted in 2017 as well as methodological guidelines for Medium-Term Expenditure Strategies and instructions for submitting budget performance reports. All these instructions were renewed in 2021. Now all central spending units have to develop program budgets for the following 3-year budget law, but only 6 have to report in PBB format as pilots. Though all spending organizations are required to develop and execute their budgets in the PBB format, no one municipality does this regularly. There are few sporadic donors driven cases. The same picture is in the subordinate to ministries and state agencies but legally independent institutions.

188 The important elements of the PBB process were not fully introduced. This undermines the PFM system, and as strengthening the PFM system inevitably involves improvements to Public Expenditure Management (PEM) and Public Investment Program (PIPs), the INFF Road Map will need to identify entry points for aligning the SDGs, as well as potential integration. There is notable potential for the PBB approach to improve the use of scarce resources towards priority objectives (energy transition, green economy, digital transformation for example), including the SDGs. PBB can therefore be instrumental in improving the technical efficiency of spending by linking spending allocations to programs with clearly defined performance indicators and targets, including SDG goals and targets.

[74] This sub-section draws from the excellent overview of the budget calendar as presented in the 2021 PEFA. https://www.pefa.org/sites/pefa/files/2021-10/KG-Aug21-PFMPR-Public%20with%20PEFA%20Check.pdf
[75] Unlike with the externally financed projects, the MoF plays no role as gatekeeper for the domestically financed projects.

World bank, PER, 2020). The Medium-Term Budget Expenditure Strategies (MTBES) of agencies and MDFP are an essential complement and framework to PBB because most spending programs involve multi-year activities, within which Agenda 2030 activities would inevitably need to be integrated. Characteristics of strategic planning and budgeting are observed as follows:

- Budget system and budgets do not directly support sectoral strategies and programs, but through them the national ones. This is evident in a simple comparison of the MDFP and the program budgets of agencies approved by the law on the national budget. From the above we can conclude: strategic documents and action plans, information on the status of their implementation, the results of monitoring and evaluation of indicators, are not used in the budget process to the extent necessary to ensure development; there is an unclear link between strategic programs and annual budgets.
- Low quality of implementation and a significant delay from the planned deadlines of strategic documents and action plans and on their implementation.
- In addition, it should be noted that at least 70% of the state budget goes to finance the current budget items such as wages and operations and maintenance, leaving limited space for capital investment.
- Wide financing from the state budget of the subsidies harmful for sustainable development: purchase of fuel for heat supply boilers, agricultural subsidies, which put barriers to the development of green agriculture, and many others.
- At the central level, it is still executed without control of performance indicators, despite the introduction of the PBB procedure. The PBB is not used for expenditure analysis.
- Limited development and use of functional budget classification
- Prioritization of "protected items" (wages, social security payments, interest) of budget expenditures that do not actually include development expenditures
- No real economic norms for activities, e.g., in medicine, education, protection and reproduction of natural resources
- A one-size-fits-all approach to all budget-funded institutions and, accordingly, significant distortions in funding.

189 One challenge where the INFF may help, is increasing the fiscal space available to spending units through the introduction of new ways of financing. Currently, wage and non-wage recurrent costs often dominate, leaving spending ministries with limited discretionary finance to finance investments in the sustainable space. The PER makes the case for establishing the following components to strengthen PBB, with dividends for aligning with the SDGs and new financing instruments. The PER see a meaningful PBB approach entails the following components:

- An institutional mechanism for deciding strategic national priorities for public spending and the translation of these into sectoral allocations in the budget.
- Based on the above and forecasts of the budget resource envelope, a realistic set of medium-term expenditure ceilings for each sector of the budget.
- Sector development plans drawn up by line ministries that identify sector spending priorities consistent with their medium-term expenditure ceilings as well as translate these priorities into a set of budget programs including performance indicators and targets.
- Line ministries must have the freedom to allocate the budget resources within their sector ceilings in an optimal manner to achieve their performance targets; and,
  Line ministries must receive, over a medium-term period, budget allocations that are consistent with the expenditure ceilings they used to plan their programs; otherwise, the implementation of the programs will be derailed by insufficient funds, which will in turn erode incentives for budget planning.

190 Performance-based budgeting also tends to be poorly undertaken at the sub-national level, as a result of the following constraints:

- Absence of strategies and program budget in LSGs (the main problem).
- Poor strategic budgeting capacities.
- Lack of formal requirement to conduct PBB.
- Weak control by the MoF (authorized for PBB implementation agency) and Chamber of Accounts.
- Lack of interest and control by the local keneshs (municipal parliaments) members.

191 The state budget of the Kyrgyz Republic consists of republican and local budgets and includes all expenditures and income of the state. The republican budget is approved by the Jogorku Kenesh upon presentation by the Ministry of Finance. There is full alignment between the classification systems used for the budget as presented to Parliament and the Chart of Accounts (CoA) that underpins reporting and accounting for revenue and expenditure. Both incorporate administrative, economic, functional and sub-functional/ program classifications for revenue and expenditure. Budget expenditure is formulated, executed and reported with the same breakdown. Audit reports are also submitted to the legislature in a timely manner in accordance with statutory deadlines. According to Article 103 of the Rules of the Jogorku Kenesh, the Accounts Chamber submits to the Jogorku Kenesh a report with the results of the audit of the execution of the republican budget for the previous year by September 1 of this year. In this context, as shown in Box 8 below, from a low base in 2010 budget transparency and oversight have been greatly improved, though areas for improvement still remain.

Box 8. Action to Promote Budget Transparency in the Kyrgyz Republic

According to the Open Budget Survey, the Kyrgyz Republic ranks 30 out of 120 countries, ahead of Azerbaijan but behind Kazakhstan. The transparency score has improved from a score of 15 in 2010 to 62 in 2021 and as noted below, the overall budget transparency is seem as being acceptable. The International Budget Partnership notes that in Kyrgyzstan, state authorities provide citizens with limited budget information, and there are limited opportunities for public to participate in the budgeting process. This leads to inefficient spending of the budget funds and increases shadow economy volumes. Legislative oversight is also limited, with a score of 53 out of 100. The Kyrgyz Republic should prioritize the following actions to improve budget transparency:

Publish revised and updated expenditure and revenue estimates in the Mid-Year Review online in a timely manner.
Publish 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.
Improve the comprehensiveness of the In-Year Reports by publishing expenditures for administrative budget programs.
Consistently publish the narrative accompanying the Year-End Report with explanatory description of the budget's performance.

Document	2010	2012	2015	2017	2019	2021
Pre-Budget Statement	🚫	🟡	🟢	🟢	🟢	🟢
Executive's Budget Proposal	🟡	🟢	🟢	🟢	🟢	🟢
Enacted Budget	🟢	🟢	🟢	🟢	🟢	🟢
Citizens Budget	🚫	🚫	🟢	🟢	🟢	🟢
In-Year Reports	🟢	🟢	🟢	🟢	🟢	🟢
Mid-Year Review	🚫	🚫	🟢	🚫	🚫	🚫
Year-End Report	🟢	🟢	🟢	🟢	🟢	🟢
Audit Report	🟡	🟡	🟢	🟢	🟢	🟢

Source: Open Budget Survey Results, 2021[76]

4.2.4 SDG Alignment and Integration

192 A primary focus of the INFF Road Map and Financing Strategy is to strengthen the alignment and integration of the SDGs within the existing medium-term planning and budgeting system. As highlighted above, there are a number of particular entry points that will need to be integrated into the road map, I order to improve alignment with the SDGs and integration of INFF Road Map financing measures. These entry points are summarized in Table 19 below.

Table 19. INFF and SDG Alignment and Integration Entry Points

#	*Entry Point*	*Description & Approach*
1	Strategic Budgeting	Review strategic program documents (National Vision, NDS, Budget Call Circular and other budget guidance) to identify entry points for aligning the SDGs to national plans. Review national and local vertical and horizontal strategic planning.
2	Program-Based Budgeting	Support improved PBB and the integration of SDG goals and targets across all primary spending units, making sure that public spending promotes the SDGs, invests in their delivery, and introduces new instruments to increase resource flows to the goals, including private capital. Interventions must be conducted at national and sub-national levels.
3	Subsidies and quasi-fiscal deficit	A thorough analysis of existing and introduced quasi-fiscal government operations and subsidies for effectiveness will allow for a transition to viable measures of state support and considerably increase a fiscal space without real harm to the socially vulnerable.
4	Public Investment Management	Strengthening public investment planning for key sectors allow each sector to develop its own financing strategy beyond national or local budget allocations, allowing spending to be more catalytic, and potentially leveraged where such sectors allow.
5	Public Procurement	PPPs, guarantees, thematic bonds, subsidies and tax and non-tax incentives, transfers, guarantees, blending and levies for example need to be reflected in updated procurement plans, where new instruments are incorporated to close the SDG and national financing gap.
6	De-Risking Private Capital	In many sectors blended financing can be envisaged to increase the contribution of private capital for sectors from energy (IPP/PPS, green and climate bonds, carbon taxes), infrastructure (PPP concessions, syndicated loans), education and health (PPPs, guarantees, impact bonds) and SME development (apex financing for MFIs, participating financial institutions, challenge funds etc.) alongside tax and non-tax incentives. De-risking needs to be explicit and targeted.
7	Debt Management	While sustainable development management can benefit from the MTRS, the issuance of SDG, green, blockchain and other bonds will have recourse for debt management, and a focus on high rate of return investments can minimize risk and maximize rates of return on objectives.
8	SDG Regional Localization	Local fiscal resources need to be increased and greater alignment achieved between the National Vision and Agenda 2030 and local expenditure priorities, and ways of working. SDG localization would increase alignment as the critical sub-national level where frontline services are provided.
9	Private Equity	Increasing private capital investment in key sectors will not occur unless a strategy to incentivize and de-risk is put in place, and ODA partners can play a key role in using catalytic first loss finance to achieve entry and take off for enterprises in critical sectors.

[76] https://internationalbudget.org/open-budget-survey/country-results/2021/kyrgyz-republic

10	SDG Tagging and Outcome Monitoring	Improving SDG tagging and monitoring the impact of investments on national goals and sustainability requires changes to the PBB system, and eventually to the marking / tracking system deployed by the PFM system.

4.3 CONCLUDING REMARKS

193 Given the dominance of public funding for meeting sustainability goals, the entry points identified above – which rhyme with the results of the 2020 PEFA and 2021 PER – need to be integrated into the INFF Road Map. A critical first step would be on improving alignment, though it is through integration and mainstreaming that the new way of work would take off. In this regard, and in the context of the ongoing PFM reform agenda, new instruments proposed by the INFF will need to be further developed, perhaps through national sustainable financing and PPP taxonomies, as well as provision of training in financial literacy for the new tools, across the administration.

194 The size of the SDG financing gap, on top of GDP contraction, a drop off in remittances, lower ODA, FDI and portfolio flows means that a focus on immediate and short-term measures is necessary and justified.

Chapter 5

Financing Strategy Entry Points

5. FINANCING STRATEGY ENTRY POINTS

195 This section identifies the primary entry points for the financing strategy. identifying new financing instruments across the domestic and international public and private domains. The section then looks at existing public private collaboration / dialogue structures and identifies activities for action for strengthening. This is a critical section as it links the description with the emerging set of financing instruments prescriptions and the road map.

5.1 IMPROVE BUDGET SYSTEM

196 The budget is the central tool of policy and as a result the national SDGs will need to be fully costed, with the financing gap communicated and B4SDG assessment undertaken to improve the resourcing and alignment of the SDGs. The entire program-based budgeting process needs to be invigorated, aligning SDG goals through the medium-term planning process (including developing bottom-up costed and budgeted public expenditure programs). Moreover, a bottom-up approach with sub-national authorities will also promote SDG localization.

197 Strategic budgeting will also need to be developed in order to make sure that the SDGs are well incorporated into NDS and Vision 2018-2040, with SDG financing plans integrated into the sector *expenditure programs, and SDG priorities* translated through budget call circulars and templates linked to costed key performance indicators. Moreover, as many of the new financing instruments and modalities will be either sector or multi-sector based, the costing and budgeting for SDGs will therefore be framed by the annual and three-year rolling budget process. This would include a roll out of revised MTEF formats with reliable budget ceilings and SDG targets that include integrated reporting formats clarifying the linkages between budgets and measurable performance targets.

198 Developing a clear medium-term fiscal strategy, identifying sources of fiscal gaps and linkages to the SDGs is now crucial. The medium-term fiscal strategy will need to be aligned and integrated with the SDGs, including specific measures, targets, and contingencies on the expenditure side. The fiscal strategy would improve the quality of debt and contingent liability management (including introduction of thematic bonds), advance important structural reforms and identify sources of fiscal gaps that can be addressed (i.e., reducing subsidies and contingent liabilities etc.) thus freeing up fiscal space for higher infrastructure, social spending and human capital investment.

199 Creating a strategic collaboration platform among government and non-state actors, such as investors, financial institutions, impact investors, venture capitals, philanthropies and faith-based organizations, and other development partners, is crucial to influence and shape spending priorities and partnerships. The integration of SDGs into the NDS, as well as government work plans alongside building implementation capacity (through training, mentoring, etc.) will remain a medium-term priority.

5.2 ACCELERATING REVENUE OPTIMIZATION

200 Revenue optimization is key element to ensuring the sustainability of development finance. This can be pursued through exploring the potential and expanding the tax base, increasing taxpayer compliance, better managing remittances, optimizing asset management and service innovation, improvement in SOE management (particularly in the energy sector) and targeted subsidies and tax exemptions to incentivize new investment. Meanwhile, spending policy is vital to realize more efficient and productive budget allocation, thus provides strong multiplier effects on the economy as well as protecting and improving welfare. Restructuring state subsidies is also now required,

201 Developing a clear medium-term fiscal strategy, identifying sources of fiscal gaps and linkages to the SDGs can be linked to the MTRS. Previous work undertaken by UNDP in relation to Sustainable Debt Financing can be strategically used, as it identified fiscal gaps. A medium-term fiscal strategy will

need to be aligned and integrated with the SDGs, including specific measures, targets, and contingencies on the expenditure side. The fiscal strategy would improve the quality of debt and contingent liability management, advance important structural reforms and identify sources of fiscal gaps that can be addressed (i.e., reducing subsidies and contingent liabilities etc.) therefore freeing up fiscal space for higher infrastructure, social spending and human capital investment. Such an exercise should be linked to a review of sources of fiscal gaps at the sub-national level where over dependence on conventional financing (as outlined above) undermines the potential for improved regional revenue generation.

5.3 INCENTIVIZE PRIVATE SDG INVESTMENT

202 The Program for Medium-Term Development outlined various options for expanding access of small and medium-sized businesses to resources in the regions within the framework of government programs and introduction of targeted programs of preferential business lending. Strengthening incentives for identifying new instruments (incentives, signaling, pricing) in deploying the soon to be adopted green taxonomy is required. While banks are still concerned with credit risk exposure, from a banking perspective, the introduction of new products will always come down to profitability and financial literacy across the financial sector (and public sector to an extent). Increasing innovative financing products at the level of public spending units and to improve innovative financing literacy for all senior executives is essential. Many new financing modalities borrow heavily from corporate financing.

203 At the same time, to incentivize private capital, consideration should be given to establishing a Strategic Investment Fund (SIF), increasing the use of syndicate bonds for larger projects and perhaps establishing an Apex Financing Structure to provide credit guarantees to participating financing institutions, to lower risk and increase borrowing. Currency swaps – which have been discussed between the government and international cooperation partners – can also be considered – as can strengthening both micro and social insurance schemes. Consideration should also be given to considering establishment of a national SDG Trust Fund, similar to the model in Malaysia, to de-risk private capital.

204 In terms of a more structured approach to strengthening markets for sustainable financing, consideration can be given to (i) establishing a Sustainable Finance Road Map and Sustainable Financing Taxonomy (ii) establishing a Guideline for implementation of Sustainable Finance in Financial Services Institutions, Issuers and Public Companies (iii) anchoring Blended Financing into the SDGs and incentivizing debt instruments for projects with clear green targets, financial bankability thresholds, and road maps for private capital flows and perhaps accelerating mobilization of private commercial finance by optimizing incentives, financial instruments and standardization efforts. Critical to an impactful financing strategy will be strengthening the policy and regulatory environment to allow new instruments to emerge, linked to developing capital and financial inclusion road maps.

205 In support of reforming revenue administration, a thorough examination of the tax incentive system and ongoing relevant sub-laws' development for the newly adopted Tax Code should be undertaken. Considering the low tax ratio and limited fiscal space, there is a clear trade-off between giving tax incentives that result in revenue loss and improving the infrastructure by using those foregone tax revenues. As a result, rationalizing the tax incentives system will be vital, particularly to encourage the expansion of MSMEs, as well as the digital economy actors. In the longer term integrating the SDGs into the current tax expenditure reporting system would be a useful addition.

5.4 DEEPEN FINANCIAL AND CAPITAL MARKETS

206 New capital to support the SDGs will need to come from deepening domestic financial and capital markets. There is an urgent need to increase financial inclusion and broaden the taxonomy of sustainable financing products. Not only is the level of unbanked population (60 per cent without a bank account) one of the highest in the world (two thirds of the population), but many micro, small and medium enterprises also lack access to finance and non-financial products. While new digital investment platforms and FINTECHs are developing mobile and instant banking payment systems, there is a need to expand market inclusion and develop new instruments (incentives, signaling, pricing) particularly in relation to green taxonomy investments as well as introducing SDG impact standards. Not only will this address the needs of the informal economy, it will also expand liquidity within domestic capital markets.

207 Currently, the regulatory environment limits the growth of businesses and encourages informality, according to the IFC.[77] Moreover, weak investor protections deter investors and constrain resource mobilization, creating an additional obstacle on top of the challenges of being a land-locked state with limited logistical connectivity and a modestly small population. All three stock exchanges in Kyrgyzstan are constrained by such factors. Analysts suggested corporatization of SOE as Joint Stock Companies traded on the stock market, implying a process of corporatization and / or privatization.

208 Borrowing from Malaysia, Government will explore options to establish a Sustainable and Innovative Finance unit in the NBKR while introducing sustainable financing and green taxonomies. Given the likely future adoption of digital banks and expansion of FINTECHs in resolving banking barriers and meeting the needs of the unbanked, the NBKR could usefully work with the Kyrgyz Stock Exchange and markets and industries to develop Environmental, Social and Corporate Governance (ESG) standards, to increase responsiveness to various SDGs. Moreover, developing the insurance sector (including Takaful), deepening capital markets, developing well-functioning mortgage markets and improving financial intermediation will remain key priorities. Moreover, a wide range of climate financing (adaptation and mitigation) financing instruments need to be considered, including the establishment at some point of a national carbon market.

5.5 STRENGTHEN SDG REGIONAL LOCALIZATION

209 Improving SDG alignment at the regional level will be vital to establish a whole-of-society approach. Effort is required to strengthen the localization of SDGs, in particular by improving sub-national and LSG level strategic budgeting alignment and integration, for the three priority areas as a starting point. Given that most SDGs can only be achieved locally, there is a need to increase local revenue collection and improve public investment planning for the SDGs. A focus on building core capacities for aligning with and integrating the SDG into sub-national government plans is therefore required, to include setting and costing sub-national baselines. At the same time, tools such as ecological fiscal transfers can be introduced, to reward sub-national entities on green related spending priorities.

210 Given the importance of incentivizing the regions, a focus on fiscal decentralization seems both justified and necessary. While fiscal decentralization has improved sub-national autonomy and created new fiscal flows to support sub-national development, horizontal imbalances remain and risk the differential attainment of SDGs at the governorate level. There is further risk that decentralization has had an unequal impact on various services, leading to geo-spatial inequalities. Reviewing functional assignments linked to the SDGs, local capacities to align with and integrate the SDGs as well as a general review of the intragovernmental fiscal system and local accountabilities, is required.

211 The success of a country's regions, known as oblasts, is entirely dependent on the success of their individual municipalities. As such, the implementation of the Sustainable Development Goals (SDGs) requires meaningful actions from local authorities. In Kyrgyzstan, the situation is relatively well-developed in terms of national and sectoral development programs, but there is currently a lack of strategic development plans at the local and regional levels.

212 Planning, execution and reporting are based on an economic and not functional classification, undermining the potential to assess the municipal contributions to the SDGs. As a result, and in the

[77] https://www.ifc.org/wps/wcm/connect/bf774f5f-c99d-4838-83b8-f0833b2edbe5/CPSD-Kyrgyz-Republic.pdf?MOD=AJPERES&CVID=nCEA2p3

absence of policy-based budgeting, citizen participation in self-governance processes is reduced, posing a barrier in the form of a lack of information.

213 The introduction of a result-oriented budgeting approach in 2017 through the Budget Code, which includes specific budget programs (strategic objectives of local self-government) and performance indicators, has significantly improved the situation in theory. However, in practice, program budgeting must be formulated with the consideration of national, regional, and municipal strategic objectives.

214 ince the requirement to form a program budget in LSG is prescribed in a high-level law - the code - its implementation is highly likely to launch the processes of developing municipal strategic documents - programs for the socio-economic development of aiyl aimaks and cities. However, at the moment, the fact that LSGs develop program budgets is an exception to the general rule (no program budget). Everywhere it has been developed was assisted by one development partner or another. And nowhere has it found sustainability.

- Approve a roadmap for the implementation of the program budget in LGBs
- Allocate a significant portion (at least 35%) of the equalization transfer amount towards direct solutions for local issues including capital investments, and no more than 65% for salaries and operating costs of LSGs to form budgets of all LSGs based on strategic prioritization.
- To increase the autonomy of LSGs, stipulate that at least 50% of payroll and operating expenses must be financed from their own resources
- Constantly provide training on the formation of budget programs, measures, and indicators.
- Establish reporting on the execution of local budgets.

5.6 PROMOTE SECONDARY MARKET DEVELOPMENT

215 Leveraging capital markets for the SDGs has become increasingly important. The primary goal is to inspire major investors, banks and other financial institutions to increase their allocation of capital toward SDG investments and to contribute to lowering the cost of capital to finance a broad set of private- and public-sector activities in support of the goals. The issuance of SDG bonds in Uzbekistan shows the growing market demand for such products, with international investors dominating demand.

216 Bonds are considered the only financing mechanism that cuts across a broad set of actors involved in the realization of the SDGs, including companies, Governments, cities, assets, infrastructure projects and public-private partnerships.[78] The bond market is also a longer-term, lower-risk asset class that matches the profile of SDG activities and has enough scale - with US$ 6 – 7 trillion of annual issuance - to fill the SDG financing gap. While improving market liquidity is one way to promote the domestic bond market, linking the bond market to the SDGs requires strong public private collaboration and working with corporate finance leaders to align SDG investments through corporate bonds and equities. For secondary market development to really impact the SDG financing space however, considerable effort is needed to establish a market for mainstream SDG investments. Strengthening regulatory clarity on what is an SDG or green investment and what is not, on improving the key performance indicators for bonds and SDG related financing reporting, will take time and commitment.

5.7 SUSTAINABLE, GREEN AND PPP TAXONOMIES

217 Accessing complete and integrated information of financiers and matchmaking of either domestic and foreign managed funds with a list of projects requires considerable investment, including both regulatory and institutional synchronization. It is also necessary to introduce and develop the

[78] The Future of Global Debt Issuance: 2025 Outlook, Aite Group, September 2017.

principles of sustainable financing and development of green economy in the banking system. In this regard, it is proposed to consider the possibility of creating a sustainable and green finance department in the National Bank of the Kyrgyz Republic and develop and implement the Recommendations on the application of sustainable financing principles in accordance with the best international practices. This approach mirrors that of more than 70 countries, and would allow the republic to identify and adopt best-in-class standards.

218 Possible measures may include the development of scalable end-to-end investment opportunities; promoting innovative financing vehicles, tools and platforms (including enhanced PPP, blended finance structures, and impact investing) to channel sizable capital flows into sustainable investment projects; and enhancing information and knowledge sharing. The development of these new taxonomies could benefit from a review of European Green Bond Standard, EU taxonomy for sustainable activities and Climate Change and Adaptation standards, Malaysia's Climate Change and Principle Based Taxonomy, with formulation to be led by the Central Bank.

5.8 EXPAND GREEN AND BLENDED FINANCING

219 Blended finance is the strategic use of development finance for the mobilization of additional finance towards sustainable development in developing countries. Blended finance attracts commercial capital towards projects that contribute to sustainable development, while providing financial returns to investors. For this to happen, given the interest in blended financing, the major challenges to overcome include (i) the lack of feasibility studies and bankable blended financing projects, (ii) the absence of a platform to intermediate private financing flows for blended projects beyond conventional equity, commercial loans and subsidy arrangements and (iii) reducing currency exchange risks, for example by introducing currency swaps. A taxonomy of blended financing mechanisms could be developed beyond PPPs, to increase both public officials and commercial operators' awareness of the untapped potential for many sectors. Moreover, strengthening legal and regulatory provisions to encourage blended solutions linked to the development of a blended finance project pipeline, would introduce new innovations for scaling. The government will consider establishing a Sustainable Finance Roadmap and Green Taxonomy to allow the financial sector to classify green activities within their portfolios, facilitate the monitoring of credit and investment flows into the green sector, and prevent greenwashing.

5.9 ALIGN FAITH-BASED FINANCING WITH THE SDGS

220 Islamic financing is rapidly growing and has considerable potential, and a direct affinity with the SDGs and ESGs. There is however a need to improve the governance and transparency of collection and distribution to be aligned with the SDGs. Different Islamic entities typically have different priorities, methods and processes. Efforts will also be ramped up to track the impact of Islamic finance in the SDGs, given that in many ways it shares similar objectives to the SDGs.

5.10 PROTECTING AND NURTURING CIVIC SPACE

221 Protecting and nurturing civic space and enabling an expanding not-for-profit sector to act as an additional and important channel to finance the achievement of SDGs will be a critical factor in delivering on the partnership for the goals (SDG 17). Civic space is the environment that allows civil society to engage in open, peaceful, and inclusive dialogue, contribute to public debate, exercise their rights to freedom of expression, association and assembly, and participate in social, economic, and political life. Ways that a vibrant civic space can contribute to SDG attainment in the Kyrgyz Republic are as follows:

- ***Participation and Inclusion (SDG 16.7)*:** Nurturing civic space promotes participatory decision-making and ensures that voices from diverse parts of society, including marginalized and vulnerable groups, are heard. This is directly related to SDG 16.7, which aims for responsive, inclusive, participatory, and representative decision-making at all levels.

- ***Peace, Justice, and Strong Institutions (SDG 16)***: Civic space enables civil society organizations to play a role in advocating for human rights, justice, transparency, and accountability, directly contributing to SDG 16.

- ***Partnerships for the Goals (SDG 17)***: By providing a platform for collaboration, civic space can foster partnerships between governments, civil society, and private sector organizations. These partnerships can promote innovative solutions for SDG attainment.

- ***Equality (SDGs 5, 10)***: Civic space can contribute to achieving gender equality (SDG 5) and reduced inequalities (SDG 10) by giving a voice to marginalized and underrepresented groups.

- ***Education and Awareness (SDG 4.7)***: A strong civic space allows for open discussions, advocacy, and education on global development issues, contributing to SDG 4.7, which aims to ensure that all learners acquire the knowledge and skills needed to promote sustainable development.

- ***Advocacy for Environmental Protection (SDGs 13, 14, 15)***: Environmental activists and organizations can use civic space to advocate for climate action (SDG 13), life below water (SDG 14), and life on land (SDG 15).

5.11 IMPLICATIONS FOR ACTION

222 Given the size of the SDG financing gap, the potentially worsening fiscal position of government as a result of contracting remittances and other economic headwinds, it is important for the Road Map and Financing Strategy to focus on immediate and short-term actions can have a fiscal impact. Moreover, given that remittances, FDI, portfolio flows and ODA are not likely to bounce back any time soon, an expedited focus on strengthening financial and capital markets will be vital to providing new sources of financing in the near term. The role of NBKR in establishing the necessary regulatory environment to usher in the next generation of investments will be key, particularly if green, nature-based, climate and gender focused investments are to be scaled, as they have in Uzbekistan. Peer to peer learning and interaction will be considered as will triangular cooperation.

223 Given that the INFF Road Map will cover a wider number of proposed reforms, many of which have been noted in the PEFA and PER, the INFF will need to be fully integrated into the NDS and national budget process. Furthermore, as the NDS has no financing strategy per se, the INFF Financing Strategy might go some considerable way in being an ex-post annex of the NDS, shining a light on the potential for new sources of financing beyond narrow budget spending.

Chapter 6

New Financing Instruments for Priority Investments

6.0 FINANCING INSTRUMENTS FOR PRIORITY AREAS

224 This section provides an overview of the primary public, blended and private instruments to be executed through the road map and the necessary set of accompany / enabling environment and regulations necessary for execution for the main priority areas identified by the President's Administration. Given that the current regulatory regime lacks

6.1 INSTRUMENTS FOR AGRICULTURE FINANCING

225 In the Kyrgyz Republic, several agricultural financing instruments are already being used to support the development of the agriculture sector, ranging from credit to subsidies. The government provides credit to farmers and agribusinesses through the Kyrgyz Investment and State Banks and other commercial banks. The loans are usually used for agricultural inputs, such as seeds, fertilizers, and equipment. State banks also received funds from the government to implement agricultural projects, which were developed by agribusinessmen. Agricultural leasing is also a popular financing instrument for farmers who need to acquire machinery. Agricultural insurance is also offered by private insurance companies and is designed to protect farmers from crop losses due to weather-related events, pests, or disease. The insurance covers the cost of inputs and lost income due to crop failure.

226 Microfinance institutions also provide small loans to farmers and agribusinesses who may not qualify for traditional bank loans. The loans are usually for short terms and may be used for agricultural inputs, equipment, or working capital. In terms of value chain financing, this is a type of financing that involves providing credit to all participants in the agricultural value chain, from farmers to processors and distributors, in order to improve access to credit for all participants in the value chain, which can lead to increased productivity and income. Government subsidies or grants for agricultural production or value chain development are also provided. In this context, the following financing instruments can be considered for the agricultural sector, to be developed within the existing policy and regulatory environment:

- ***Scaling Up Agricultural Value Chain Finance***: Scaling up financing instrument that provides credit to smallholder farmers and other players in the agricultural value chain to finance their inputs, production, and marketing activities. This type of financing can help farmers access credit at lower rates and enhance their production and market linkages.

- ***Scaling up Crop and Livestock Insurance***: Insurance products that protects farmers against losses due to natural disasters, pests and diseases, and price fluctuations can be scaled, to help farmers manage risks associated with agriculture and reduce their vulnerability to shocks.

- ***Introducing new Risk Transfer Mechanisms***: Risk transfers in the agricultural sector refer to the mechanisms and instruments used to shift or distribute risks associated with agriculture, such as weather-related risks, price risks, and production risks, from one party to another. Mechanisms can include insurance, futures contracts, options, forward contracts, and other financial instruments that allow farmers, processors, and traders to manage their risks, reduce their exposure to uncertainties, and protect their investments. By transferring risks to third parties, agricultural stakeholders can enhance their resilience, improve their financial stability, and promote sustainable agriculture.

- ***Group Credit for Cooperatives***: Provide cooperatives with pooled financing for on-lending to their members, facilitating access to affordable credit and supporting sustainable agricultural growth among small-scale farmers.

- ***Agricultural Factoring***: Factoring is a financing instrument that allows farmers to sell their receivables (i.e., invoices) to a factoring company for immediate cash. This type of financing can help Kyrgyz farmers access cash quickly, improve their cash flow, and reduce the risks associated with delayed payments.

- ***Agricultural Leasing***: A financing instrument that allows farmers to lease equipment, machinery, and other assets for their agricultural activities, and these can be scaled in the Kyrgyz Republic. This type of financing can help farmers access modern equipment and technologies that can enhance their productivity and profitability.

- ***Apex Financing Institution for Credit Guarantees***: Establish a central Apex institution to offer credit guarantees for participating financial institutions, encouraging lending to small farmers and promoting sustainable agricultural financing. This will address the structural gap in financial guarantees not provided by state banks.

- ***Agricultural product space financing***: Support the production, processing, and marketing of specific agricultural products through targeted financing, enhancing value chains and promoting sustainable growth in the sector.

- ***Project financing arrangements***: Structure financing for large-scale agricultural projects through partnerships with banks, financial institutions, or specialized lenders, promoting growth and sustainability in the agricultural sector.

- ***Green Bonds***: A financing instrument that raises funds for environmentally friendly agricultural projects, such as renewable energy in agriculture, sustainable land use, and conservation of natural resources. This type of financing can help farmers adopt more sustainable farming practices and promote environmental sustainability in agriculture.

6.2 INSTRUMENTS FOR EDUCATION FINANCING

227 While education funding in the Kyrgyz Republic is already one of the highest in the region, at 7.1 per cent of GDP, [79] the quality of education still needs to be improved. The government has introduced Per Capita Financing (PCF) to allocate funds to public schools based on the number of students enrolled. The funding is provided by the government and covers the operating expenses of schools, including salaries for teachers and staff, textbooks, and other supplies. Under the PCF system, each school receives a set amount of funding per student enrolled, with the amount varying depending on the location of the school, with schools in more remote or underserved areas receiving higher funding per student to help address the additional costs associated with serving these populations. Moreover, PCF does not adequately deal with the needs of disadvantaged children, or provide sufficient incentives for schools to improve quality.

228 Education will remain dominated by public investment even if the number of private schools expands.[80] While private education can be expanded, given limitations in ability to pay, the primary focus must be on leaving no one behind and generating new sources. To this end a sector financing strategy needs to be formulated going beyond traditional financing instruments. In this regard, a number of priority education financing instruments are proposed, as follows:

- ***School Based Management (SBM) Financing***: Formally adopt a School Based Management (SBM) system using a balance between national and regional resources, expanding the Expanded rights for boards of trustees. Overall, the financing of schools under SBM is designed to promote greater accountability and transparency, encourage innovation and creativity, and

[79] https://documents1.worldbank.org/curated/en/738181577729472247/pdf/Kyrgyz-Republic-Sector-Support-for-Education-Reform-Project.pdf
[80] According to the World Bank's Education Data portal, in 2019, the percentage of private primary schools in the Kyrgyz Republic was 2.6% of all primary schools, and the percentage of private secondary schools was 6.2% of all secondary schools.

ensure that resources are allocated in a way that best meets the needs of individual schools and their students. Small school block grants are provided in return for the development of a School Improvement Plan (SIP). School Based Management (SBM) grants on a pilot then national basis and can be scaled to encourage school performance.[81] Lessons can be drawn from SBM financing experience in the Philippines, Indonesia, Canada, Brazil and Kenya, where school block grants are tiered to encourage performance, and these can be used to increase school activities for raising financing also.

- ***Innovative Public-private partnerships (PPPs)***: To support new education partnerships including in infrastructure development, EdTech, teacher training and financing, more can be done to broaden the range of PPS deployed, with the following suggestions made, such as building new schools or upgrading existing ones.

    - ***Vocational training partnerships***: One option is for the government to partner with private companies to provide vocational training programs that are tailored to the needs of local industries. This can help students gain the skills they need to enter the workforce and help businesses fill skills gaps.

    - ***Infrastructure partnerships***: Government to partner with private companies to build and maintain schools and other educational facilities. Private companies can provide financing, construction expertise, and ongoing maintenance and repair services, while the government can provide land and oversight.

    - ***EdTech partnerships***: Partnerships with EdTech companies can provide access to technology-based educational tools and resources that can enhance the quality of education. This can include online courses, interactive learning platforms, and other digital resources.

    - ***Teacher training partnerships***: Partnering with private companies that specialize in teacher training can help improve the quality of education by providing teachers with the latest teaching methodologies and tools. This can include workshops, mentoring, and coaching programs.

    - ***Education financing partnerships***: Government can partner with private companies to create financing programs that help students and families pay for education. This can include loans, scholarships, and other forms of financial assistance.

- ***Education technology innovation funds***: Education technology innovation funds are investment funds that can be specifically designed to support the development and implementation of innovative technologies in the education sector. These funds are typically managed by private or public entities and provide financing to startups, entrepreneurs, and educational institutions that are working on new and innovative educational technologies. The funds are typically used to finance research and development of new educational technologies, including software, hardware, and digital content. They can also be used to support the scaling and commercialization of existing technologies, such as online learning platforms or adaptive learning tools. International partners with experience in establishing such funds include the USA, Australia, Singapore and China.

- ***Educational bonds***: issued by the government or educational institutions to raise funds for infrastructure improvements or curriculum development. SDG bonds have been issued in Uzbekistan, and these can be usefully scaled in the Kyrgyz Republic. Educational bonds are a

[81] UNICEF has experience in rolling out SBM programs including grant formulas to incentivize quality education and improved educational governance and learning.

type of investment vehicle that allows investors to contribute funds to finance education-related projects, such as building schools or improving educational infrastructure. The funds raised through these bonds are typically used to support educational initiatives at the state or local level, and investors are typically paid a fixed rate of interest on their investment over time. Educational bonds could be useful for central and regional governments and educational institutions to raise funds for important education-related projects while providing investors with a way to invest in socially responsible causes.

- ***Education Challenge Funds***: Education Challenge Funds aim to provide competitive grants for innovative projects that improve education quality and outcomes in the Kyrgyz Republic. These funds encourage creative solutions to address existing educational challenges, leading to better results for students and schools.

- ***Educational savings accounts through commercial banks***: Educational savings accounts, offered by commercial banks, incentivize families to save for education and enhance financial access to educational resources. These accounts promote long-term planning and financial stability for families, ensuring that students have the necessary funds to pursue their education.

- ***Scholarship programs***: Scholarship programs support talented students in pursuing higher education by reducing the financial burden on families. These programs provide financial assistance to deserving and disadvantaged students (including from marginalized groups), enabling them to access quality education and build a strong foundation for their future careers.

- ***Social Impact Bonds***: Social Impact Bonds attract private investments for social initiatives in education while fostering results-oriented approaches and measurable outcomes. These bonds bridge the gap between public and private sectors, channeling funds towards effective educational programs that deliver tangible results.

- ***Micro-finance loans for education-related expenses***: Microfinance loans for education-related expenses provide accessible loans for families, enabling students to cover costs such as tuition, books, and uniforms. These loans offer financial support to families, ensuring that students have the necessary resources to pursue their education without undue financial stress.

- ***Other Suggested Educational Instruments***: Educational savings accounts or scholarship programs to encourage families to invest in their children's education can be expanded. Microfinance loans for education-related expenses such as tuition, books, and transportation can also be supported by strengthening the MFI sector. Online education platforms to expand access to quality education in remote or underserved areas can also be supported through EdTech partnerships. Over time corporate social responsibility programs that support education sector development through donations, sponsorships, or employee volunteering can be incentivized.

Box 9. PRIVATE FUNDS AVAILABLE TO THE KYRGYZ REPUBLIC

There are several private funds that may be available to the Kyrgyz Republic, including:

- ***Foreign Direct Investment (FDI)***: FDI from multinational corporations can provide financing for development projects in the Kyrgyz Republic.

- ***Private equity***: Private equity funds can provide financing to small and medium-sized enterprises, which can drive economic growth.

- ***Bonds***: The Kyrgyz Republic can issue bonds to raise financing from private investors.

- **Crowdfunding**: Crowdfunding platforms can provide an alternative source of financing for entrepreneurs and small businesses.
- ***Microfinance***: Microfinance institutions can provide small loans to individuals and businesses, particularly in rural areas where access to traditional financing is limited.
- ***Remittances***: Remittances from Kyrgyz citizens working abroad can provide a significant source of financing for families and communities in the Kyrgyz Republic.

6.3 INSTRUMENTS FOR THE GREEN ECONOMY

229 The Kyrgyz Republic ranks 105th out of 180 countries in the Environmental Performance Index. The Medium-Term Program has outlined the launch of the national system of 'Green Economy Standards', the creation of a green investment fund, launch of the 'Green Public Transport' project, long-term Action Plan for the development of low greenhouse gas emissions until 2050, national water and forests programs and of course the Nationally Determined Contributions to the UNFCCC.

230 In addition, there are a considerable range of financing instruments that can be deployed to support green economy and climate action related financing, ranging from the complex introduction of voluntary carbon markets, carbon taxes and offtakes, to ecological fiscal transfers and environmental levies for specific project level investments. The Ministry of Economy and Commerce is working on a Green Taxonomy, which will be one of the main foundational elements for the promotion of sustainable and green finance in the Kyrgyz Republic. Currently however considerable work is required to develop the entire green financing ecosystem including green regulations (for green bonds, climate bonds, leveraging of vertical funds), so that the following greening benefits can be realized:

- ***Environmental benefits***: Green financing can help Kyrgyzstan shift the allocation of capital towards environmentally sustainable projects, thereby reducing the negative impact of economic activities on the environment.
- ***Economic growth***: By financing environmentally sustainable projects, green financing can help to drive economic growth and job creation in the green economy.
- ***Financial stability***: Green financing can improve the resilience of the Kyrgyz financial system by reducing exposure to environmental and social risks associated with investments in fossil fuels and other unsustainable activities.
- ***Increased investment***: Green financing can attract new investment from environmentally conscious investors interested in investing in Kyrgyzstan and mobilize capital for environmental projects.
- ***Market development***: Green financing can drive the development of new financial instruments, such as green bonds and impact investing, and increase competition in the financial sector.
- ***Improved stakeholder engagement***: Green financing can help to engage stakeholders, such as governments, investors, and the public, in the transition to a more sustainable economy, incentivizing greater alignment between domestic and foreign investors in green investments.

231 One of the primary challenges associated with greening the financing system is the lack of standardization in the definition of "green" activities and the high costs of transitioning to a green finance system. This is the why greening the financing system has been identified as a key investment priority. As a result, the following actions have been discussed with the Ministry of Natural Resources,

National Bank and Ministry of Economy, and incorporated into the road map as critical enabling actions:

- ***Consultation, amendment, and approval of the Kyrgyz Green Taxonomy on Sustainable Development***: The drafting, approval and implementation of the Kyrgyz Green Taxonomy on Sustainable Development will help categorize and classify economic activities that contribute positively to environmental sustainability. This taxonomy will provide a clear framework for investors, businesses, and policymakers to identify and support green projects, accelerating the transition to a sustainable economy.

- ***Adopt Green Bond Standards***: By adopting Green Bond Standards, such as the ICMA Green Bond Principles (GBP) 2021 and other associated principles, the Kyrgyz Republic will establish a solid foundation for domestic bond issuance and international financing. These standards will help attract investment in green projects, driving sustainable development and boosting the country's green economy.

- ***Join the NGFS***: Joining the Bank for International Settlements Network of Central Banks Greening the Financing System (NGFS) will enable the Kyrgyz Republic to benefit from best practices and establish a vibrant, regulated green financing system. The NGFS promotes the development of environmentally sustainable finance and supports member countries in their efforts to achieve their sustainability goals.

- ***Establish sustainable and green financing Unit NBKR***: It is proposed to consider the possibility of creating a sustainable and green finance division in the NBKR and develop and implement Recommendations on the application of sustainable finance principles, consistent with international best practices.

- ***Develop a concept note on Carbon Market Development***: Creating a concept note on Carbon Market Development, including carbon pricing, carbon tax, carbon credits, and carbon offsets, will pave the way for the establishment of a robust domestic carbon market. This market will help businesses and industries transition to more sustainable practices and contribute to the country's efforts to mitigate climate change.

- ***Adopt ESG Disclosure Standards for Investment Products***: By adopting Environmental, Social, and Governance (ESG) Disclosure Standards for investment products (this process has commenced), the Kyrgyz Republic can increase the potential for portfolio flows towards sustainable investments. These standards will enable investors to make informed decisions based on companies' ESG performance, driving investment towards more sustainable projects and initiatives.

- ***Strengthen Rules on Corporate Sustainability Reporting***: Strengthening rules on Corporate Sustainability Reporting will help align corporate finance with the Sustainable Development Goals (SDGs) in the Kyrgyz Republic. By mandating transparent reporting on companies' sustainability efforts, these rules will encourage businesses to adopt more environmentally friendly practices and contribute to the country's green economy goals.

- ***Adopt SDG Impact Standards for Bond Issuers***: Adopting SDG Impact Standards for bond issuers will help improve performance metrics and monitoring in the Kyrgyz Republic. These standards will ensure that bond issuers demonstrate their commitment to sustainability and are held accountable for their contributions to the country's sustainable development objectives.

- ***Develop a concept for syndicated loans***: Developing a concept for the use of syndicated loans by large corporations, financial institutions, and governments in the Kyrgyz Republic will help finance significant projects, acquisitions, or working capital needs. Syndicated loans can mobilize large-scale financial resources for environmentally sustainable projects, supporting the country's transition to a green economy.

232 Regardless, based on the current and emerging financial market, the following instruments are proposed for scaling and introduction.

- ***Green and Climate bonds***: These are fixed income securities that raise capital for projects with environmental benefits. Issuers could be government entities or private companies, and the funds raised (including from international investors) can be used to finance renewable energy projects, energy efficiency upgrades, or sustainable agriculture, among others. IFC has issued multiple Green Bonds to finance climate-friendly projects and these are certified by the Climate Bonds Initiative, ensuring that the funds raised are used for environmentally sustainable projects. The World Bank has issued multiple Green Bonds to finance projects related to climate change and environmental sustainability. The funds raised from these bonds are used to support initiatives such as renewable energy, sustainable land use, and climate-smart agriculture. Asian Development Bank's (ADB) Green Bonds are used to finance projects that address climate change mitigation and adaptation in the Asia-Pacific region. The funds raised from these bonds are allocated to projects related to renewable energy, energy efficiency, and sustainable transport.

- ***Carbon pricing***: This involves setting a price on greenhouse gas emissions, either through a carbon tax or a cap-and-trade system. The revenue generated can be used to finance green projects, such as reforestation, public transportation, or clean energy infrastructure.

- ***Energy Efficiency Insurance***: Energy efficiency insurance is a type of insurance policy that provides financial protection to businesses that have invested in energy efficiency measures. It is designed to protect businesses against the risk of underperformance or failure of energy efficiency measures, which could result in lower-than-expected energy savings or additional costs to repair or replace the measures. This insurance typically covers a range of risks, including design and installation failures, equipment breakdowns, and energy savings shortfalls. The policy may also cover the cost of repairs, replacements, or other remedial measures required to ensure that the energy efficiency measures continue to perform as expected.

- ***Green loans***: These are loans that are specifically designed to finance green projects, such as solar panel installations, energy-efficient buildings, or sustainable agriculture practices. The terms and conditions of these loans can be more favorable than traditional loans, as they often have lower interest rates and longer repayment periods.

- ***Green venture capital funds***: These are investment funds that focus on financing startups and early-stage companies that are developing innovative solutions for environmental challenges, and these can be incentivized by support from international cooperation partners. These funds can provide equity financing, as well as mentorship and business support.

- ***Energy service companies (ESCOs)***: these are companies that provide energy efficiency services to businesses and institutions. They typically finance the upfront costs of energy efficiency upgrades and then receive a portion of the energy savings generated over a period of time. This can be a way to incentivize companies to invest in energy efficiency measures that they may not have been able to afford otherwise.

- ***Green crowdfunding and equity crowd funding***: this involves raising capital from a large number of individuals through an online platform. The funds raised can be used to finance green projects, such as community solar installations, organic farming initiatives, or green transportation programs.

233 While in the future green venture capital funds could provide early-stage financing for environmentally sustainable startups, further market deepening is required. Municipal bonds cam also financing green infrastructure projects such as public transit, bike lanes, and green spaces and impact investment funds that target investments in companies or projects with positive social and environmental outcomes. Similarly, green mortgages or loans could also be provided financing for energy-efficient home upgrades or sustainable building construction. Table 20 provides a reference for other conservation or climate financing instruments that can also be considered.

Table 20. VARIOUS CONSERVATION FINANCING APPROACHES TO BE CONSIDERED

Source / Expectation		
Philanthropic Giving No financial return expected. Conservation outcomes expected	Donations by individuals	A monetary gift to a cause or project by an individual donor, with no financial return/repayment expected.
	Voluntary surcharges	Places an added charge onto a retail, hospitality or lodging customer's bill on an opt-in or opt-out basis.
	Crowdfunding	The practice of funding a project by raising small amounts of money from many people.
	Transfer fees	An additional fee paid into a stewardship account, as part of a covenant transaction with a land trust.
	Corporate-cause Marketing	Where a for-profit entity agrees to donate a percentage of its sales or profits to a cause.
Government Funding No financial returns expected. Industry development, management of public goods, catalyzing of private finance expected.	Grants	An arrangement for the provision of non-repayable financial assistance gifted by one party to another.
	Environmental levies	A tax/charge levied against a good or service with the proceeds to being used to fund environmental outcomes.
	Favorable tax incentives	An offset or deduction that reduces the taxes owed by a person or entity.
	Environmental trust funds	An investment special purpose vehicle (and legal entity) setup to mobilize, blend, allocate, and manage funding for environmental purposes
	Debt-for-nature Swaps	An agreement that reduces a developing country's debt in return for the debtor-government to protect nature.
Private Investment Financial returns and conservation outcomes expected.	Bridge financing	A temporary loan to fill a finance gap between the availability of permanent funding and the immediate need to purchase an asset, used in public/private sectors.
	Revolving land funds	Funds used to purchase, protect and then sell conservation land – proceeds are used for subsequent land purchases.
	Program-related investment	Where a privately-run foundation provides a loan/equity on more favorable terms than commercial markets.
	Environmental credit markets	Putting a value on the benefits of an ecosystem service via monetizing these benefits as "credits", which may then be sold or traded on a voluntary or compliance market.
	Green bonds	A bond where proceeds are utilized for financing environmentally friendly projects or activities.
	Outcome-based models	Pay-for-success contracting where a government limits the contractor's losses in case projects are unsuccessful.

	Impact investing in real assets	Real asset investments (e.g. real estate, water rights) that are managed using sustainability practices.

Source: Adrian Ward (2019)

6.4 NEW FINANCING REGULATIONS

234 A wide range of new national financing regulations are required to create an enabling environment for deepening of financial markets, development of capital markets and for ushering in a new green financing system. The development of these new taxonomies could benefit from the development of a wide set of market regulations, though at the same time, private sector investors need to be consulted and engaged in the process. Examples of regulations that are needed but are lacking are outlined below:

- A Capital Market Development Road Map.
- Sustainable Financing Road Map.
- Green Bond Standards.
- Standards for Climate Change and Adaptation standards.
- Regulations and Guidelines for ESGs.
- National taxonomy for sustainable activities.
- NBKR Crypto and Digital Banking Regulations.
- National PPP Taxonomy.

6.5 IMPLICATIONS FOR THE FINANCING STRATEGY

235 Bring financing instruments to the market on scale takes time, prudent regulations, qualified, willing and literate investors. As a result, and given how under-developed financial and capital markets are, the first phase of the road map will need to narrow down the selection of instruments, identifies institutional and market capacities that need to be developed, and then outline which entities within the governance and coordination structure will execute the road map, and the many measures that will need to be monitored.

236 In this regard, for the three priority areas identified (agriculture, education and the green economy) the instruments of choice to scale will be those that can be executed within the existing regulatory system, and where anchor investors are likely to be interested. (See Table 24 below) ODA partners investing in new instruments – for example the World Bank has been piloting Blockchain Bonds – will need to be consulted.

Table 21.		PRIORITY SDG FINANCING INSTRUMENTS	
#	***SDG / Sector***	***Immediate Financing Instruments***	***Longer Term Instruments***
2	Agriculture	▪ Scaling Up Agricultural Value Chain Finance ▪ Improving Agricultural Insurance to Deal with Climate Change ▪ Introducing new Risk Transfer Mechanisms ▪ Agricultural Factoring ▪ Scaling up agricultural Leasing ▪ Green and climate bonds. ▪ IFI Concessional Loans ▪ State Guarantees	Apex SME Funds Syndicated Loans Green Sukuk/Bond Leasing and asset-backed finance Export finance (subsidies of transportation costs, accreditives and invoice factoring finance) Impact Investing Revolving fund
3	Education	▪ School Based Management (SBM) Financing ▪ Innovative Public-private partnerships (PPPs) such as Vocational training partnerships, Infrastructure partnerships, EdTech partnerships, Teacher training partnerships and Education financing partnerships. ▪ Education Challenge Funds ▪ Education technology innovation funds ▪ Educational bonds.	Scholarship Programs SDGs Bond Syndicated Loans Education Savings Accounts Green Sukuk/Bond Philanthropy Foreign Debt Impact Investing
7	Green Economy	▪ Green and Climate bonds ▪ Carbon pricing ▪ Energy Efficiency Insurance ▪ Green loans ▪ Green venture capital funds ▪ Energy service companies (ESCOs) ▪ Green crowdfunding and equity crowd funding	Credit Guarantees for SMEs Vertical Funds Carbon Tax Carbon Markets Voluntary Surcharges Crowdfunding Transfer Fees Corporate Cause Marketing Grants Environmental Levies and Favorable Tax Incentives Environmental Trust Funds Debt-for-Nature Swaps Bridge financing Revolving Land Funds Program-related Investment Environmental credit markets Outcome-based Models Impact investing in Real Assets

Chapter 7

Governance & Coordination

7.0 GOVERNANCE AND COORDINATION

237 This section provides a concise overview of the proposed governance and coordination arrangements for the road map execution, noting execution within existing systems and not creating parallel delivery structures. The section therefore focuses on cabinet level leadership, public private dialogue and coordination of innovative and sustainable financing policies, as well as taking forward the partnership for the goals. Moreover, given that the INFF is to be mainstreamed into cabinet functions, and a national mindset change process undertaken, the proposed approach embraces conventional leading change management approaches.

238 In mainstreaming the INFF into the normative cabinet process, the INFF therefore aligns with the Program for Medium-Term Development (201-2026) and the desire for program management to be fully digitalized and monitored on an automated basis. The broad approach therefore reflects (i) updating the legal framework and sectoral/territorial development programs (ii) systematic dialogue with business community and civil sector to be established for "partnership for development" (iii) direct linkages with the 2030 Sustainable Development Goals (iv) ministries assigned a leading role in implementing SDG goals, with close interagency cooperation required for horizontal SDG indicators and a set of enabling national committees also created, as follows:

- Strategic Committee for Reforms.
- Committee on Resource Mobilization.
- Committee on Epidemiological Situation.
- Food Safety Committee.
- Committee for Economic Recovery, and,
- Committee for Territory Development to be created for effective management

7.1 INTRA-GOVERNMENT COORDINATION MECHANISMS

239 The Rapid Integrated Assessment of 36 strategic documents suggests that the alignment of the SDGs with the national strategic development planning in the Kyrgyz Republic is 82%.[82] According to the 2020 VNR, full alignment with the SDGs is observed with Goal 1 (Poverty), Goal 2 (Hunger), Goal 3 (Health), Goal 5 (Gender), Goal 7 (Energy), Goal 9 (Infrastructure and Industrialization), and Goal 15 (Lands) in which the global targets are reflected in the policy and planning framework of the country. The least integration is found to be with Goal 10 (Inequalities between and within countries), assessed at 60% integration; Goal 13 (Climate change), with integration also assessed at 60%, and Goal 17 (Partnerships), at 63% integration.

240 These findings are important as they reflect the nationalization of Agenda 203 and justify a mainstreamed approach within existing systems. As a result, and while many governments have elaborate SDG Council Structures and working group arrangement, the President’s Administration prefers to minimize the risk of overburdening existing systems, which could lead to poor coordination and potentially parallel structures that are not integrated into the heart of the government policy, budgeting and execution decision-making. As a result, the INFF Road Map and Financing Strategy are to be mainstreamed across the machinery of government as outlined below:

- ***Role of the President’s Administration***: The President’s Administration of the Kyrgyz Republic is in charge of strategic policy-making, as well as monitoring policy implementation by the executive government and non-governmental organizations. The administration has formed an Oversight Body – let by the Head of Political and Economic Research Department – which has guided the development of the INFF, and will have oversight of the execution of the Road Map and Financing Strategy. The Oversight Committee guarantees that the INFF will be aligned to and discharged through the President’s Office, with direct linkages with the Cabinet of Minister’s and the executive offices outlined below.

[82] https://sustainabledevelopment.un.org/content/documents/26458VNR_2020_Kyrgyzstan_Report_English.pdf

- ***Role of the Cabinet of Ministers and Cabinet Sub-Committees***: Under the chairperson of the Cabinet of Ministers of Kyrgyzstan, all decision taken in relation to the INFF will be fully integrated into cabinet affairs, meeting agendas and aligned to the NDS and its execution.

- ***Role of Executive Ministries***: Through the Cabinet of Ministers, and within its own mandate, each sector Ministry, Regulatory Authority and agency responsible for executing a component of the INFF Road Map and Financing Strategy will mainstream and internalize actions in relation to agriculture, education, green and digital economies, as well as regional economic cooperation, as prioritized by the President's Administration. Executive ministry plans will integrate the INFF into its three year and annual budgeting and planning process, piloting and scaling new instruments as planned, while reporting back to cabinet and the Ministry of Economy and Finance on progress.

- ***Role of the Ministry of Economy***: The ministry will lead strategic budgeting reforms, PBB, the financial implications of PPP concessions and sustainable debt management, as well as budget formulation and execution aligned to the SDGs/ INFF.

- ***Role of NBKR and Market Regulatory Authorities***: NBKR will continue to lead on monetary, interest rate and exchange rates policies, but will also lead on the development of new, innovative, green and sustainable financing instruments, including ESGs, providing an enabling and supporting environment for executive ministries executing new instruments such as SDG, green, nature or climate bonds, alongside other instruments. NBKR will focus on financial inclusion and deepening of capital and financial markets.

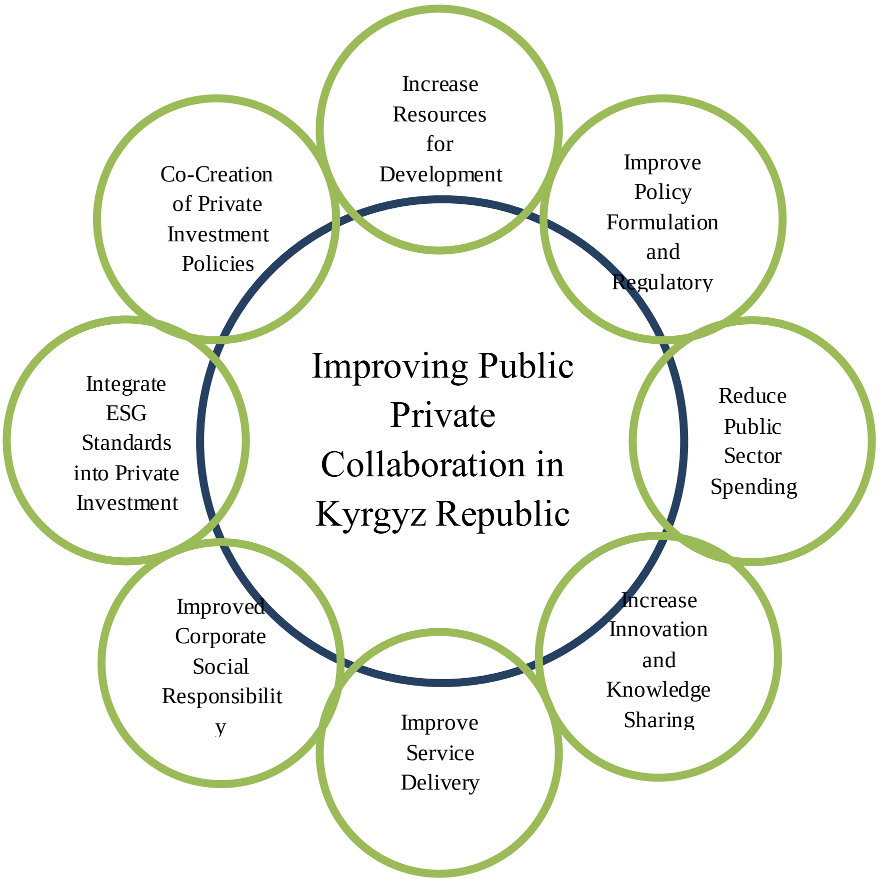
- ***Role of Regions and Sub-National Administration***: Sub-National authorities, including LSGs, will be provided support to drive SDG / INFF localization forward, enabling new fiscal flows, improved expenditure management and the issuance of new instruments as regulated by NBKR and Ministry of Finance.

7.2 PUBLIC-PRIVATE DIALOGUE

241 In order to increase the flow of private capital into development and to increase integration of finances across public and private domains, public private collaboration becomes increasingly important. Public private collaboration is however wider than just a focus on PPPs, given that domestic and international private investors now contribute towards the SDGs and ESGs through their own Corporate Social Responsibility CSR) policies. Moreover, with a number of governments now moving towards the co-creation of laws and regulations with the private sector, the potential for improving the investment environment for all development pathways and indicators through enhanced collaboration is likely to increase in significance.

242 The government aims to actively reduce its engagement in the economy and therefore to strengthen collaboration and dialogue with the private sector. Government aims to move towards co-creating policy and regulations with key stakeholders as has been successfully undertaken in Malaysia, to strengthen and ramp up PPP pipeline development, promote MSME and entrepreneurial development and strengthen Corporate Social Responsibility (CSR) including around the Environment, Social and Corporate Governance (ESG) Goals. A number of entry points for improving public and private dialogue and collaboration are provided in Figure 6 below, implying developing new platforms and networks for collaboration, information sharing and co-creating policy content.

Figure 6 **BUSINESS CASE FOR IMPROVING PUBLIC PRIVATE COLLABORATION**



243 Platforms and networks for regulator policy dialogue will be developed, perhaps through an annual forum but also through sector level collaboration and outreach. This will include engagement with chambers of commerce, banking, civil society organizations and micro-finance associations and other trade bodies, to identify joint mechanisms for overcoming investment and financing constraints. Improving public private collaboration will also have a positive impact on the following investment instruments and modalities:

- ***Blended Financing***: The potential for blended financing is not yet fully explored and tapped. Blended finance, which uses public resources to mobilize financial resources from private sources, has been looked to as a means to incentivize greater investment in the SDGs (UN, 2021; OECD 2018a; Gaspar et al, IMF, 2019). This is part of what is called the Funding to Financing (F2F) transition. With blended finance deal sizes starting at US$ 30 million upwards, blended finance can be deployed in high rate of return areas of the economy but where private investment has not engaged due to risks outweighing rewards. Blended finance deals primarily with energy sector and negligible with sectors such are social sectors (health, education, gender equality etc.) (UN, 2021; IEA, 2021). Blended financing provides a perfect opportunity for improved collaboration.

- ***Public Private Partnerships***: Despite the potential for scaling PPPs, the overall portfolio of PPPs in the Kyrgyz Republic limited and its contribution towards the SDGs is currently unknown. PPPs can be scaled and replicated to good effect, increasing the fiscal space for other investments. Contingent liabilities and state guarantees need to be well managed however, given knock-on risks for public debt. PPPs – the process of market engagement and market testing – provide a perfect model for improving dialogue and collaboration in key sectors, such as energy and infrastructure, both of which have financing gaps.

- ***Portfolio Investment***: Both domestic and foreign portfolio investment remains low, undermining the potential to mobilize capital for investment needs. Strengthening capital markets, public and corporate debt issuance, adopting ESG standards for publicly traded companies on the Kyrgyz Stock Exchange could (alongside other measures) increase incoming portfolio flows in particular, and many local firms have already embraced both the SDGs and ESGs.[83] Bilateral investment treaties (BIT) can also be an important instrument to attract better quality FDI, for example, around which dialogue and collaboration is critical to investment placement.

- ***Remittances***: The potential to better use remittances, strengthen remittance corridors and mobilize capital through bonds or improved bankarization can only be achieved through meaningful public private dialogue and collaboration. At over 30 per cent of GDP strengthening the alignment of remittances through improved collaboration seems compelling.

- ***Islamic Finance***: The growth in Islamic Finance and potential to align Zakat and other financing tools and products to the SDGs can only be achieved through engagement with the Islamic Finance Industry.

7.3 COORDINATING SUSTAINABLE FINANCING POLICIES

244 Coordination of sustainable financing policies will be overseen by the President's Administration and executed by the National Bank, Ministry of Finance and Ministry of Economy and Commerce.

245 The role of the National Bank as a regulator and overseeing of financial markets makes it a central stakeholder in the INFF process. Not only do sustainable, innovative and green financing taxonomies need to be introduced, alongside green and climate bond standards, the bank can also benefit from other country Sustainable Financing Road Maps, like those developed and being implemented by the Financial Services (OJK) in Indonesia.[84] Moreover, with 90 per cent of Central Banks exploring the potential for adopting CBDCs, and the strong linkages between the digital economy and financial inclusion, the National Bank will establish a Sustainable Financing Unit to spearhead the market reform process. Green Principles and standards need to be adopted.[85]

246 MoF will play a critical role in upgrading strategic budgeting, but also in integrating new instruments and measures into an improved PBB process, with a focus on strengthening public investment planning. Moreover, given the potential for expanding PPP concessions and in future using state guarantees to de-risk, as well as the issuance of debt instruments, MoF is a key stakeholder in the INFF road map exaction process and in engaging ODA partners to share the burden of delivery in key sectors.

7.4 PARTNERSHIPS FOR THE GOALS

247 Leveraging existing and establishing new partnerships will be vital to securing the transition to a more sustainable future.

248 To effectively implement SDG 17 (Partnerships for the Goals), the government will continue to establish and strengthen cooperation with international partners, and mobilize internal funding sources such as the state budget, public-private partnerships, and social mobilization and civil society organizations to achieve sustainable development targets and goals outlined in the 2040 National Development Strategy. It's worth noting that establishing new partnerships will not only expand development opportunities in the Republic, as exemplified by the successful US$860 million SDG bond

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[83] https://www.kse.kg/en/History
[84]
[85] https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/green-bond-principles-gbp/

issued in Uzbekistan, which was heavily subscribed to by bilateral sovereigns, but it will also play a crucial role in the success of the INFF

249 The government will communicate and outreach with key partners on the INFF, including through its existing memberships. In this regard, outside of bilateral and multilateral trade agreement, engagement with the Asian Development Bank (ADB), WBG, Islamic Development Bank (IDB), IMF, Eurasian Development Bank (EDB), German Development Bank (KfW), European Investment Bank (EIB), Asian Infrastructure Investment Bank (AIIB) and European Bank for Reconstruction and Development (EBRD) will be strengthened around the INFF. The government is also a member of the Commonwealth of Independent States (CIS) and United Nations Economic Commission for Europe and WTO. In the climate space government will continue to promote and deepen its relationship with GEF, GCF, Adaptation Fund, and also the Climate Investment Fund (CIF).

250 Government will move to set up a UN Global Compact Local Network as a practical way forward to advance the Global Compact Initiative and its Ten Principles, all of which align to the national development agenda. Lessons can be drawn from the UAE where adoption has flourished.

Chapter 8

Monitoring & Review

8. MONITORING AND REVIEW

251 This section describes the monitoring and review process for the INFF, stating critical principles and processes, indicators for success and how to overcome monitoring and review challenges, to provide transparent reporting on progress and outcomes. In accordance with the governance and coordination process, the monitoring and review process is mainstreamed into existing machinery of governance systems.[86]

8.1 IMPORTANCE OF MONITORING AND REVIEW

252 For the INFF initiative in the Kyrgyz Republic to succeed, monitoring and review (Building Block 3) must be made central to the process. Detailed data gathering, measurement and reporting (bringing together information from existing sources) is necessary to ensure that progress made in all tracks of the INFF agenda can be properly evaluated and adjusted. By facilitating learning and the continual improvement of financing policies introduced in the roadmap, BB3 is at the heart of the INFF and must be considered from the outset.

253 As has been established in previous sections, the INFF is an iterative process that is continually learning and adapting to a changing financing environment, both domestically and internationally. For example, both the appearance of new shocks and black swan events (such as COVID-19) as well as emergence of new global innovative financing instruments should have significant implications for the execution of the INFF strategy between now and 2030. It is therefore vital to ensure that corrective actions can be undertaken as required, as well as provide important snowball potential and increases ownership of all stakeholders.

254 The intended scope of this learning process is comprehensive and coordinated across building blocks, so that improvements in assessing the financial landscape, executing the financing strategy and developing the capacity of governance structures are all streamlined into the wider INFF process. It is in this context that effective monitoring and review is a central component of an integrated approach to financing sustainable development. The importance of monitoring and review therefore cannot be overstated and establishing a high confidence level on data base, mid and end lines allow the government to monitor the impact of different types of investment on SDG outcomes, and to assess whether impacts are cost-effective and sustainable.

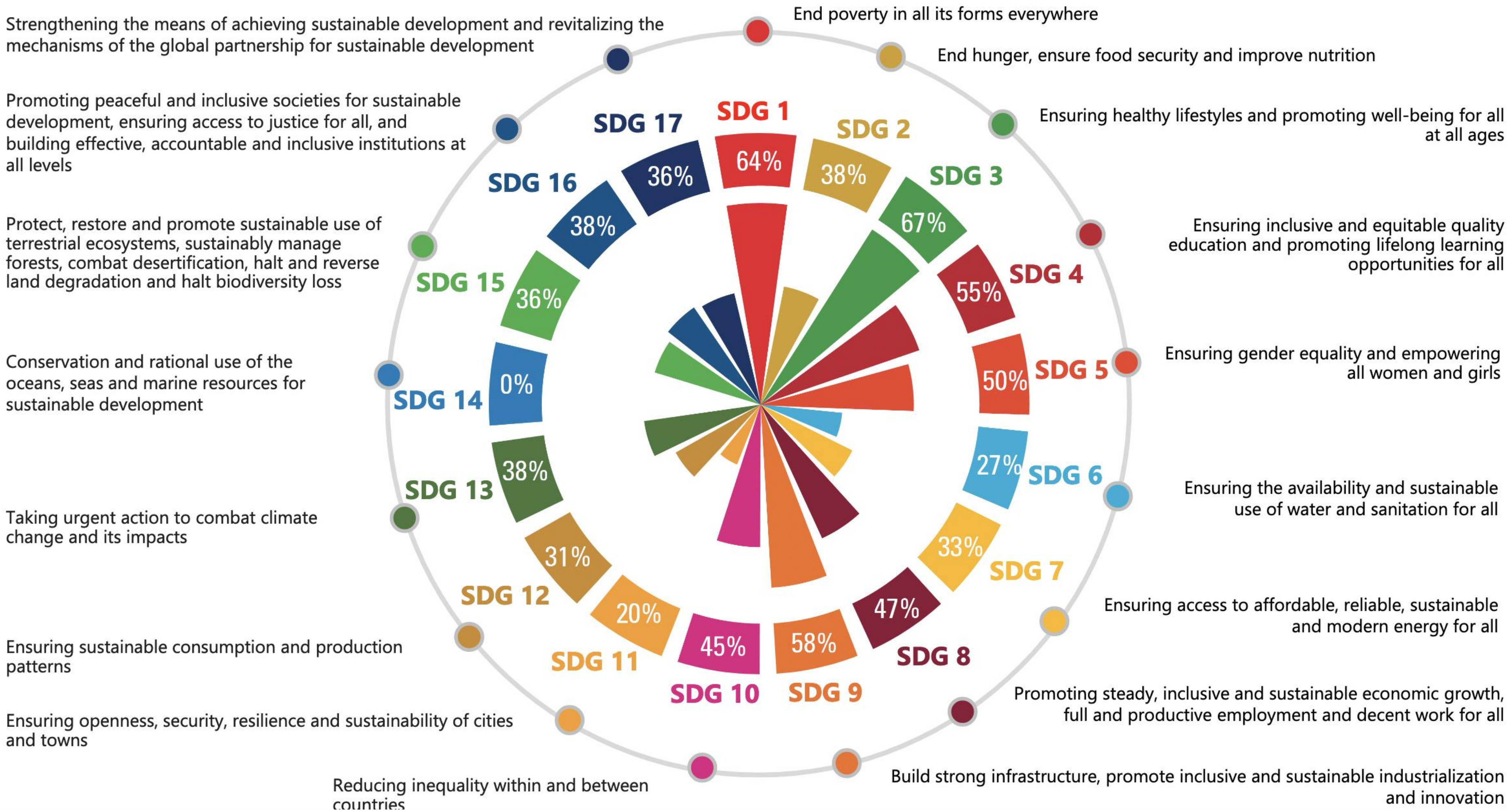
8.2 MONITORING PROCESS

255 Crucially, monitoring and review does not happen in isolation of wider government monitoring systems, and as a result this DFA takes advantage of existing infrastructure to link to the results developed for the INFF. The INFF monitoring and review strategy therefore brings together existing tracking systems established in the budget cycle, national development plan, sector ministry strategies and financial market regulators, among others, drawing on relevant indicators to track progress of the INFF. For example, analysis of the availability of SDG indicators (See Figure 7 below) highlights the need to further strengthen SDG monitoring systems, albeit building from the current system.

256 The monitoring process – which is by definition a multi-stakeholder activity – is as follows. Government will assess and establish the monitoring and review baseline, including levels of buy-in, roles and responsibilities, data systems and capacity within existing government and non-government structures (around the three identified core functions). This will be executed by the President's Administration, MoF, National Statistical Com and UN Country Team. The INFF final monitoring and review process will be socialized within existing government systems. Preferred entry points will be identified to integrate INFF monitoring functions into existing (and forthcoming) systems. Entry points for gender mainstreaming and leaving no one behind will be integrated in the INFF and Insight and lessons from country comparators will be leveraged.

[86] https://kyrgyzstan.un.org/sites/default/files/2019-09/Annex%201%20MAPS%20Report%20KGZ.pdf

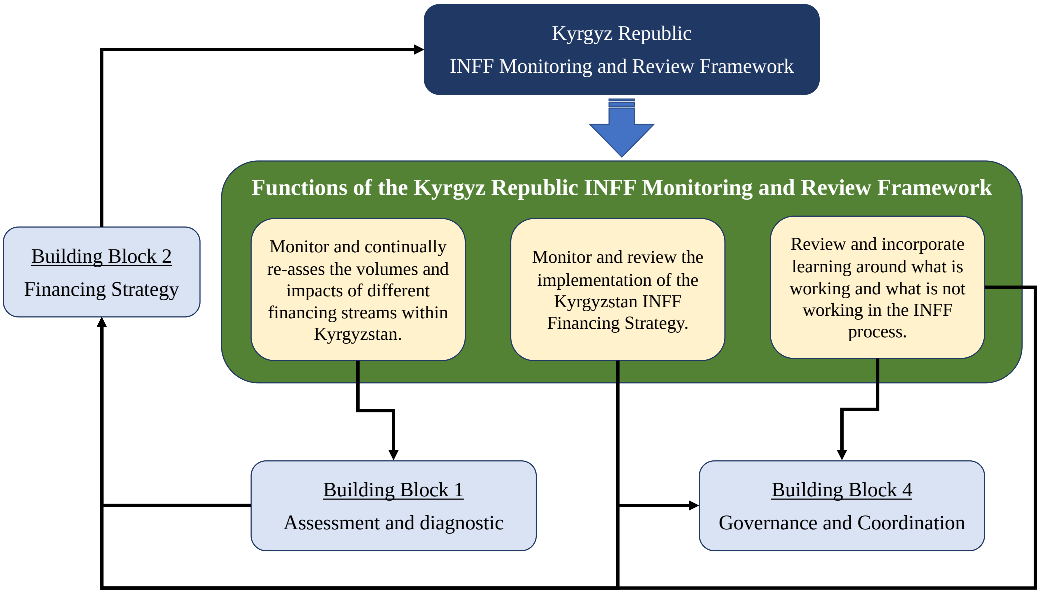
Figure 7 ANALYSIS OF THE AVAILABILITY OF GLOBAL SDG INDICATORS IN THE KYRGYZ REPUBLIC



Note: Percentage represent extent of available SDG indicators being collected.
See https://kyrgyzstan.un.org/sites/default/files/2022-04/SDG%20report%20ENG%20short.pdf

257 Figure 7 provides an overview of how the monitoring and review process is integrated across all building blocks, including the financing strategy.

Figure 8 OVERALL KYRGYZ REPUBLIC INFF MONITORING AND REVIEW



258 A foundational principle of the INFF is to complement, not duplicate, and from the perspective of monitoring and review systems, there are several relevant processes and institutions upon which the INFF can draw on. The following therefore provides a non-exhaustive list of existing institutions and monitoring frameworks in the Kyrgyz Republic that will form the basis for the INFF Monitoring and Review Framework.

- ***President's Administration***: The President's Administration will be the primary custodian of the Road Map and Financing Strategy and therefore leads on reporting results based on monitoring conducted by the competent national authorities.

- ***Cabinet***: Given the cross-cutting nature of many of the reforms proposed, cabinet session will be convened twice annually to review progress reported by the President's Administration in executing the Road Map and Financing Strategy. Minutes of cabinet deliberation will be taken and decisions on the forward 6 monthly work plan agreed across involved cabinet functions.

- ***Ministry of Finance***: The Ministry of Finance will lead the work in updating the proposed national dashboard, monitoring investments across the four quadrants.

- ***National SDG Statistics***: The National Statistical System is a centralized system where the National Statistical Committee acts as the main body responsible for coordinating efforts to collect data, produce statistics in accordance with the Fundamental Principles of Official Statistics, and create an evidence-base related to the SDGs. The committee will be vital for monitoring progress under the INFF Road Map.

- ***NBKR*****:** While much of the available data required for INFF monitoring will likely fall under the purview of the National Statistical Committee, there are notable exceptions, including data on the banking sector and other financial institutions. These are maintained by NBKR the National Bank and published in monthly statistical publications. Given the growing centrality of the domestic financial sector for the development of the national vision, the National Bank is a central partner in INFF Monitoring.

- ***Sector Ministries*:** Although all available data within sector ministries should theoretically be accessible to the National Statistical Committee, there will be exceptions. It is also true that where data sets are limited in scope and coverage (particularly age, spatial and gender disaggregation) expanding data availability will be a task for the sector ministries, albeit with guidance from the National Statistical Committee.

- ***Voluntary National Reviews (VNR)*:** Along with mapping financial flows, the INFF relies on regularly updated SDG data, to monitor the actual progress of INFF recommendations in leveraging smart finance towards SDG outcomes. Without this, INFF indicators do not reflect the actual impact of the process on the ground. In relation to this, data collection for the VNR process provides a valuable starting point, delivering a baseline for the SDGs. The VNR will continue to provide stocktaking for the INFF and it will also provide an overview of SDG monitoring standards and capacities within Government and thereby be the foundation for improving access to SDG relevant data to be incorporated into the INFF Roadmap.

- ***Ministry of Economy and Commerce:*** The ministry will play a key leadership role in monitoring and review of the INFF, in line with its coordination, control and monitoring functions, as outlined below:

    - Ensures fulfillment of the obligations of the Kyrgyz Republic within the framework of WTO membership, including technical barriers to trade and application of sanitary and phytosanitary measures.
    - Monitors implementation of measures to improve the situation in the field of domestic trade, on development of cross-border and exchange trade.
    - Coordinates and organizes the work on development of draft technical regulations.
    - Coordinates and methodologically supports activities of participants in the system of technical regulation and providing for uniformity of measurements.
    - Organizes and coordinates development of socio-economic development programs of the Kyrgyz Republic, taking into account sustainable and balanced economic growth.
    - Provides methodological support for implementation of the strategic planning framework taking into account sustainable development model, including for the regions.
    - Implements state policy in the field of mobilization preparation of the economy.
    - Coordinates and interacts with international financial institutions and donor organizations in the republic within its competence.
    - In accordance with established procedure, carries out general coordination of issues for attracting and using international grants and technical assistance, with the exception of projects under the public investment program, and,
    - Assists the regions in development and monitoring of implementation of territorial development programs (plans).

- ***Non-Governmental Data Producers*:** Beyond formal government bodies mandated with data collection, there exists a surfeit of private organizations with access to highly relevant data. These will range from private financial institutions (bank, micro-finance organizations), private sector companies (engaged in industry, energy or telecommunications, for example), and civil society organizations (environmental NGOs, women's rights bodies and civil society organizations), etc. While a comprehensive list is not provided at this stage, this will be a key component to the INFF Monitoring and Review recommendations, alongside the development of an engagement and communication plan that allows the INFF governance bodies (including the Technical Working Group) to communicate specific data needs to non-governmental data producers.

- ***International Development Partners*:** International Development Partners will function as both producers and users of data. However, on account of the first, it is anticipated that program data from international partners will be made readily available to the INFF Working Team and other Governance bodies to complement nationally available data.

- **Data Users - *Senior SDG Governance Structures*:** The President's Administration and executive ministries will be primary data producers and users.

- ***Monitoring and Review***: The process of implementing the INFF roadmap and financial strategy, as well as strategic documents on achieving the SDGs in Kyrgyzstan will be assisted by the establishment of a small monitoring and review team, bringing together subject-matter experts from key sectors, to track performance and impact.

8.3 MONITORING INDICATORS

259 While the process of tracking SDG outcomes has been outlined under the 2020 VNR, tracking development financing flows and the impact of new instruments and mechanisms will require existing monitoring and review systems to internalize monitoring of the INFF Road Map and Financing Strategy. This requires more than just the ability to collect and analyze data, it also requires the capacity for mutual accountability between partners in their collaboration of common goals.

260 An assessment of the current statistical potential of the Kyrgyz Republic was carried out within the UNSD-DFID project SDG Monitoring, revealing that the government is ready to report on 102 indicators, or 50 per cent of all applicable global SDG indicators. Out of the 102 available indicators, data for 71 indicators (70%) are compiled by the NSC, data for 28 indicators (27%) are produced by ministries and departments, and data for 3 indicators (3%) are produced by the NSC in cooperation with ministries and departments.

261 Key data sources for SDGs monitoring are the databases of the Integrated Household Survey, and the specialized survey on the Status of Women and Children in the Kyrgyz Republic (MICS).57 The Kyrgyz Republic conducted three rounds of MICS in 2014, 2015 and 2018. During the MICS-2018, data for 31 global SDG indicators disaggregated by main characteristics (gender, age, geographical location, education, income level, nationality and disability) were collected. Additional monitoring indicators emerging from the Road Map below will need to be integrated into the INFF monitoring and review system, and monitored in the same way as SDG targets and indicators are.

8.4 OVERCOMING CHALLENGES

262 The following challenges are likely to impact the monitoring and review process, just as they hamper the annual reporting on SDGs. Proposals made by ADB for the INFF in Kazakhstan called for the establishment of a National DFA Dashboard that can be updated on an annual basis to reflect new financing flows. Such a system however takes time and resources, and it is therefore proposed to undertake a bi-annual review to update the data in the DFA, as an input to fine tune INFF Road Map and Financing Strategy priorities. The main challenges, observed above, are as follows:

- Lack of administrative capacity to produce timely disaggregated data indicators,
- Limited access to high-quality administrative data.
- Lack of readily available data on geo-spatial differences as well as gender and social exclusion.
- Lack of data on availability of new financing flow and sources, particularly for Islamic finance.
- Regional data has yet to be fed into SDG monitoring systems, providing a disconnect between central and sub-national data sharing.
- Lack of SDG budget tagging.
- Considerable work is required to integrate (mainstream) the INFF across all spending units, even starting with the three priority sectors.

8.5 STRATEGIES FOR STRENGTHENING AND LEARNING SYSTEMS

263 As the INFF Road Map differentiates between short-, medium- and longer-term reforms and instruments, it is proposed to conduct a 2-day national workshop with all key players outlined in the Governance and Coordination section, to integrate existing SDG monitoring baselines with the INFF Road Map, leading to a Kyrgyz Republic INFF Performance Dashboard.

264 Strengthening performance-based budgeting in the agriculture, education and green economy sectors will allow new performance-based baselines for the sector to emerge, within which SDG targets and indicators can be integrated and costed. A review of the Malaysia performance-based budgeting and SDG tagging system would provide a learning opportunity, and a study tour to the Ministry of Finance in Malaysia would allow a tried and tested model to be adapted, piloted and rolled out. Given the focus on digitalization, the extent to which the proposed INFF Performance Dashboard can be digitized and made public and open source, would allow multiple sources of data and data users to benefit from and contribute to updating performance.

265 In countries such as Indonesia over 30 SDG centers have been established at the sub-national level to support monitoring and contribute towards mindset change. Working with the UN system, universities, colleges, research firms, NGOs and private firms, SDG localization can be encouraged. Linked to the establishment of the proposed UN Global Compact Local Network, monitoring and review can be a joint process and part of the social contract central to transparency and accountability.

Chapter 9

Kyrgyz Republic INFF Road Map

9. KYRGYZ REPUBLIC INFF ROAD MAP

266 This section provides the recommendations for the INFF Roadmap, building from the results of the four-quadrant diagnostic, and the proposals outlined in the governance and coordination and monitoring and review sections.

9.1 KEY ROAD MAP DESIGN OBSERVATIONS

267 In establishing the Road Map, and drawing from the preceding diagnostic work, the following general characterization of the financing ecosystems informs the selection of key entry points, as provided below:

- Sustainability policies are making considerable progress from a low base, though the core metrics of how sustainability is measured needs to be strengthened, though both the national budget (SDG alignment and integration) and market place (green, climate and gender assets).

- Despite gains in budgeting for the SDGs, SDGs budget tagging is not in place and as a result current SDG spending remain essentially unknown. This undermines determination of the financing gap. Strengthening strategic budgeting the SDGs will remain an important priority.

- A formal medium term revenue strategy is required to increase fiscal space and to improve the role of taxation in incentivizing growth in the sustainable economy and in creating an enabling environment for the not-for-profit sector. This needs to be linked with a sustainable debt management strategy.

- Constraints to finance include high interest rates, with only around 25 per cent of enterprises having bank loans or lines of credit, with investment financing by firms being far below the ECA average and a high collateral to loan ratio of 250 per cent.

- Financial market mechanisms are being suppressed by the state leading to reduced potential in developing private sector instruments and undermining the greater financial potential of market mechanisms. While the banking sector is in the early stages of developing a green taxonomy, considerable work needs to be done to create a market for green and climate promoting assets; essentially, greening the banking sector.

- Lack of state resources combined with by lack of private investment puts the economy into a compromised position; essentially constituting a mixed economy. Combined with shallow financial and capital a wide range of potential financial instruments are not being deployed, undermining the pace of the sustainability, digital, inclusive growth and resilience transition.

- Developing market mechanism is difficult (given the strong patrimonial system) and it takes time, justifying establishing both capital and financial inclusion road maps, building on emerging regulations.

- Lack of blended financing beyond PPPs combined with a limited capacity to plan a bankable pipeline of PPPs calls for a more proactive approach to PPPs and de-risking, as well as deployment of a range of new instruments including use of catalytic fist loss capital, syndicated loans, Apex financing structures for SMEs, thematic bonds for high-rate of return investments, climate financing, environmental levies, ecological fiscal transfers and guarantees for example, are either non-existent of limited in scale. Both primary and secondary markets are under-developed.

- Low level of capacity in financial market supervision, which means that despite challenges the market is progressing ahead of capacity to regulate, with still limited capacities at the Central Bank, Financing Supervision Services and Deposit Protection Agencies, for example. As a result, many agencies in the financial market are not fully supervised, and corporate finance is in effect a grey area.

- The stock market is considered by many observers to be under-regulated, and while stock market leaders are young, shareholders and established investors. Societal trust issues with stock markets need to be addressed. There are no institutional investors which undermines long term potential for capital market development.

- Informal lending rates are high and the missing-middle in the SME financing space (SMEs are underserved both by commercial banks and micro-finance institutions) combined with lack of commercial banking competition, means that SMEs are often self-financing, undermining potential for expansion.

- Insurance markets are under-developed, mandatory housing insurance is non-existent and mandatory motor insurance is not enforced. Public perception holds that insurance is unnecessary and costly, yet without non-bank financial attracting institutional investors will be impossible. Competition in the insurance market is limited. The State Service for Regulation and Supervision of the Financial Market (FSS) is considering establishing a pool of insurance funds.

- NBKR sets up the threshold for bank interest rates but the FSS would like to introduce an annual effective interest rates and final value of loans indicators, with US and UK laws used as best-in-class exemplars.

- Corporate governance practices need to be strengthened (despite a strong Corporate Governance Code), the current law is under review and regulatory standards enforcement needs to be improved. The law on shareholder companies does not allow voting of majority investors. There is no public depository of financial reporting. FSS reports that reporting of shareholder companies often under-performs, considerably, with many companies not understanding the need for reporting. New international standards were introduced in February 2022, for large companies, public interest companies and SMEs.

- National accountant practices need to be upgraded given substantial issues related to regulatory enforcement and compliance failures.

- For the government securities market, government securities could be tradeable on the stock exchange, developing a market-based yield curve that could be used to price other assets (private sector bonds, equities, etc.). Moreover, digital management of the securities market and insurance system will need to be considered.

- Foreign exchange markets are currently not tradeable on the stock exchange. Once access has been provided, the exchange rate would be more market based and bid ask spreads will decline. At the moment banks can coordinate and influence the exchange rate. Foreign exchange derivative market development would allow households to share foreign exchange risks. An INFF Risk Management Framework could assist in mitigation, management and reduction.

- Fintech development has been slow and lags behind emerging markets. Promoting peer-to-peer lending activities could become increasingly important, and inviting the diaspora to join these activities would lend to compatriots based in their original villages/towns.

- Options to tap remittances or migrant savings for domestic investment purposes is under developed. Opening a branch of a Kyrgyz bank in Russia that would service migrants and use their deposits to invest domestically, though other instruments need to be explored.

- FSS has been thinking about how to introduce micro insurance, and increasing the insurance culture of the people, social insurance, de-risking and risk transfers will be important to boost resilience.

- The digital economy and virtual markets have huge potential the regulatory and standards regime needs to be significantly strengthened, given future expectations of a move towards digital banks, NBKR digital currency (digital currencies are set to dominate national and global trade), the boom in online services, and the need for digital IDs, eSignatures and data security concerns.

- For social protection it is vital to enhance SafetyNet programs, credit and insurance schemes, consider scaling up the Ui Bulo Komok (poverty benefit allowances) (UBK), strengthen social insurance, micro-insurance and risk transfers and introduce disability insurance and old age pensions.

- Islamic finance is a likely future growth area, and working to improve reporting on Zakat, Takaful, Waqf and Sukuks is needed, to support alignment with the SDGs.

- The shadow economy is estimated at 25 per cent in 2021, and is largely constituted by smuggling, re-export, finances and light industry.

- Given that the SDGs now very much reflect a new-way-of-working, strengthening societal dialogue and outreach, to include establishing SDG centers for example, while promoting SDG localization would appear to be essential for localizing SDG outcomes.

9.2 RECOMMENDATIONS FOR THE FINANCING STRATEGY

268 The preceding analysis points towards a fundamental shift in the way development is being financed. Not only is the private sector under-represented, but major vulnerabilities in the economy are beginning to emerge (remittances, FDI, portfolio flows collapsing) as well as opportunities (digital economy, energy transition, green and climate financing etc.). As a result, the following areas are suggested for further dialogue with the Technical Working group, to identify the most optimal set of investment options for the Road Map. The following recommendations are made for the Financing Strategy:

- Introducing new instruments within the currently regulatory and market regime will be challenging, and though there is a proclivity towards identifying quick wins, it will be necessary to balance a focus on new instruments with developing the regulatory regime for wider adoption downstream.

- As exponential growth of data-driven services is transforming global trade, investment in the digital economy and digitalization are critical to agricultural transformation, social protection and sustainable growth.

- Many of the new instruments, partnerships and ways of working will require considerable awareness raising, exposure and experiential learning at the same time, including perhaps running financial literacy lessons for government officials who will be tasked with taking the Road Map forward.

- While the governance and coordination arrangement involved mainstreaming within the existing NDS and national planning and budgeting system, the engagement of the entire cabinet will be essential, if the a whole-of-government approach in delivery is to be achieved.

- While study tours can be expensive, many countries in South and Central Asia are very advanced in development of new financing systems, and a quick way to gain an understanding is through south-to-south and triangular cooperation is made central to the implementation process. Triangular cooperation for the SDGs will need to be front and center of the execution plan, with particular engagement of the IFIs and the EU.

9.3 SDG RIGHT-FINANCING

269 Considering the substantial gap in financing the SDGs, and the extent of public debt, there is a need to focus on more integrated financing solutions and to maximize the optimal use of limited resources to implement the sustainable development agenda. All of this calls for 'Right-Financing', using the most appropriate sustainable financial instruments to support development, in alignment with the general approach outlined below.

270 Right-Financing requires going beyond purely mobilizing national budget resources to meet the SDGs, as it advocates for expediting the transition from 'Funding to Financing (F2F). Such an approach not only calls for policies that crowd in private capital, both through blended and non-blended solutions, it also requires public investment programs to be planned in a way that actively engages the private sector in delivering durable and (where desirable) market-based solutions.

271 All three priority areas and amenable to the application of a right-financing approach, with each sector having its own balance of public and private financing, and a different balance between debt, equity, grants and other flows. In considering the most appropriate new financing instruments to be deployed to finance the Kyrgyz Republic's SDGs, it is therefore necessary to identify the 'right-financing' solution for a particular problem (See Table 22 below). Right-financing focuses on identifying the most optimal financing instrument, modality and partnerships for a given purpose, noting that it is not necessary or desirable for the national budget to look to finance all sustainability solutions when public funds can be used to leverage greater resources and reduce risks for private capital.

Table 22. RIGHT-FINANCING THE KYRGYZ REPUBLIC'S SDG

Right-Financing Pillars	Objective	Considerations
Improved Investment Prioritization	To identify the most optimal sequence of activities for a given investment over the medium term, linked to the medium-term expenditure planning framework.	Based on fiscal space analysis and government policy priorities, SDGs goals and targets should be prioritized by the level of urgency and impact on the principles of leaving no one behind (LNOB) or building back better (BBB).
Most Optimal Source of Financing	To identify the most strategically advantageous source of financing for the proposed bankable investment, crowding in private capital wherever feasible and desirable.	Consider integrated solutions from domestic public, domestic private, international public and international private financing to implement a new taxonomy in national investment.
Preferred Modality and Partnerships	Identify the preferred financing modality and strategic partnerships for the intended investment based on a ranking of variants.	Evolve an expansive national Sustainable Financing and Public Private Partnership (PPP) Taxonomies to lay the foundation for an expansion of existing as well as new and hybrid instruments and partnerships.
A Focus on Sustainability Financing	Consider the sustainability of the proposed investment, including financing costs, associated level	Consider the long-term sustainability of the investment once project funds are withdrawn. This would include project governance, operating

	of risk, long-term operations and maintained costs and social, gender and environmental multipliers.	costs, revenues, social cost-benefit analysis and net present value analysis as appropriate, as well as a transitioning to green and brown budgeting.
Monitoring Investment Policy Impact	To establish output, outcome and impact indicators for the investment, so that one can assess impact.	Link goals, outcomes and outputs to the national budget process, allowing SDG investment impacts to be clearly established and the SDG dashboard to be updated based on empirical information.

Source: UNDP, Strategic Budgeting Guidance Note (2022)

272 This basic approach to right-financing will guide both investment choices and measures across the three priority areas, with a focus on (i) improving the alignment of existing national budgetary resources to the SDGs (ii) making adjustments to budgetary allocations to target SDGs and citizens being left behind (iii) introducing innovative sustainable financing policies, instruments and tools and (iv) strengthening the governance and coordination and monitoring and review structures. Given that mainstreaming right-financing in to the sector investment planning process will take time, the financing strategy will need to reflect a rolling start, building a common vision for change, establishing the guiding coalition to deliver it and identifying quick wins to demonstrate success.

9.4 RECOMMENDATIONS FOR GOVERNANCE & COORDINATION

273 The following recommendations are made to strengthen governance and coordination of the INFF Road Map, as it moves towards implementation in 2023:

- Governance and coordination should be fully mainstreamed into existing Presidential Administration, cabinet of Ministers and sector ministry decision making structures. The existing Oversight Committee and Technical Working Group should remain and play a key role in guiding the process.
- Under the chairperson of the Cabinet of Ministers of Kyrgyzstan, all decision taken in relation to the INFF will be fully integrated into cabinet affairs, with a proposed 6 monthly cabinet presentation on INFF progress.
- Sector ministries (for the three priority sectors and beyond) will mainstream the SDGs into sector investment plans and consider execution of new financing instruments in line with the road map.
- MoF will lead PBB reforms in the three priority areas, with a focus on improving PPP pipeline development over the short term.
- The National Bank will lead the development of new banking regulations and taxonomies, learning from regional peers and beyond,
- Regional authorities will be encouraged to support SDG localization enabling new fiscal flows, improved expenditure management and the issuance of new instruments.

9.5 RECOMMENDATIONS FOR MONITORING AND REVIEW

274 The following recommendations are made to strengthen monitoring and review of the INFF Road Map, as it moves towards implementation in 2030:

- Fully integrate the SDGs and INFF Road Map into existing government monitoring and review systems, through the development of an INFF Performance Dashboard.
- Focus efforts on building administrative capacities to address the problem of lack disaggregated data indicators, including geo-spatial disaggregation.

- Broaden data collection needs to include key gaps in the financing system, for example on Islamic Finance and the use for Zakat, for example.

- Strengthen SDG data collection and localization at the regional level, given that sub-national data will be vital to building a better picture of flows to sectors and SDG alignment.

- Strengthen PBB in the three priority sectors including integrating SDG baselines in public investment plans and the MTEF.

- Look at the Malaysian model to assess options for successful SDG budget tagging.

9.6 RECOMMENDATIONS FOR FURTHER ASSESSMENT & DIAGNOSTICS

275 Three blind spots deserve greater attention and future research, given their potential contribution and impact on SDGs. Firstly, there is an urgent need to establish a Capital Market Development Road Map, and this work can be conducted by IFC, WB and IMF, with a focus on an integrated approach and setting near term goals, as this will aid thematic bond development among other instruments. Secondly, there is a need to look at the potential for increasing Islamic Finance and exploring the potential contribution of Zakat, Waqf and Takaful to the SDGs. Thirdly, greater attention is needed on the potential for fiscal decentralization in terms of SDG localization, with a particular focus on alternate financing instruments to compliment sub-national budgetary allocations.

9.7 NEW PARTNERSHIPS FOR THE GOALS

276 The following recommendations are made to strengthen partnerships for the goals for the INFF Road Map, as it moves towards implementation in 2030:

- Identify legislation and regulations that can be successful co-created with the private sector and civil society, including in the green bond and ESG space, as the basis for strengthening public and private collaboration.

- Support the development of a national PPP taxonomy, including reviewing options for foreign investment in PPPs, based on lessons learned in countries like Saudi Arabia, the UAE and Malaysia.

- Government will convene – with UNDP – an annual partnership for the goals event reporting on annual performance and deepening dialogue on issues of critical importance, such as capital market development, green financing instruments, localization.

- Establish an UN Global Compact Local Network to support the joint monitoring and review process.

- Investment in triangular cooperation is vital. Triangular co-operation is when countries, international organizations, civil society, private sector, private philanthropy and others work together in groups of three or more, to co create flexible, cost-effective and innovative solutions for reaching the SDGs.

<table>
<tr><th colspan="8">Table 23. KYRGYZ REPUBLIC INFF ROADMAP</th></tr>
<tr><th rowspan="2">№</th><th rowspan="2">Strategy / Policy</th><th rowspan="2">Action</th><th colspan="2">Responsibilities</th><th colspan="3">Indicative Timeline</th></tr>
<tr><th>Main organization</th><th>Partner</th><th>2023-2024</th><th>2025-2027</th><th>2028-2030</th></tr>
<tr><td colspan="8">Governance and Coordination</td></tr>
<tr><td rowspan="2">1</td><td rowspan="2">Mainstream the INFF into Cabinet Functions
.</td><td colspan="6">Purpose: To strengthen existing systems and reduce risk of parallel structures</td></tr>
<tr><td>Introduce bi-annual cabinet meetings on INFF Road Map Performance to build national ownership and enhance understanding of innovative solutions</td><td>Office of the President (OoP)</td><td>UN RC</td><td>X</td><td>X</td><td>X</td></tr>
<tr><td rowspan="4">2</td><td rowspan="4">Promote SDG Mind Set Change</td><td colspan="6">Purpose: To increase awareness and acceptance of new ways of working.</td></tr>
<tr><td>Establish SDG Finance Communication Strategy to communicate vision and increase awareness</td><td>OoP</td><td rowspan="3">UNDP</td><td>X</td><td></td><td></td></tr>
<tr><td>Identify & Establish Public Private Collaboration Platforms and Productivity Pacts to deepen public private dialogue around new instruments</td><td>OoP</td><td>X</td><td>X</td><td></td></tr>
<tr><td>Launch national education, campaigns, public events, and media coverage.</td><td>OoP</td><td></td><td>X</td><td>X</td></tr>
<tr><td colspan="8">INFF Monitoring and Review Processes</td></tr>
<tr><td rowspan="4">3</td><td rowspan="4">Reporting and Evaluation</td><td colspan="6">Purpose: To report results based on clearly defined baselines and metrics.</td></tr>
<tr><td>Deliver an Annual Report on the Implementation of the Kyrgyz INFF to create a focus for learning, change management and monitoring success.</td><td>National Statistics Committee / MoEC</td><td>UNDP</td><td>X</td><td>X</td><td>X</td></tr>
<tr><td>Update VNR with key SDG financing gains showing SDG finance gap reduction and instrument diversification</td><td>Cabinet of Ministers of KR, Ministries and Agencies</td><td>UNDP</td><td></td><td>X</td><td>X</td></tr>
<tr><td>Mid-Term INFF Review by 2026 to review and update the INFF Road Map and set new priorities</td><td>MoEC / National Statistics Committee</td><td>Independent</td><td></td><td>X</td><td></td></tr>
<tr><td rowspan="3">4</td><td rowspan="3">Strengthening Monitoring of New Instruments</td><td colspan="6">Purpose: To build capacity for SDG impact and market monitoring, market and ESG introduction.</td></tr>
<tr><td>Develop SDG proxy indicators as per the global (UNSTAT) standards and capacity building for statisticians that quality, accurate, and timely data can be collected to bolster outcome reporting</td><td>MoEC, Financial Intelligence Committee / NBKR</td><td>UNDP</td><td>X</td><td></td><td></td></tr>
<tr><td>Strengthen monitoring of green and climate bond performance – reviewed by an independent third party</td><td></td><td>UNDP</td><td>X</td><td>X</td><td></td></tr>
</table>

Table 23. KYRGYZ REPUBLIC INFF ROADMAP

№	Strategy / Policy	Action	Responsibilities		Indicative Timeline		
			Main organization	Partner	2023-2024	2025-2027	2028-2030
		–for agriculture, education and the green and circular economies as a major new source of sustainable debt financing.					
		Introduce ESG regulatory compliance with harmonized verifiable market standards and improve definitions and indicators for 'green' investments including market disclosures to build a market for social and green financing.	FSS and Stock Exchanges, National Statistics Committee	IFC	X	X	
Agricultural Sector Financing							
5	***Strengthen Agricultural Sector Financing***	**Purpose**: *To provide financial support to farmers, agribusinesses, and other stakeholders in the agriculture sector to facilitate their operations, increase productivity, and promote sustainable agriculture.*					
		Scaling Up Agricultural Value Chain Finance (AVCF) combining loans, leasing, agricultural factoring credit, and crop insurance.	MoA	FAO , IFAD, ADB, USAID, EU etc.	X		
		Develop project financing arrangements provided by banks, financial institutions, or other specialized lenders			X	X	
		Improving Agricultural Insurance to Deal with Climate Change and introducing new Risk Transfer Mechanisms			X	X	
		Introduce Group Credit for Cooperatives for on lending to cooperative members				X	
		Establish an Apex Financing Institution for Credit Guarantees for participating financing institutions targeting small farmer				X	
		Introduce agricultural product space financing to support the production, processing, and marketing of specific agricultural products.				X	X
		Use Green and climate bonds for financing critical agricultural investments to address climate change				X	X
Education Sector Financing			***Expected Outcome:***				
6		**Purpose**: *To adopt a sector financing strategy, diversify sector financing instruments and strengthen school based management.*					

Table 23. KYRGYZ REPUBLIC INFF ROADMAP

№	Strategy / Policy	Action	Responsibilities		Indicative Timeline		
			Main organization	Partner	2023-2024	2025-2027	2028-2030
	Strengthen Education Sector Financing	Establish an Education Sector Financing Strategy	MoES	IFIs	X		
		Establish School Based Management System Model linked to Smart and Electronic Schools and Learning Passport		UNICEF			
		Expand the power of the rights of boards of trustees to control the expenditures of their organization	MoES	IFIs	X	X	
		Expand PPPs in the education	MoES	IFIs	X		
		Education technology innovation funds	MoES	UNICEF	X	X	
		Education Challenge Funds	MoES	UNDP	X	X	
		Engage commercial banks to support educational savings accounts	MoES	UNICEF		X	
		Review and pioneer innovative financing instruments include (i) new scholarship programs (ii) Social Impact Bonds (iii) Education savings accounts (iv) blended Finance (v) micro-Finance (vi) philanthropic Investments (vii) PPPs and (viii) microfinance loans for education-related expenses.	MoES	UNICEF		X	X
Green Economy Financing							
7	***Accelerate the Green Economy Transition***	**Purpose**: *To provide funding and investment for projects and businesses that promote sustainable and environmentally-friendly economic development and the transition towards a low-carbon, resource-efficient, and sustainable economy, while also addressing the urgent need to mitigate and adapt to the impacts of climate change.*					
		Conduct consultations and develop a draft Green Taxonomy of Kyrgyzstan for Sustainable Development	MoEC	WB / Bishkek GFC	X		
		Adopt Green Bond Standards to provide the basis for domestic bond issuance and international financing. Adoption of the ICMA Green Bond Principles (GBP) 2021 (with June 2022 Appendix I), ICMA Social Bond Principles (SBP) 2021 (with June 2022 Appendix I), ICMA Sustainability Bond Guidelines (SBG) 2021, LMA Green Loan Principles (GLP) 2021 and Social Loan Principles (SLP) 2021.	MoEC	EBRD / WB / Bishkek GFC		X	
		Consider the need to join the Bank for International Settlements Network of Central Banks Greening the	NBKR	IMF			X

Table 23. KYRGYZ REPUBLIC INFF ROADMAP

№	Strategy / Policy	Action	Responsibilities		Indicative Timeline		
			Main organization	Partner	2023-2024	2025-2027	2028-2030
		Financing System (NGFS) to benefit from best practices and build a vibrant and regulated green financing system.					
		Consider establishment of sustainable financing Unit in NBKR	NBKR	IMF / WB		X	
		Develop a concept note on Carbon Market Development (carbon Pricing, carbon tax, carbon credits and carbon offsets etc.)	Center for Climate Financing under MNRETS, MoEC, Ministry of Energy	UN		X	
		Adopt ESG Disclosure Standards for Investment Products to increase potential for portfolio flows	MoEC, NBKR, FSS, State Property Management State Agency, Union of Banks of Kyrgyzstan, Stock Exchange	World Bank			X
		Establish Rules on Corporate Sustainability Reporting to align corporate finance to the SDGs	Financial Service Authority	ODA Partner		X	
		Adopt SDG Impact Standards for Bond Issuers to improve performance metrics and monitoring	Center for Climate Financing under MNRETS	ODA Partner		X	
		Develop concept for use of syndicated loans by large corporations, financial institutions, and governments to finance significant projects, acquisitions, or working capital needs.	Kyrgyz Investment Council	IFC	X	X	
Digital Economy Development							
8	***Support Digital Economy Transformation***	**Purpose**: *To provide funding and investment for businesses and projects that promote the development and adoption of digital technologies and digital solutions in order to support the growth of the digital economy, including industries and sectors that are heavily reliant on digital technologies, such as e-commerce, software development, telecommunications, and digital media.*					
		Undertake a Digital Readiness Assessment	MDD	ODA Partners	X		
		Establish a Digital Economy Masterplan	MDD		X	X	
		Establish of a single multi-component National Data Process Center (DPC) and strengthen Personal Data Protection	MDD, SAPDP		X	X	

Table 23. KYRGYZ REPUBLIC INFF ROADMAP

№	Strategy / Policy	Action	Responsibilities		Indicative Timeline		
			Main organization	Partner	2023-2024	2025-2027	2028-2030
		Ramp Up Digital Skills Development	MDD		X		
		Ramp up Financial Literacy Training including on Digital Hygiene, including protection against digital fraud	NBKR, MDD		X		
		Test the Digital SOM prototype	NBKR, commercial banks			X	
		Support the Transformation of Digital Agriculture including development of a GIS system for land, water and agricultural systems management	MoA, MDD		X	X	
		Establish the Digital Marketplaces as multichannel ecommerce platforms to streamline the production processes and businesses.	MoEC, MDD			X	
		Ramp up PPP Financing and Develop Digital Economy Investment Pipeline	MoF. MoEC, NIA, MDD			X	
Financial Inclusion							
9	***Accelerate Financial Inclusion***	**Purpose**: *To ensure that all individuals and businesses, particularly those who are underserved or excluded from traditional financial services, have access to a range of affordable and appropriate financial products and services that meet their needs.*					
		Implement the 2022-2026 National Financial Inclusion Strategy (NFIS) making financial services more accessible, efficient, and affordable for households and MSMEs.	NBKR, Ministries and Agencies	ODA Partners	X		
		Strengthen MSME financing through establishment of a US$ 100 million Apex Financing Structure providing credit guarantees to participating financing institutions to closing the 'missing middle' in SME finance	MoEC, FSS	ODA Partners	X	X	X
		Expand digital and mobile financing solutions as well as low-income bank products to better serve unbanked and under-banked communities and businesses.	MoF	WB	X	X	X
Financial and Capital Market Development							
10		**Purpose**: *To establish and maintain a well-functioning and efficient capital market that supports the growth and development of businesses, facilitates access to long-term financing, and provides opportunities for investors to invest in a diversified range of financial instruments.*					

Table 23. KYRGYZ REPUBLIC INFF ROADMAP							
№	Strategy / Policy	Action	Responsibilities		Indicative Timeline		
			Main organization	Partner	2023-2024	2025-2027	2028-2030
	Strengthen Capital Markets	Develop a Capital Market Development Road Map	MoEC, NBKR, FSS, MoF, Stock Exchange, Union of Banks of Kyrgyzstan, Microfinance Organizations Association of Kyrgyzstan	IFIs	X		
		Create the Capital Markets Working Group to oversee implementation of the roadmap	MoEC, MoF, NBKR, FSS	IFIs	X		
		Launch of Green Mortgage Instruments	MoEC, NBKR, FSS	IFIs	X		
		Develop a market-based yield curve that could be used to price other assets (private sector bonds, equities, etc.	Stock Exchanges	IFIs		X	X
		Make foreign exchange tradeable on the stock exchange.[87]	NBKR, Stock Exchanges, Currency Exchanges	IFIs		X	
		Develop foreign exchange derivatives to allow households to share in foreign exchange risks	FSS, Stock Exchange	IFI		X	
		Increase capitalization requirements for professional participants in the securities market engaged in brokerage, exchange and depositary activities	FSS	IFIs		X	
		Expand the use of MIGA (Multilateral Investment Guarantee Agency) and OPIC political risk insurance and credit enhancement guarantees to private sector investors and lenders	MoF	MIGA	X	X	X
11	***Expand the Potential of***	Given the rise in Islamic Financing Instruments, increase transparency and governance to align with the SDGs.					
		Strengthen alignment between Islamic Social finance (Zakat and Waqf) and the SDGs, with a focus on	MoEC, NBKR	IsDB / IFIs / Islamic		X	

[87] Foreign exchange markets are not currently traded on the stock exchange. Once access is granted, the exchange rate will become more market-based and the spreads between supply and demand will narrow.

Table 23. KYRGYZ REPUBLIC INFF ROADMAP

№	Strategy / Policy	Action	Responsibilities		Indicative Timeline		
			Main organization	Partner	2023-2024	2025-2027	2028-2030
	Islamic Financing	improving transparency and proper distribution, to support LNOB policies		Networks and Associations			
		Increase awareness, promote understanding and encourage adoption of the UN's SDGs amongst Islamic financial institutions				X	
		Develop a national digital platform to encourage Waqif contributions to SDG projects.[88]	MDD, NBKR,			X	
		Incentivize the establishment of Islamic crowdfunding for SMEs and start-ups to finance private enterprises	MoEC, NBKR			X	
		Develop reporting on the Green Sukuk Annual Allocation and Impact Reports to establish a credible green bond market	NBKR			X	
Medium Term Revenue & Sustainable Debt Management							
12	***Making Fiscal Policy Work for the SDGs***	**Purpose**: *To develop a plan for generating revenue and ensuring fiscal sustainability over a period of three to five years.*					
		Develop Medium-Term Revenue Strategy (MTRS) to increase revenue to GDP ratio and improve collection	MoF	IFIs	X		
		Update the Medium-Term Debt Strategy (MTDS) to include linkages to green, climate and thematic bonds	MoF	IFIs	X		
		Assess need for Harmonization of Tax Regulations	MoF	IFIs	X		
		Improve Surveillance of Public Private Partnership and better manage contingent liability risks	MoF	IFIs	X	X	
		Increasing green taxes as they are developed	MoF	IFIs	X		
		Increase revenue collection by reducing tax exemptions, strengthening taxation of e-commerce, adjusting specific taxes to inflation, raising excises on tobacco and petroleum and introducing a carbon tax	MoF	IFIs	X	X	
		Improve tax administration through e-filing, taxpayer registration, risk-based auditing and expanding the use of cash registers.	MoF	IFIs	X	X	
		Develop options for Online eCommerce Taxation	MoF	IFIs	X	X	
		Digitalization in revenue administration	MoF	IFIs	X	X	X

[88] See Indonesia's approach here: https://www.undp.org/partners/international-financial-institutions/islamic-finance

Table 23. KYRGYZ REPUBLIC INFF ROADMAP

№	Strategy / Policy	Action	Responsibilities		Indicative Timeline		
			Main organization	Partner	2023-2024	2025-2027	2028-2030
		Improve tax policy and tax administration reforms to increase fiscal space	MoF	IFIs	X	X	X
		Develop options for the expansion of Green Investment Tax Allowances	MoF	IFIs	X	X	
Budgeting for the SDGs							
13	***Strengthening SDG Alignment***	**Purpose**: *To ensure that policies, programs, and investments are designed and implemented in a way that supports the achievement of the SDGs*					
		Introduce Programmatic Budgeting	MoF	UNDP	X		
		Strengthening SDG Alignment	MoF/ MoEC	UNDP	X	X	X
		Integrate SDG targets into PIPs and PPPs	Sector Ministries	ODA Partners	X	X	X
14	***Strengthen Strategic Budgeting***	**Purpose**: *To align government or organizational objectives with the budget process, by allocating resources to programs and initiatives that are most likely to achieve desired outcome, taking into account both short-term operational needs and longer-term strategic objectives.*					
		Strengthen Budget Call Circular SDG Guidance	MoF	UNDP	X		
		Integrate SDGs into Citizen's Budget	MoF	UNDP		X	X
		Support SDG Localization with Local Government	MoF	UNDP	X	X	
Accelerate Financial Literacy							
15	***Increase Awareness and Capacity for Green Financing Instruments***	**Purpose**: *To improve individuals' and communities' understanding of financial concepts, tools, and resources, and to empower them to make informed decisions about their personal finances*					
		Develop workshops and training sessions on budgeting and saving	FSS, NBKR, MoF, Ministry of Education and Science, Ministries and Agencies	IFIs / IFC	X		
		Educational campaigns on managing debt and credit		IFIs / IFC	X	X	
		Interactive games and simulations to teach financial concepts		IFIs / IFC	X		
	.	Online resources and mobile apps to help individuals manage their finances		IFIs / IFC	X	X	
		Personal finance coaching and mentoring programs		IFIs / IFC			
		Financial literacy programs in schools and universities		IFIs / IFC			
		Collaborations with financial institutions to offer financial education and resources to their customers		IFIs / IFC			
		Workshops on entrepreneurship and small business finance management		IFIs / IFC			

Table 23. KYRGYZ REPUBLIC INFF ROADMAP

№	Strategy / Policy	Action	Responsibilities		Indicative Timeline		
			Main organization	Partner	2023-2024	2025-2027	2028-2030
		Community-based financial education programs that engage local leaders and organizations.		IFIs / IFC			
Public Private Partnerships (PPP)							
16	***PPP Legislative Amendments***	**Purpose**: *To strengthen key areas of the 2021 PPP Law to enable a more comprehensive approach.*					
		Target amendments to the 2021 PPP law to include civil code, land code, tax code and good practices for transaction advisory services	Investment Council and Center for Public-Private Partnership under NIA	ADB, IFC, EBRD, UN	X		
17	***Capacity Development of Ministries, Departments and LSGs and Kyrgyz PPP Taxonomy***	**Purpose**: *To assess institutional governance options, to build core capacities, introduce a PPP taxonomy and introduce new instruments.*					
		Undertake an institutional assessment to identify corporate governance options for the PPP center to include establishment as a Joint Stock Company, but also to review functional structures and staffing competencies and pay and grading	Center for Public-Private Partnership under NIA, Investment Council	ADB, IFC, EBRD, UN	X		
		Undertake a PPP Capacity Readiness Assessment to identify the strengths and weaknesses of the government or public sector entity in terms of PPP capacity, and to provide recommendations for improving capacity (such as on-the-job training) and overcoming any identified challenges.			X		
		Develop a PPP taxonomy for the Kyrgyz Republic to guide PPP formulation and programming of an expanded pipeline.				X	
		Introduce new financial instruments including guarantees, availability payments, blending, syndicated loans, including support for regional PPPs				X	
		Develop a manual on how to calculate project preparation costs for PPPs in target sectors				X	
17		**Purpose**: *Establish a waved approach to identifying, conducting feasibility studies, long and shortlisting and transparently*					

Table 23. KYRGYZ REPUBLIC INFF ROADMAP

№	Strategy / Policy	Action	Responsibilities		Indicative Timeline		
			Main organization	Partner	2023-2024	2025-2027	2028-2030
	Expand PPP Pipeline for Target Sectors	Develop and Conduct PPP Capacity Readiness Assessment and Functional Review in agriculture, education and green economy sectors	Center for Public-Private Partnership under NIA	UN	X		
		Build sector ministry capacity in undertaking feasibility studies for PPPs	Sector Ministries	IFC	X	X	
		Review Existing and Undertake Feasibility Studies	Sector Ministries	EU	X	X	
		Establish PPP project financing instruments (PPPs plus other blending) and introduce availability payments and guarantees	MoF	WB / IFC		X	
		Increase transaction advisory, market testing and procurement	MoF	IFC	X	X	X
Climate Financing							
19	***Develop Kyrgyz Republics' Local Carbon Market Trading Scheme***	**Purpose**: *To provide financial resources and support to mitigate and adapt to the impacts of climate change, through provision of grants, loans, equity investments, and guarantees etc.*					
		Develop voluntary carbon market concept note and road map	MNRETS, Center for Climate Financing under MNRETS MoEC	ODA Partners Bishkek GFC		X	X
		Develop climate financing strategy and instruments to explore Green and Climate Bonds, Carbon Pricing, Climate-focused venture capital, Payments for Ecosystem Services, Green Revolving Funds, Catalytic use of Vertical Funds, Climate Focused Crowdfunding and Climate-focused philanthropy				X	X
		Formulate Carbon Tax Law				X	X
		Establish the Kyrgyz Republic local carbon emission trading system (ETS) and offsets for carbon emissions with EGX				X	X
		Strengthen result-based payments for initiatives that result in carbon reduction				X	X
		Identify tariff and basis of the Carbon Tax				X	X
		Development of the carbon cap-and-trade system				X	X
		Develop Carbon Border Adjustment policy concept				X	X
		Implement full carbon market				X	X

Table 23. KYRGYZ REPUBLIC INFF ROADMAP

№	Strategy / Policy	Action	Responsibilities		Indicative Timeline		
			Main organization	Partner	2023-2024	2025-2027	2028-2030
		Establish a national inventory of the potential impact of climate change				X	X
		Implement a Climate Budget Tagging (CBT) system	MoF, MNRETS	UNEP / GCF	X		
		Form an electronic database of greenhouse gas emissions	MNRETS	UNEP / GEF / GCF	X		
		Publish data on greenhouse gas emissions in the Kyrgyz Republic on the MNR website	MNRETS (Center for Climate Financing)	UNDP	X		
ESG Standards and Reporting			***Expected Outcome: Position the Kyrgyz Republic as an ESG market to improve potential for both domestic and international private flows.***				
20	***Strengthening ESG Investing***	**Purpose**: *To provide a framework for assessing and managing the impact of business activities on the environment, society, and corporate governance. ESG standards are used by investors, regulators, and other stakeholders to evaluate the sustainability and ethical performance of companies, and to inform investment decisions.*					
		Implement ESG principles, norms and performance standards.	NBKR, FSS, MoEC, Stock Exchanges	IFIs / IFC		X	
		Introduce more rigorous ESG reporting requirements, develop key performance indicators and build core ESG human resource capacities	NBKR, FSS, MoEC, Stock Exchanges	IFIs / IFC			X
		Increase transparency of ESG reporting covering corporate ESG strategies, net zero commitments, emissions reduction strategies and comprehensive disclosures and reporting practices.	NBKR, FSS, MoEC, Stock Exchanges	World Bank / IFC			X
		Strengthen reporting and transparency of ESG ratings and themed indexes and ESG Safeguards	NBKR, FSS, MoEC, Stock Exchanges	IFIs World Bank / IFC			X
Partnerships for the SDGs							
21	***Establish Kyrgyz Global Compact Network***	**Purpose**: *Establish a forum for sharing and co-creation of future regulations and standards.*					
		Establish a UN Global Compact Local Network to strengthen public and private dialogue for the SDGs	OoP	UN	X		
22	***Build Legislative SDG Oversight Capacities***	**Purpose**: *Build oversight capacities to hold the Executive accountable for the INFF performance targets and open reporting*					
		Strengthen the SDG Working Group on SDGS to provide qualified oversight of Executive SDG Performance	OoP	UN	X		

Table 23. Kyrgyz Republic INFF Roadmap							
№	**Strategy / Policy**	**Action**	**Responsibilities**		**Indicative Timeline**		
			Main organization	**Partner**	**2023-2024**	**2025-2027**	**2028-2030**
	.	Establish Framework for Triangular Cooperation for Priority Sectors to bring public and private investors together involving transfer of knowledge, expertise, and resources between partners to enhance the capacity and capabilities.	OoP	UN		X	X
		Establish SDG Localization Contract Groups and financial forums in the regions to strengthen local SDG awareness and alignment of local funding.	OoP	UN		X	X

ANNEX 1 SELECTED TERMS

SELECTED TERMS

Backward Linkages:

Backward Linkages describe and measure the response of sectors in the economy that are affected by an increase in demand in the tourism sector.

Blended Finance or Blended Capital

Blended finance occurs when development finance in the form of grants, loan guarantees, or philanthropic funds are used to attract or leverage private capital into developing countries. The term derives its name from the mix of types of capital. Blended finance is typically used to de-risk investments or bring returns in line with what investors are seeking. Blended finance may have the potential to bring in new sources of funding to development challenges. But development finance institutions warn that blended finance deals have to be put together carefully, with the different types of financing used at the appropriate stages to ensure that any concessional financing doesn't distort markets.

Catalytic First-Loss Finance

Catalytic first loss finance — or first loss capital — refers to socially and environmentally driven credit enhancement provided by an investor or grant-maker who agrees to bear first losses in an investment in order to catalyze the participation of co-investors that otherwise would not have entered the deal. For example, donors have so far been funding the development of conservancy lodges, which improves long term viability and cash flows, and increases the dividends going to conservancy members.

Concessional Loan

Concessional loans offer better than market-rate terms, either through longer repayment times, low interest rates, or both. Development finance institutions often use these loans to de-risk or encourage certain investments.

Development Finance

Development finance is the efforts to support, encourage, and catalyze expansion through public and private investment in physical development, redevelopment and/or business and industry. It is the act of contributing to a project or deal that causes that project or deal to materialize in a manner that benefits the long-term health of the community.

Development Impact Bonds

Development impact bonds are results-based contracts in which private investors pay up front for the costs of a proven intervention, which is implemented, typically by an NGO, and measured by clear, predetermined metrics. If the intervention succeeds in achieving the goals, the outcome payor — typically a donor agency, foundation or perhaps a company — will pay the investor back based on the performance or success of the interventions.

Direct, Indirect, and Induced Impacts

Common direct impacts include financial transactions, such as payments of wages, taxes, and dividends, and the distribution of philanthropic grants and cash contributions. Indirect impacts are often harder to quantify, but include jobs created by suppliers and increases in productivity. Induced effects are the results of increased personal income caused by the direct and indirect effects (e.g., the increased spending power of people employed in the tourist industry).

Economic Multipliers

The Economic Multiplier Effect describes the fact that an increase in spending produces an increase in national income and consumption that is greater than the initial amount spent. The multiplier effect (for example) describes the fact that investment not only creates jobs in the economy it also encourages growth in many primary and secondary sectors of industry (e.g., agriculture, transport, finance, etc.). Simply stated, well committed investment circulates many times through a country's economy.

Forward Linkages
Forward linkages describe and measure the increase in the supply of one sector in response to a uniform increase in demand spread over all sectors. It quantifies the relative dependence of each sector on a general increase in the activity level of all other sectors. In the case of tourism, it measures the extent to which tourism benefits from a boost in the demand of other sectors (e.g., the airline industry). The greater the link between tourism and that sector, the greater the benefit to tourism if demand for that sector increases.

Gross Domestic Product
A measure of economic activity in a country. It is calculated by adding the total value of a country's annual output of goods and services. GDP = private consumption + investment + public spending + the change in inventories + (exports - imports).

Impact Investing
Impact investments are made in companies, organizations, or funds that intend to generate social and environmental impact along with a financial return. Impact investing includes a spectrum of investment types, including those seeking market-rate returns and those that are looking only recoup capital. The field continues to grow, and there is a push to track some investments to the Sustainable Development Goals, though this still represents a small fraction of total investments. Impact investing is sometimes equated with socially responsible investing or investing based on environmental, social, and governance standards, but the two differ. Impact investments don’t merely screen out investments that have a negative impact or consider potential impacts; rather, they have the express purpose of creating impact.

Loan Guarantee
A loan guarantee is a promise by the guarantor, often a development finance institution, to pay back a borrower’s debt if a borrower defaults on a loan. Guarantees can cover all or part of the debt and are often used to de-risk investments for conventional or commercial investors.

Multiplier Effects
Multipliers are measures by which the multiplier effect is estimated. They are computed through the analysis of Input-Output (I-O) framework, which serves to analyze the interdependence of industries in an economy. Input-output analysis ("I-O") is a form of macroeconomic analysis based on the interdependencies between economic sectors or industries. This method is commonly used for estimating the impacts of positive or negative economic shocks and analyzing the ripple effects throughout an economy. A key output from this analysis is the production of multipliers.

Results or Performance-Based Financing, or Pay-for-Success
This type of financing ties funding to specific performance or results that are typically agreed upon in advance. In many cases, funding — or incentives — is contingent on meeting those goals. Results-based financing can take the form of contracts or deals, including social and development impact bonds. Traditionally, contracts or grants are based either on the inputs (the number of services delivered) or on short-term outputs. But these mechanisms require clear, measurable results and outcomes, thus pushing those involved to build robust data systems and closely monitor their work.

Right-Financing
The right-financing approach to development maintains that financing an investment alone does not make it successful in achieving its objective. Right-Financing highlights the importance of adopting the appropriate policy, fiscal, institutional and financial support mechanisms in order to maximize sustainable returns on both public and private investments over time. The term goes beyond the public sector restructuring concept of right-sizing in that it looks to assess the policy mandate and size of an institutional entity, its functions and their discharge, its financing, as well as the staffing structure and establishment with regard meeting investment and development objectives. Whilst originally applied

to the security sector, its application as a conceptual framework is important for sustainable development finance because it encourages a focus on financial integration, crowding in private capital and integrated national financing frameworks.

Social Impact Bonds
Social impact bonds are partnerships or contracts between governments, NGOs and investors to fund interventions that address pressing challenges. They are designed to bring in new funding for programs, typically to address social issues with preventative interventions that could save government dollars.

Value for Money (VfM)
A utility derived from every purchase or every sum of money spent. Value for money is based not only on the minimum purchase price (economy / efficiency) but also on the maximum efficiency and effectiveness of the purchase. Value for Money assessments are useful tools for donors to assess the opportunity cost of one investment over another.

Value Chain
Value Chain is the full range of business activities needed to bring a product or service from conception to delivery.