

Kyrgyz Republic: Report on the Observance of Standards and Codes—Fiscal Transparency Module

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KYRGYZ REPUBLIC

**Report on the Observance of Standards and Codes (ROSC)
Fiscal Transparency Module**

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November 13, 2001

EXECUTIVE SUMMARY

This report provides an assessment of fiscal transparency practices in the Kyrgyz Republic against the requirements of the IMF *Code of Good Practices on Fiscal Transparency*. The report is based on the authorities' response to the IMF fiscal transparency questionnaire, and on additional information provided to the mission.

Important steps have been taken to improve fiscal transparency in the Kyrgyz Republic in recent years, particularly in the area of budget preparation and execution. The introduction of a treasury system has greatly enhanced expenditure control and the quality of fiscal reporting. Continuing deregulation and privatization has helped to clarify the roles and responsibilities of the government sector.

However, weaknesses remain in a number of areas. In particular, there are concerns over the unclear borderline between government and nongovernment activities, which gives rise to considerable quasi-fiscal operations, and over the lack of transparency in public accounts and the related question of expenditure control.

Efforts to improve fiscal transparency should focus on four broad areas: clarify the roles and responsibilities within the government sector as well as of the government vis-à-vis the private sector; strengthen the fiscal information provided in the budget preparation and execution process; widen and deepen the core of fiscal publication; and improve the integrity and quality of fiscal data.

Contents

Page

Abbreviations and Acronyms	3
I. Introduction.....	4
II. Description of Practice	4
A. Clarity of Roles and Responsibilities.....	4
B. Public Availability of Information.....	8
C. Open Budget Preparation, Execution, and Reporting	9
D. Assurances of Integrity.....	11
III. IMF Staff Commentary.....	12

ABBREVIATIONS AND ACRONYMS

GDDS	General Data Dissemination Standards
MOF	Ministry of Finance
MTFF	Mediumterm Fiscal Framework
NBKR	National Bank of Kyrgyz Republic
NSC	National Statistics Committee
PIP	Public Investment Program

I. INTRODUCTION¹

1. This report provides an assessment of fiscal transparency practices in the Kyrgyz Republic against the requirements of the IMF *Code of Good Practices on Fiscal Transparency*. The authorities have completed the fiscal transparency questionnaire prepared by the IMF staff. The assessment has two parts. The first part is a description of practice, prepared by the IMF staff on the basis of the questionnaire response and additional information provided by the authorities. The second part is an IMF staff commentary on fiscal transparency in the Kyrgyz Republic.

II. DESCRIPTION OF PRACTICE

A. Clarity of Roles and Responsibilities

2. **The Kyrgyz Republic adopts internationally accepted standards of general government as a basis for defining fiscal activities.** The roles and responsibilities of the government sector are defined and distinguished from the private sector in the *Constitution of the Kyrgyz Republic* and in several laws. However, there are difficulties in delineating private and public activities in practice. State-owned enterprises have been involved in quasi-fiscal activities, although these are being reduced through privatization and regulatory reform.² There are some commercial operations in government ministries, but not to a significant extent. The government has entered into joint ventures arrangements with foreign as well as domestic companies that are not fully transparent. It is not always clear which state agency is responsible for a particular public task. The government at times lends to state-owned enterprises at subsidized interest rates.

3. **The public sector has been downsized considerably but remains large.** The government is estimated to account for 25 percent of the workforce. Recent reform efforts of the government sector have aimed at restructuring the public administration, leading to the consolidation and elimination of government ministries and agencies.³ The government is continuing its privatization program,⁴ which is expected to substantially reduce the size of government.⁵ All large companies are fully state-owned or the government has a majority

¹ Discussion with the authorities were held during March 2–13 by a staff team comprising Messrs. Schiller (head) and Onoprishvili (FAD Expert).

² Latest estimates suggest that quasi-fiscal activities are around 10 percent of GDP.

³ The number of government ministries has been reduced from 17 to 12. The number of public agencies and state committees has been reduced from 42 to 29.

⁴ Privatization proceeds are split as follows: local governments: 15 percent; the Fund for Small- and Medium-Size Enterprise Development: 3 percent; the Privatization Fund: 7 percent; and central government: 75 percent.

⁵ Although some policies of the former Soviet Union still prevail, the role of government in the economy has been considerably reduced since independence in 1991, largely through mass privatization and price

(continued...)

stake in them.⁶ State-owned enterprises are subject to government direction, but their objectives are not fully clear. Services provided by public utilities, in particular, are partly financed by a complex system of explicit, implicit and cross subsidies. The cost of these and other noncommercial activities by state-owned enterprise are not clearly reported in public statements nor are the government's equity holdings.

4. **The National Bank of Kyrgyz Republic (NBKR) has considerable independence to conduct monetary policy as specified in the *Law on the NBKR*.**⁷ Since 1998, the NBKR does no longer provide deficit financing for the annual budget or temporary financing within the fiscal year. The accumulated debt up to that point was converted into interest-free securities.⁸ There is a close coordination between the NBKR and the Ministry of Finance (MOF) on financial policies.⁹ The NBKR serves as the treasury account holder and does not undertake activities of a quasi-fiscal nature by way of lending at below-market rates.

5. **The financial relationship between the NBKR and the government is not straightforward.** The government does not pay interest on its debt to the NBKR, while the NBKR does not pay interest on the governments deposits with the NBKR.¹⁰ The NBKR's profits are divided between the NBKR and the budget as follows: 30 percent of the profits are retained by the NBKR, and 70 percent of the profits accrue to the budget but have been used by the NBKR to pay off the government's debt vis-à-vis the NBKR. Government involvement in private banking is insignificant, but it has recently taken over Kairat Bank, one of the country's largest commercial banks, as a result of the 1998-99 banking crisis. Furthermore, the NBKR owns the Settlement and Savings Bank, the successor of the former State Agrobank and State Savingsbank.¹¹ Article 15 in the *Law on Basic Principles of the Budget* limits the right to provide government guarantees to the Minister of Finance as the

deregulation. Practically all small-scale and the bulk of all medium-scale enterprises have been privatized. In February 2001, the government submitted to parliament a state property privatization concept paper for the years 2001-03. This concept paper envisages a substantial withdrawal of government from economic activity and outlines the objectives and the methods of future privatization. It envisages the privatization of Kyrgyz Telecom, Kyrgyz Energo, Kyrgyz Gas and the Kyrgyz Airline.

⁶ The government fully owns or has majority stakes in 4 large monopolies: Kyrgyz Telecom, Kyrgyz Energo, Kyrgyz Gas, and the Kyrgyz Airlines.

⁷ Attempts have recently been made by some parliamentarians to reduce the independence of the NBKR.

⁸ The restructuring of the debt accrued by the government to NBKR has been governed by the *Law on The Restructuring of the Kyrgyz Government Debt to the Kyrgyz Republic National Bank* adopted on June 8, 1998.

⁹ A joint statement of the NBKR and the MOF at the beginning of the year outlines the broad thrust of monetary policy during the year.

¹⁰ The NBKR is expected to pay interest (of half of LIBOR) on the government's foreign exchange deposits.

¹¹ It is also planned to establish the Kyrgyz Industrial Bank, which will be partially owned by the government.

sole agent of the government. A new law is under consideration, which is intended to further strengthen the hand of the Minister of Finance in granting government guarantees.

6. Government interference in the nonbank private sector is considerable and not always conducted in an open and public manner nor on the basis of clear rules and procedures that are applied in a nondiscriminatory way. Often, laws and regulations are either not clear or their enforcement is not transparent. There is significant scope for discriminatory implementation. For example, there are cases of unequal treatment of public and private sector enterprises.¹² Intrusive inspections by tax inspectors, police, and prosecutors are common. Excessive regulations and licensing are a source of rent seeking by public sector employees, which is pervasive.¹³ Since the beginning of 2001, the government has repealed a number of state inspections, to which private enterprises had been subjected to. Activities requiring licensing have been reduced from 62 to 32. The practice of sublicensing has been declared illegal. The government has established a task force to fight corruption.

7. The fiscal relations between different levels of government are still emerging. The Kyrgyz Republic has a federal structure with a strong central government. Fiscal relations between central and local governments are largely defined by the *Law on Basic Principals of the Budget*. The distribution of expenditure responsibilities and tax powers between different levels of government is supported by not fully transparent intergovernmental transfer mechanisms. In particular, the subregion transfers to the local level are not defined by law. There are two kinds of transfers from the central governments: (i) categorical grants to provide for minimum requirements in education and health; and (ii) equalizing grants to address differences in local revenues. Categorical grants are wage-bill based; equalizing grants are formula-based but, in practice, negotiated in parliament between the deputies of the different regions. Local government responsibilities include expenditures on education and health. There are local taxes, central taxes, and shared taxes. The allocation of shared taxes among different levels of government is decided annually as part of the *Annual Budget Law*. In practice, the shares have remained unchanged since the introduction of shared taxes in 1997, with a view of providing financial predictability to local budgets. However, local authorities have at times not fully transferred to the central government their share of the taxes collected by them. Local authorities are allowed to borrow with prior approval from the MOF up to 20 percent of their revenue.

8. The responsibilities of the executive, legislative, and judicial branches are clearly defined in the constitution. The constitution, adopted in 1993, guarantees the separation of powers between the executive, legislative, and judicial branches of government. The Kyrgyz Republic has a strong executive branch with decision-making power concentrated in

¹² Tax forgiveness of joint stock companies with government participation is not uncommon.

¹³ See the recent UNDP study, *Corruption in Kyrgyzstan*, Bishkek, 2000.

the President and Cabinet of Ministers. Parliament¹⁴ can reject the entire budget, but cannot amend the budget without an agreement with the government. More generally, parliament cannot pass any legislation that has financial implications without prior approval by government. The role of the judiciary¹⁵ is generally recognized as requiring strengthening further its independence. Reserve funds for contingencies exist and are controlled by the President and the Prime Minister.¹⁶

9. **Fiscal management is defined by a legal framework that is relatively complete.** The main pillars are the *Law on the Basic Principles of the Budget* (1998) and the *Law on Treasury* (1994). In addition, there is an *Annual Budget Law* which has a fairly standard form detailing spending plans by ministries. Supplementary budgets are commonly used. Typically, at the end of the financial year, the government submits and parliament adopts a supplementary budget, amending both budgeted revenues, expenditures and financing, and adjusting them to the executed levels.

10. **There are a few extrabudgetary funds.** Article 30 of the *Law on the Basic Principles of Budget* prohibits the creation of extrabudgetary funds by government entities, except for the Social Fund. In practice, however, other funds exist, including the State Privatization Fund and the Small and Medium Enterprises Support Fund. The Ministry of Labor maintains the Fund for Micro Credit. The Social Fund consists of: the Pension Fund, the Employment Fund, the Social Insurance Fund, and the Compulsory Medical Insurance. The Social Fund is regulated by the *Law on State Social Insurance* and the *Law on State Pension*.

11. **All taxes have an explicit legal basis, but there are many amendments and discretionary provisions.** The general procedures related to taxation are mainly determined by the *Tax Code* and the *Customs Code*. The codes have been amended numerous times leading to increasing difficulties for taxpayers (as well as for tax inspectors) to understand the code.^{17,18} There are frequent ad hoc exemptions. The MOF has prepared a document to illustrate the revenue implications of granting ad hoc tax exemptions. A new government decree is intended to curtail tax exemptions. Case-by-case negotiations of tax liabilities between officials and taxpayers are not unusual. Work to simplify and streamline the tax

¹⁴ The Parliament consist of two chambers: The Assembly of People's Representatives and the Legislative Assembly.

¹⁵ Justice is administered by the Constitutional Court, the Supreme Court, the Higher Arbitration Court, and a system of local courts.

¹⁶ Allocations for the reserve funds cannot exceed one percent of total budgetary allocations.

¹⁷ Over 1000 amendments have been made since 1996.

¹⁸ Refunding VAT was stopped in September 2000 because the refund mechanism that had just come into effect in May had apparently resulted in large-scale frauds. Some amendments were introduced in the *Tax Code* in November 2000 to render the refund procedure less prone to fraud. VAT refunding has resumed in 2001.

system is underway. There are also articles in the tax code defining certain taxpayer rights, but the treatment of taxpayers is not always fair and timely.

12. **Public servants are not subject to a code of behavior.** However, a decree about the ethics of civil servants was issued in January 2001. There are also sections in the tax code dealing with the conduct of tax officials.

B. Public Availability of Information

13. **The public availability of past, current, and projected fiscal activity of the government is limited.** There does not seem to be a strong commitment to regularly publish fiscal data of a comprehensive nature. Publicly available information on the budget, the final accounts and other fiscal reports that cover all budgetary and extrabudgetary activities of the central government and the consolidated fiscal position of the central government exists only to a very limited extent. The National Statistics Committee (NSC) produces monthly reports that do not contain much detail on government finances. The NSC's annual reports are more detailed. Even though the treasury produces monthly detailed reports on actual revenues and expenditures, none of this information is published. The actual budget documents that are submitted to parliament, part of which is published with the approval of the budget, are very rudimentary and missing key information, although additional information is made available to the parliament upon request. There is no printed budget document that is disseminated widely. The publication of the *Annual Budget Law* is the main vehicle for providing budgetary data to the general public.

14. **Information on public debt is not systematically published.** The Public Debt Department in the MOF is responsible for keeping detailed records on external debt. Although comprehensive information on the level and composition of external debt data is maintained by the MOF, it is not systematically made available to the public. The domestic debt comprises largely the government's debt with the NBKR, debt related to some Ruble deposits of Kyrgyz citizens at the time of independence, treasury bills held by the private sector and restructuring bonds. All past NBKR loans have been fully reconciled with the Treasury. Although information on domestic debt is available at the MOF, it is not systematically made available to the public. Data on loans on-lent to state-owned enterprises by the government and claims of the government on state-owned enterprises is not compiled in a systematic way.

15. **There are no formal commitments for more regular publication of fiscal data, although the publication of fiscal information is a legal obligation of the government.** There is a provision in the *Law on the Basic Principles of the Budget* clearly stating a commitment to publish budget and outturn data for the central and local governments. Following budget approval, only the text of the *Annual Budget Law* is made public. Some data may be published in the form of press statements, but there is no systematic publication of a comprehensive set of budgetary data. The MOF maintains a significant amount of fiscal data, but this information is not regularly made available to the public. Advance release date calendars for fiscal information do not exist.

C. Open Budget Preparation, Execution, and Reporting

16. **The annual budget document is rudimentary and covers only the Republican Budget.** The budget documents presented each year to parliament consist of the draft *Annual Budget Law*, an extensive Explanatory Note, and Appendices to the Law. Only the adopted *Annual Budget Law* is published, without any of the tables in the Appendices to the Law. The budget presentation focuses on the current fiscal year. Neither outturn data, nor projections of the main budget aggregates for the years following the budget are presented, although this data can be made available to parliament. The Explanatory Note reviews the macroeconomic situation, economic developments by sectors, revenues, expenditures, and local budgets. It contains a lot of information not extraneous to the budget discussion, but key budget information is missing.

17. **The preferred indicator of the fiscal policy stance is the overall deficit of the consolidated fiscal accounts.** The authorities have also started to monitor the primary balance. The budget classification system is GFS-based and provides information by economic classification and by administrative agency. In addition, the government has made considerable progress in introducing program budgeting. However, the program documents provided by ministries vary in quality, and information is not yet used in a systematic and integrated way in the budget process. Estimates of ongoing costs of government policies are not distinguished from new policies in the budget documents. The consolidated budget, which comprises the republican and local budgets, is also sent to parliament for information. The Social Funds has its own budget, which is also approved by parliament.

18. **Budgetary policies are determined in a medium-term fiscal framework (MTFF).** The annual budget is prepared within the framework of three-year rolling projections of revenues and expenditures, which arises out of a macroeconomic framework prepared by the MOF. There are some qualitative attempts to approach the issue of fiscal sustainability, but as yet there has been no quantitative approach to sustainability analysis. Work on long-term planning has been initiated in the context of a Comprehensive Development Framework, with the help of the World Bank.

19. **Budgetary data are moderately reliable.** In the past, revenue projections were particularly problematic as they tended to be overly optimistic. In 2001, the projections have been relatively accurate. Underbudgeting of certain expenditure items has also been a problem. The Public Investment Program (PIP) is fully incorporated with the budget. Although the PIP is prepared on a multiyear basis, it is a stand alone exercise. Without rigorous recurrent cost analysis, the continuing operating costs of capital spending have received only little attention.¹⁹ Furthermore, in the budget execution process, only the counterpart funds provided by the Kyrgyz Republic pass through the Treasury, while other funds are handled by the Project Implementation Committee in co-operation with donors. All

¹⁹ A stocktaking exercise of all ongoing investment projects has recently been undertaken in order to prioritize these projects and developing regulations to improve the prioritization of new projects.

expenditures appear in the regular reports on budget execution on the basis of reports submitted to the Treasury.

20. **Analysis of sensitivity of the estimates to changes in economic variables is not included in the budget and main fiscal risks are not stated.** While the budget is prepared within a quantitative macroeconomic framework, the budget does not state explicitly all the key assumptions in a clear manner. The budget does not contain a discussion of fiscal risks arising from changes to macroeconomic variables. The budget does not include statements describing the nature and significance of government contingent liabilities and tax expenditures, and of quasi-fiscal activities, although some information is available at the MOF.

21. **The creation of the Treasury during 1993-96 has enabled the MOF to produce more reliable and timely information on the government's fiscal operations using a GFS-based classification.** The *Law on the Treasury* is the legal framework for the Treasury to operate. The Treasury produces monthly, quarterly, and annual reports on a timely basis, covering the republican and local budgets. However, these reports are not publicly available. Reporting requirements for the Social Funds and for externally financed development projects enable the treasury to produce reports on the fiscal activity of general government. Generally, monthly reports by the central Treasury for a particular month are available by the third week of the following month. Quarterly reports are very detailed because expenditures are shown at the "paragraph" level (fourth tier) of functional and economic classification. Reconciliation with budget appropriations and bank accounts is effective and timely.

22. **Some problems with treasury reporting and expenditure control remain.** First, the quality of records is not free of weaknesses as the procedures prescribed for treasury operations including checks and controls on financial transactions and maintenance of records are not fully observed. Ledgers are not properly kept. Second, recording against the classification of transactions is not properly observed; large amounts are lumped under "other expenditures." Third, another concern is that it has been a common practice to make offsets for payments due among budgetary organizations, energy companies, and telecommunication providers. These offsets are entered into the treasury system, but complicate record keeping.²⁰ Fourth, the accounting system does not allow generating reports on arrears, because the accounting system is manual and does not well capture expenditure commitments. Arrears on pensions, wages, and other expenditures have been a recurring problem. Fifth, many budgetary organizations charge fees or otherwise collect revenues that are outside the budget process and the single treasury account.²¹ Some rely entirely on such

²⁰ Such offsets have been eliminated at the central government level but still exist at the local government level. In 2001, such offsets have been estimated at 2 percent of revenues.

²¹ Only about one third of university revenues, for example, are accounted for by budgetary financing. The bulk of the financing is provided through tuition fees.

revenues.²² In principle, these transactions are now processed through the treasury and included in treasury reports on a gross basis. They are also reported in the budget documents. In practice, however, it is not known whether all of these transactions are processed by the Treasury. Sixth, while the Social Fund reports its revenues and expenditures to the Treasury so that they can be included in the Treasury's financial reports, other extrabudgetary funds that are also outside the treasury system do not (including the State Privatization Fund and the Small and Medium Enterprises Support Fund).

23. **Internal control procedures are very limited.** Accounting is on a cash basis, although the budget contains no statement to this effect. Internal audit is conducted by the Control and Inspection Department at the MOF. Internal audit procedures are clear and subject to effective process review by external audit. However, given the small amount of staff, the operational capacity of the Control and Inspection Department is very limited. Regulations requiring open tendering procedures for public contracts are in place but unclear and incomplete; procurement regulations are only partially observed. Government employment and pay regulations are well defined but some discretion is allowed; employment and pay regulations are only partially observed. Competitive recruitment was introduced by decree, but it is not clear whether this is now fully observed in practice.

24. **Final reports are forwarded to the legislature within five months of the year-end.** The Chamber of Accounts then has two months to provide the parliament with its opinion. The year-end reports include general government but not the Social Fund, which reports separately. Quasi-fiscal activities are not in the final accounts and there is no systematic review of the effectiveness of public activities. No mid-year report on budget developments is presented to the legislature.

D. Assurances of Integrity

25. **External audit is carried out by the Chamber of Accounts.** The Constitution requires the Chamber of Accounts to report to the President and the legislature. Membership is determined one-third by the President, who also appoints the Chairman, one third by the lower house, and one third by the upper house of parliament. The Chamber is relatively new and has a wide mandate.²³ Its staff has recently been increased to currently 170, considerably enhancing its operational capability. However, there is no institutional arrangement to ensure that the recommendations of the Chamber are followed. The Chamber of Accounts provides reports on the financial integrity of government accounts to the public. The Annual Report is published in an economic journal with limited distribution. The Chamber's press secretary routinely invites journalists to attend the deliberations of the Chamber.

²² For example, the customs administration.

²³ The Chamber of Accounts was established in 1996 (*Law of the Chamber of Accounts*). There was also a Government Commission on Financial Control, which was merged with the Chamber of Accounts in 2000.

26. **Macroeconomic models and assumptions are not open to external scrutiny.** The macroframework underlying the budget is not formalized in the public domain and not open to technical assessment by independent experts. There is no independent domestic expert assessment of the fiscal forecasts.

27. **The NSC has been given legislative assurance of independence by law.**²⁴ The Committee reports to the President and publishes monthly reports that go to the President and parliament. The NSC partially conforms to the General Data Dissemination Standards (GDSS) and plans to increase its adherence. The NSC's website address for any published government statistics is <http://nsc.bishkek.su/Eng/Home/Start.html>.

III. IMF STAFF COMMENTARY

28. **Important steps have been taken to improve fiscal transparency in the Kyrgyz Republic in recent years, but many weaknesses remain.** The Kyrgyz Republic has made some substantial headway in the area of budget preparation and execution. The budget is now drawn up in the context of a medium-term macroeconomic framework. The introduction of a treasury system has greatly enhanced expenditure control and the quality of fiscal reporting. Continuing deregulation and privatization has helped to clarify the roles and responsibilities of the government sector. Further progress can be achieved by strengthening existing procedures. Other transparency issues are deep-seated and more intractable and will require a strong and sustained political commitment if they are to be addressed successfully. Efforts to this end could focus on four broad areas: (i) clarify the roles and responsibilities within the government sector as well as of the government vis-à-vis the private sector; (ii) strengthen the fiscal information provided in the budget preparation and execution process; (iii) widen and deepen the core fiscal publication policies; and (iv) improve the integrity and quality of fiscal data. The authorities' new economic reform program that could be supported by a new three-year PRGF arrangement to be considered by the Executive Board at end-November includes measures that would address several issues raised in this Report. These measures are discussed in the paragraphs below.

29. **The role and responsibilities within government and between government and the rest of the economy need to be further clarified.** The lack of clarity in defining the government's role vis-à-vis the rest of the economy underlies many of the existing transparency problems. This situation will improve as the government pushes ahead with its privatization program, thereby eliminating the main source of substantial quasi-fiscal activities. It is important, however, that the privatization program be fully transparent, and that the government's relationship with the newly privatized entities be clear.

- As an initial step, regular reports should be established on quasi-fiscal activities. The reporting should be done by enterprise, describing their justification, and, where possible, quantifying its fiscal impact. Quasi-fiscal activities of government need to

²⁴ *The Law on Statistics (1994).*

be identified comprehensively and reported as part of government activity. They should then be eliminated through privatization or brought on budget explicitly as subsidies.

- The financial relations between the NBKR and the MOF should be clarified. As an option that should be explored, all interest rates on the NBKR's claims on government should carry a positive real interest rate. At the same time, the government should earn interest on its deposits with the NBKR and these interest rates should be market-determined.
- The commercial activities of ministries should be reviewed and revealed with a view of reducing them. Also, a review of the role and responsibilities of state agencies should be undertaken to define which state agency is responsible for a specific public task. This review should also include an assessment of fees charged by government agencies, with a view of whether the institution is needed, whether their operation should be funded from the budget and whether the fee amount corresponds to the service provided by the institution.
- The instructions of the government to state-enterprises should be disclosed and their legal principles reviewed. The relations between government and state-owned enterprises should be made more open.
- Local government responsibilities and financing should be reviewed. Clear transfer mechanisms to the local level should be established. There appears to be an imbalance between local government revenues and expenditure obligations. The fiscal viability for the local level of government, covering the appropriate revenue base, expenditure responsibilities relative to that base and the possible rights to borrow directly from the market in the context of a strong mechanism to ensure continued aggregate control should be reviewed.
- Progress is needed in ensuring uniform interpretation and enforcement of tax laws. The tax and customs codes need to be simplified and streamlined. Ad hoc exemptions, case by case negotiations of tax obligations and preferential treatment of taxpayers should be the exception rather than the rule. The rights and responsibilities of taxpayers should be clarified.
- In the new economic program, the role of the government vis-à-vis the rest of the economy is being further clarified through the privatization of the four large state monopolies, the regularization of the financial relations between the MoF and the NBKR, the simplification of the Customs Code, and the reduction of several income tax and VAT exemptions.

30. **The budget preparation, execution, and reporting process needs strengthening.** A large amount of information is already collected as part of the budget process, but it is not

used systematically and it is not presented clearly in budget documents. A number of basic improvements can be made to the presentation of the budget and accounts information.

- A review of budget documentation should be initiated, with a view of more systematically and comprehensively presenting fiscal information in budget documents that are provided to parliament for the budget discussion. The coverage of the budget should include the Social Fund, the State Privatization Fund, and the Small and Medium Enterprises Support Fund as well as all other extrabudgetary funds. The budget document should provide information going back two years prior to the budget, together with forecasts for the two years following the budget.
- Annexes covering contingent liabilities, tax expenditures, and quasi-fiscal activities should be provided as part of the budget documents. Data already collected by the MOF, should be consolidated and made more comprehensive, used in budget decision-making, and presented in annexes to the budget.
- A comprehensive presentation of forecasting assumptions and fiscal risks (drawing from both macroeconomic analysis and a review of contingent liabilities) should be provided in the budget supporting documents. The budget should contain a listing of major fiscal targets. The methodology for forecasting should eventually be developed to incorporate sensitivity analysis and fully explained in the budget documents. New policies being introduced in the annual budget should be clearly identified.
- The increasing emphasis on efficiency and effectiveness in the delivery of government services by developing a program budgeting approach should continue. The program budgeting documents prepared by ministries need to be strengthened and more fully integrated into the budget process. The budget should contain a description of the accounting practices. As a matter of course, statements of accounting policies should be revised as accounting policies are improved.
- A mid-term budget review should be undertaken and a mid-year budget report should be presented to parliament within three months of the mid-year.
- In the context of the new treasury system, the government should develop a more comprehensive accounting framework. Currently, the accounting system does not allow for the capture and recording of information at the commitment stage. This is a major deficiency which prevents efficient expenditure control and thus complicates program design and monitoring. The introduction of a commitment accounting system should be considered in order to be able to generate timely information on payment arrears, which has been a recurring problem. Furthermore, the transactions of the State Privatization Fund and the Small and Medium Enterprises Support Fund as well as all other extrabudgetary funds should also be channeled through the treasury and fully integrated in the budget. Finally, fees or otherwise collect revenues that are charged by many budgetary organizations outside the budget process and the single treasury account should be fully processed through the treasury system.

- Regular reporting standards should be established covering original and revised budget estimates for revenue, expenditure, and financing. Major deviations from the projections, its nature and the factors underlying the outcomes should be highlighted.
- In the new economic program, the budget preparation, execution, and reporting will be strengthened by enhancing the role of the Budget department in the preparation, execution, and monitoring of the budget, developing a commitment control and arrears tracking system in the Treasury, and extending the coverage of the budget to most extrabudgetary funds.

31. **The coverage and presentation of fiscal information available to the public should be improved.** The public should be provided with full information on the past, current, and projected fiscal activities. Much of it could be done in the short term since a sizable amount of information is already available at the MOF, but not published.

- To build credibility, the government should commit itself to the regular publication of fiscal information. Such a commitment should be embodied in the law. The government should also prepare statements and establish a schedule of fiscal data publication. For example, notice could be given that a particular report will be released before the fifteenth of a specified month.
- The MOF should initially make a quarterly fiscal bulletin available to the public showing the status of the budget relative to the original estimates. Eventually, a monthly budget report should be published with a lag of one month. Similar processes should be promoted at local governments and the Social Fund, the State Privatization Fund and the Small and Medium Enterprises Support Fund.²⁵
- The government should consider issuing the main elements of the approved budget, the annexes and the explanatory note as a printed document, facilitating its wider dissemination.
- The reporting of the government's involvement in the economy should be strengthened. The government should more regularly and systematically publish reports on its equity holdings and preferably go further by including a statement of objectives for its various holdings. Other monetary assets, such as loans, should also be reported and could be broken down by recipient.²⁶
- Government external and domestic debt should be published more regularly and comprehensively. The composition of debt should be specified.

²⁵ The MOF is considering to establish a MOF web site. This web site should be used for this purpose.

²⁶ Including loans to enterprises, student loans, housing loans.

- The medium-term macroeconomic and fiscal framework that underlie the budget preparations and that are maintained by the MOF need to be strengthened considerably and should be documented in more detail.
- Easy access to legal databases, special business information and key fiscal information should continue to be facilitated.²⁷
- The proposed new program emphasizes the improvement in the coverage and presentation of fiscal information available to the public. In this area, measures include: (i) including in the budget documents the underlying macroeconomic framework and data on public debt and tax and expenditure arrears; (ii) publishing a quarterly fiscal bulletin reporting on budget execution including PIP, tax and expenditure arrears, use of privatization proceeds, and the budget execution of the Social Fund; (iii) reporting the new borrowing of state owned enterprises, and (iv) publishing the Chamber of Accounts' audits of state finances.

32. Fiscal data should better meet accepted data quality standards and independent scrutiny of fiscal data needs to be improved. It is essential for fiscal transparency that fiscal data reported by government meet basic criteria that attest to their quality, and that there are mechanisms in place which provide assurance to the public about data integrity.

- The structure of the internal and external fiscal audit framework was changed recently and the adequacy of the new structure should be reviewed after some time of operation. The adequacy of funding for internal and external audit should also be subject to periodic independent review.
- External scrutiny of fiscal and macroeconomic forecasts should be encouraged. Eventually, institutional mechanisms should be established to provide the public with independent assurance that macroeconomic and fiscal forecasts are of high quality.
- Continued efforts should be made to build up technical capacity in the area of statistics.

²⁷ The booklet "Kyrgyzstan 2001: Investment in the New Millennium," published by the State Committee of the Kyrgyz Republic on Foreign Investments and Economic Development in December 2000, is a step in the right direction.