

**MANAGING COVID FUNDS
COUNTRY BRIEF**

**KYRGYZ
REPUBLIC**

INTRODUCTION

How COVID-19 impacted the economy

The Kyrgyz Republic's economy has sustained a number of knocks as a result of the COVID-19 pandemic. Following the government's declaration of a state of emergency, a lockdown came into force on 24 March 2020 in some cities and regions. The lockdown included strict quarantine measures for visitors, border restrictions, and [border closures with China](#). Given the extent of Kyrgyz's trade volume with China, the border restrictions impacted government revenue significantly. As a result of border closures and restrictions on economic activities, there was a decline in remittances from Kyrgyz migrant workers in Russia. In addition, a drop in oil prices in the second quarter of 2020 affected the value of the Russian ruble and, consequently, the Kyrgyz som. The global nature of the pandemic negatively impacted the tourism and services sectors, in particular, resulting in a widening of budget deficit in the near term. [A report](#) published by the UNDP and Asian Development Bank (ADB) in August 2020 suggested that Kyrgyz's economy could contract by as much as 10% and push unemployment to 21%.

Many international agencies have provided loans, grants, or humanitarian aid to Kyrgyz, including the [World Bank](#), IMF, ADB, and United Nations.

2021 health budget

The COVID-19 pandemic disrupted the regular budget process, with the executive taking longer to publish the executive budget proposal for 2021.

According to Article 91 of the Budget Code, draft laws on the national budget and that of the Mandatory Health Insurance Fund (MHIF) should be published not later than 15 September of the year preceding the next budget year. Yet neither the Ministry of Finance nor the MHIF published the draft laws on their official websites on time. An online government budget hearing held on 24 September 2020 was also undermined by the delay.

After repeated requests from the civil society organization (CSO) Coalition for Budget Advocacy, the Ministry of Finance finally published some of the information in September. Only in October was Annex 11 (Program-based Budgets of Ministries and Agencies) of the 2021 budget proposal published, despite being crucial to understanding the expected health budget expenditures for 2021.

Even amid the health crisis, CSOs discovered that the health system may face underfunding by more than KGS800 million in 2021. The government also failed to include the COVID-19 relief funds in the national budget. At the parliamentary hearings, it became evident that the degree of underfunding would reach KGS1 billion. The government provided funds to combat COVID-19 only through international assistance in form of a grant (KGS266.1 million) and a loan (KGS470.9 million).

RESPONDING TO COVID-19

Following the government budget hearings on 24 September 2020, Kyrgyz held parliamentary elections on 4 October 2020. These were followed by [protests](#) claiming election irregularities. Kyrgyz remained in a parliamentary crisis until January 2021, when the Central Election Commission declared that Sadyr Japarov had won by a landslide. The new president promised to root out corruption and revive the economy.

Managing fiscal policy responses: IBP's Open Budget Survey on COVID-19

Across the world, the pandemic challenged governments' capacity to manage resources effectively and equitably. Fiscal responses look different across countries, but everywhere they represent a significant departure from normal fiscal policy processes.

As such, civil society partners across 120 countries, including "Partner group Precedent" in Kyrgyz Republic, worked with the International Budget Partnership (IBP) to take a closer look at how governments managed their initial COVID-19 fiscal policy responses. Our goal was not just to assess how governments fared, but to generate lessons on how they can respond better, both to the ongoing COVID-19 crisis and to future ones. This rapid assessment of "emergency fiscal policy packages"—sets of policy initiatives aimed at addressing the impact of the COVID-19 emergency—focused on three critical pillars of accountability - public access to relevant information, adequate oversight arrangements and opportunities for citizen engagement. Each pillar is essential to ensuring resources are used effectively, that peoples' basic needs and priorities are adequately addressed and that governments can be held accountable for their choices.

The Kyrgyz government response

In May 2020, the government endorsed the Response and Recovery Plan – a fiscal stimulus package of 21 measures.

- Since 1993, Kyrgyz Republic has put in place a floating regime of the KGS exchange rate. The National Bank intervenes only to smooth sharp fluctuations in the exchange rate on the purchase and sale of foreign currency. Following the COVID crisis, there was a considerable decline in the currency valuation. In 2020, the National Bank of the Kyrgyz Republic conducted 29 interventions and [sold a total of \\$465.9 million](#) to stabilize the dollar exchange rate.
- An [Anti-Crisis Plan](#) was released for \$170 million to subsidize Kyrgyz enterprises, particularly export-oriented enterprises. It includes measures for preferential loans for business entities, extension of loan/credit agreements, exemption of rent payment on state property for the duration of the emergency, and temporary price controls on essential food items.
- A supplementary budget was approved containing information on the repurposing of expenditures, revised estimated expenditures and revenues, funds allocated to the health system, and financial aid received from international donors to support the national budget. Foreign aid inflows and the repositioning of budget expenditures provided \$150 million–\$230 million in additional general government budget resources for spending on anti-crisis measures.
- On the vaccine front, Kyrgyz Republic [received several supplies](#) from Russia, China, and Azerbaijan. Some of them came as humanitarian aid and others were purchased by the state.

KEY FINDINGS

Country findings

Kyrgyz Republic has shown significant improvement in budget transparency over the years. Therefore, it is not surprising that in the IBP COVID-19 module findings Kyrgyz Republic scored “some” on transparency for information made available to citizens in the introduction of the emergency fiscal policy packages. Three key findings include:

- While the government provided adequate information on the proposed Emergency Fiscal package, the information on its implementation is minimal. The Emergency Fiscal package assessed was a combination of the supplementary budget and the anti-crisis plan. Together, they provide information on reallocations, expenditures allocated to health activities, and financing from domestic and external sources.

However, the reporting fell short of providing disaggregated information on the execution of COVID-related expenditures. The government had opened a current account to [collect and aid](#) in the fight against the coronavirus. The Ministry of Finance releases regular quarterly and monthly reports and could have integrated COVID-related expenditures in them.

Related to execution data, there is scope for strengthening reporting on Kyrgyz’s program-based budget in the monthly as well as year-end report.

- Kyrgyz’s “[Law on Public Procurement](#)” has requirements and procedures during emergencies. In April 2020, the Department of Public Procurement enforced and explained to procuring organizations the procedures for contracting under emergency. However, the procurement website does not distinguish between COVID-related contracts and others.

The country committed to an ex-post audit of all emergency-related procurements by the Audit Chamber. It also committed to ex-post validation of delivery and name of awarded companies and their owners. Subsequently, the authorities amended a law to strengthen publication requirements starting in January 2021. The [IMF notes in its report](#) that “an organization performing procurement because of contract implementation within three business days should now post information on the performance status of the procurement contract on the public procurement web portal. So far, however, the technical arrangements for the relevant module at the web portal of public procurement have not been put into place owing to a lack of technical and financial resources.”

- Kyrgyz has public engagement embedded as a requirement in its Budget Code. In a budget cycle, agencies do open up for public inputs before the budget is tabled in parliament. In the preparation of fiscal measures, neither the legislative nor the executive body conducted discussions or public hearings with citizens on the fiscal policy. The legislative body approved the measures without any public hearings or opinions, and adopted documents for implementation prior to posting them on its website.

Based on our findings, we believe it is imperative to take immediate action on a set of measures to address the accountability shortcomings of COVID-19 fiscal and policy responses, both during the crisis and beyond.

Considering this, we call on the government to work with civil society to take the following steps:

RECOMMENDATIONS

Recommendation 1: Act now to strengthen accountability in ongoing responses to the COVID-19 crisis.

- Publish monthly progress reports on the implementation of the measures contained in the anti-crisis plan and as tabled in the national budget.
- Include program information in all formulation and execution documents, including the supplementary budget.
- Regularly update implementation information on the 2021 health budget through web portals, including data and analysis on budget execution and performance.
- Improve the portal of public procurement by developing an additional page where the procuring organization will publish information on COVID-related procurements within three days.
- Find ways to connect the new [Constitution](#) (enacted 5 May 2021) to values of transparency, accountability, and participation.

Recommendation 2: Revise current budget legislation to strengthen transparency, citizen engagement, and oversight functions for emergency measures.

- Strengthen provisions for the implementation of specific emergency-related spending.
- Strengthen provisions around required responses from government on findings from the Auditor General
- Develop and put in place adequate mechanisms for citizen participation in the formulation, approval, and execution of additional emergency fiscal policy packages.