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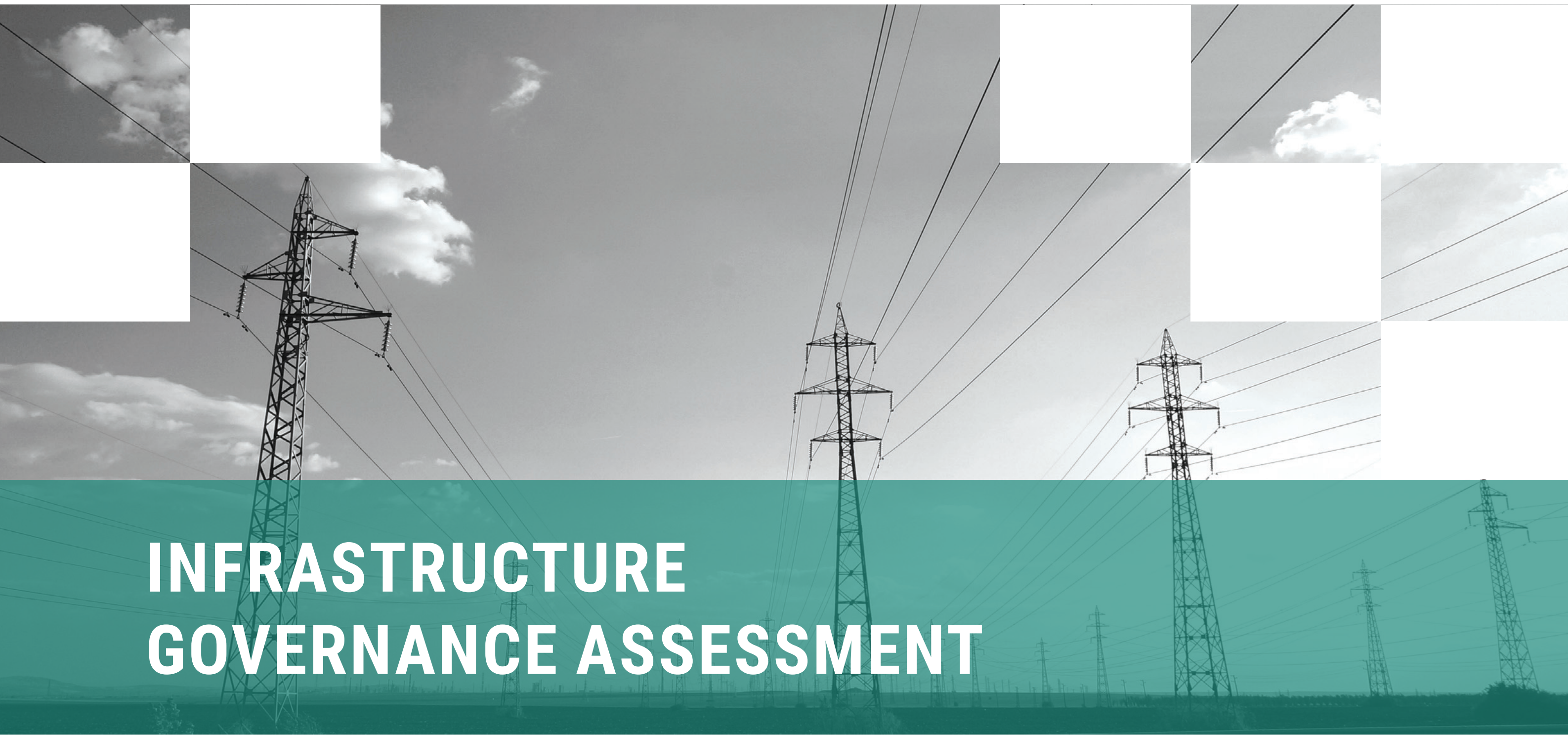

INFRASTRUCTURE GOVERNANCE ASSESSMENT

KYRGYZ REPUBLIC

Context

The Kyrgyz Republic's infrastructure needs are substantial, requiring efforts to secure diverse funding sources. Despite a reduction in overall poverty, many face low living standards due to inadequate service delivery.

The economy faces significant infrastructure gaps, especially in transport and energy. The country ranks poorly in global infrastructure indices, with road and rail networks lagging. Frequent breakdowns disrupt power and heating supplies, impacting businesses. Basic services like water, sewage, heating, roads, and electricity are scarce and often of inferior quality. Piped water supply outside the capital is unreliable, and access to district heating is sometimes limited.

However, meeting these infrastructure needs is challenging due to limited fiscal space. To address this, private investment must be encouraged, particularly in sectors like energy. Private sector investments can help bridge the gap, but governance issues are a major concern for investors. Nearly 70% of firms cite governance-related challenges, including political instability, informality, and corruption, as their biggest constraints to accessing the Kyrgyz market.

The current Public Investment Program (PIP) covers only 3-5% of GDP each year; hence, there is a significant gap in infrastructure financing. To meet the country's growing spending needs on infrastructure, without undermining debt sustainability, further efforts are needed to strengthen all streams of funding/financing.

Assessment Framework

In this context, the World Bank recently carried out an Infrastructure Governance (InfraGov) assessment in the Kyrgyz Republic, to identify governance bottlenecks and recommend steps to unlock sector potential. The assessment spans the project lifecycle, cross-cutting principles, and service delivery. Key dimensions include planning, efficiency, fiscal sustainability, and procurement, with climate change resilience and transparency principles. The sectoral focus in Kyrgyz Republic is energy and digital. The assessment highlights key governance challenges and offers practicable and actionable recommendations.

Summary of key challenges and recommendations

A solid legal framework and the institutional capacity to **plan, assess, prioritize, and select infrastructure projects** is crucial in ensuring a coordinated infrastructure investment program

CHALLENGES

- Project prioritization is not standardized, resulting in little connection between high-level strategic plans, and the execution of individual infrastructure projects.
- The separate review and approval processes for domestically funded public investment and externally funded/financed public investment has led to fragmentation and can result in project overlap, duplication, and additional fiscal burden on the state budget. The same is true for the Public Private Partnerships (PPPs) approval process.
- Potential duplication and overlaps can also arise with projects financed from Foreign Direct Investment (FDI), as they go through a more streamlined approval process, are not reviewed by Ministry of Economy and Commerce (MoEC), and do not require approval from the Council on Fiscal and Investment Policy.
- Government support is needed to attract more private participation in infrastructure as a viable option to address the financing gap.

RECOMMENDATIONS

- Designate or create a centralized, independent infrastructure agency that brings coherence to the multiple sector strategies, takes responsibility for priority setting and project pipeline development, and leads on developing infrastructure capacity within line ministries.
- Ensure greater and coordinated oversight of public infrastructure projects from all funding/financing sources (FDI, PPPs, state budget, donor funded/financed) through greater strategic planning and coordination to promote public infrastructure reflecting prioritized national needs and to avoid duplication.
- The PPP Center and the National Investment Agency (NIA) should adopt appropriate credit enhancement mechanisms and leverage available resources to facilitate access to sovereign-backed guarantees for high-priority projects in strategic sectors, such as energy.

Economic efficiency and 'value for money' over the infrastructure lifecycle should be important criteria in the choice of infrastructure investments

CHALLENGES

- Lifecycle costs are rarely considered and accounted for during the development stage of a project, affecting the sustainability of investments.
- The quality and integrity of PPP project preparation require strengthening, to ensure that PPP projects represent value for money.

RECOMMENDATIONS

- Require by legislation that all public investment projects include forecasts on the lifecycle/total cost of ownership of the asset.
- Develop a strategy that outlines the clear direction of the government's ambitions and priorities for using PPPs to clearly express government commitment to this mechanism.
- Require the use of feasibility studies for high-risk/significant projects, that incorporate lifecycle costs.

Fiscal affordability and fiscal sustainability of infrastructure projects should be assessed and managed throughout their lifecycle

CHALLENGES

- While a medium term expenditure framework is in place, the lack of alignment with investment planning and prioritization limits fiscal sustainability.
- The fiscal system in the Kyrgyz Republic is highly exposed to risk.
- There are gaps in the implementation of PPP affordability and exposure assessments and their use in the decision-making before contracts are signed.

RECOMMENDATIONS

- The Ministry of Finance (MoF) and MoEC should closely coordinate with line ministries to align the national and sectoral level strategic documents, strategic plans prepared by line ministries, and medium-term budgets.
- Capacities of line ministries need to be strengthened to plan beyond one budget cycle for both recurrent and capital costs.
- Embrace a more transparent fiscal-risk management by expanding the reporting scope. Expansion should include risk sharing between the public and private sectors, the fiscal commitments and contingent liabilities created by each project, including their terms and conditions, and the estimated contingent liabilities.
- MoF should strengthen its gatekeeper role in approving and managing the fiscal risks.

Incorporating **environmental and climate-change considerations** is important to ensure sustainable and resilient public infrastructure

CHALLENGES

- While environmental impact assessments are undertaken for public infrastructure projects, there is limited monitoring during project implementation.
- Climate-change targets are not sufficiently integrated into sector strategies.
- The introduction of climate-change considerations in budget preparation and execution processes is still in the development stage.

RECOMMENDATIONS

- Individual line ministries and the Ministry of Natural Resources, Ecology, and Technical Supervision should share responsibilities for monitoring environmental impact throughout the execution of a public infrastructure project, to increase accountability.
- Incorporate climate-change reduction targets into specific sector strategies.
- Incorporate climate change into project appraisal and budget planning and execution processes, to ensure that future public investments in infrastructure are climate resilient.

Strengthening **budget accountability and procurement transparency** can promote better infrastructure strategies and projects

CHALLENGES

- Gaps remain in information sharing, especially for effective participation during budget implementation.
- The recent public procurement reform was motivated by the need to streamline the procurement process, but it can pose additional risks to value for money and integrity.
- Certain limitations in the disclosure of information and data on projects, and on service delivery, undermine accountability and can potentially hamper value for money and performance.

RECOMMENDATIONS

- Immediately address the lack of transparency around State Owned Enterprise (SOE) procurement resulting from the recent procurement law, including the development and mandatory use by SOEs of an online platform for public procurement.
- Accelerate efforts to increase citizen participation and monitoring of budget implementation by expanding the disclosure of public financial information.

The **governance of State Owned Enterprises (SOEs)** should be transparent and efficient, with strong corporate governance mechanisms in place

CHALLENGES

- Dispersed financial monitoring systems render it difficult to track the net impact of SOEs on the state budget.
- The SOE corporate governance reforms are at risk, particularly due to changes to the Public Procurement Law.
- Despite the lack of clarity on SOE procurement, the government is now working on implementing an online platform for SOEs to conduct public procurement.
- Other corporate governance reforms continue, albeit at a modest pace.

RECOMMENDATIONS

- Improve oversight of the entire SOE portfolio, by introducing more aggregate reporting and creating a central coordination function.
- Publicly disclose financial relationships between the government and SOEs, including transfers of funds, SOEs' retained earnings, reinvestment, loan guarantees, and third-party financing.
- Ensure that audited financial statements of SOEs are publicly available, including the auditor's opinions and the detailed financial notes.
- Improve SOE procurement rules as a priority, ensuring SOEs are subject to the same competitive principles as those within the overarching public procurement law.

Good governance and strong competition in the **energy and digital** sectors can support the delivery of high-quality infrastructure services

CHALLENGES

- The energy sector consistently reports poor reliability and high losses, reflecting insufficient investments and underspending on maintenance and rehabilitation of ageing infrastructure.
- While governance of the energy market has been the subject of several reforms, clarity of the roles and responsibilities of sector institutions is needed.
- Worsening sector financials are significantly affected by low tariffs, which the government has been trying to address for several years.
- The enabling digital environment requires further strengthening of national laws and regulations.
- The Communications Service under the Ministry of Digital Development (MoDD) has considerable influence over the regulation and licensing of the mobile market.
- The regulatory environment for procuring Information and Communication Technologies (ICT) solutions involves a degree of uncertainty because of the lack of technical understanding and constantly changing expectations.

RECOMMENDATIONS

- Continue with the tariff reform program, evaluate existing government subsidies for electricity tariffs to address the current system's shortcomings, and create a more efficient distribution of resources.
- Enhance the financial sustainability of the power generation sector by crowding in private investment.
- Restore the energy regulator's independent functions.
- Develop and implement a comprehensive, long-term strategy to diversify the nation's power mix.
- Establish a board of directors for the National Energy Holding Company.
- Reduce excessive state interference in the regulation of mobile and broadband segments of the ICT market and consult more with businesses on optimal coverage maps.
- Simplify and expedite the development of broadband infrastructure by adopting a policy on infrastructure sharing and co-deployment.

For more information, please visit

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