

KYRGYZSTAN

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: LOWER MIDDLE INCOME

LOCAL CURRENCY: SOM (KGS)

POPULATION AND GEOGRAPHY

Area: 199 950 km²
Population: 6.198 million inhabitants (2017), an increase of 1.6% per year (2010-2015)
Density: 31 inhabitants / km²
Urban population: 36.1% of national population
Urban population growth: 2.5% (2017)
Capital city: Bishkek (16% of national population)

ECONOMIC DATA

GDP: 23.2 million (current PPP international dollars), i.e. 3 725 dollars per inhabitant (2017)
Real GDP growth: 4.6% (2017 vs 2016)
Unemployment rate: 6.9% (2017)
Foreign direct investment, net inflows (FDI): -107.2 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 29.9% of GDP (2017)
HDI: 0.672 (medium), rank 122 (2017)
Poverty rate: 1.5% (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Kyrgyzstan is a unitary country. Following the adoption of the 2010 Constitution, Kyrgyzstan's form of government was changed from presidential to parliamentary. Since 2007, the Supreme Council is the country's unicameral parliament. Following the 2010 constitutional referendum, the number of seats was increased to 120 and a limit was established that parties could not hold more than 65 seats in order to prevent power concentration. Membership of the Parliament is not regulated by regional or local representation criteria. Also as a result of the 2010 referendum, the President, who is directly elected, may only stay in office for one six-year term.

The Kyrgyz Republic was one of the first former Soviet countries to set forth a decentralization initiative. The Constitution recognizes local self-governance and the principle of its autonomy (Section VIII). Local self-governance is regulated by the 1991 Local Self-Governance Act that gave local councils (*keneshes*) the authority to oversee local executive bodies. In 1992, the 1991 Act was revised as the Local Self-Government and Local State Administration Act, which further reinforced *keneshes*' autonomy. In 1994, the system of local self-governments was introduced in the capital city of Bishkek. In 1996, the government adopted a decree establishing local governments (*aiyl okmotus*), and in 1999 a decree gave the local self-governments authority to hold budget hearings.

In 2002, the government adopted the National Strategy on Decentralization (2002–2010) and the parliament adopted a law allowing transfer of control over state property to local self-governments. In 2001, all localities adopted the principles of local self-government. The 1992 Local Self-Government and Local State Administration Act was modified in 2008 and 2011 to outline the operational and legal foundations of local self-governance, as well as the principles of interaction with the national level. The National Strategy for Administrative and Territorial Reform, adopted in 2012, initiated a process of systemic decentralization. To strengthen local self-government bodies and provide additional powers and resources to them, the central government plans to enlarge local self-government bodies through mergers. To date, no action has been undertaken in this regard and, following the 2012 reform, districts representative bodies were abolished.

In 2017 the Government highlighted the importance of regional development in the program "40 Steps to a New Era" stressing that citizens of the regions will receive an equal level of access to guaranteed social services, primarily in education and healthcare. In late 2018 the Program of development of local self-government for 2018-2023 was adopted. It includes inter alia the steps towards clear allocation of functions between levels of government and transparent fiscal equalization.

TERRITORIAL ORGANISATION

2016	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	453 rural communities (<i>aiyl okmotus</i>) and 17 "cities of district (<i>raion</i>) significance"	"cities of regional significance"	2 "cities of national importance" (Bishkek and Osh)	
	Average municipal size: 13 188 inhabitants			
	470	12	2	484

OVERALL DESCRIPTION. The parliamentary republic of Kyrgyzstan has three tiers of subnational government. In the current system of public administration of Kyrgyzstan, elected local governments exist at the municipal level in 453 rural communities and 17 cities of district (*raion*) significance; at the intermediate level in 12 cities of regional significance; and at the regional level in 2 cities of national significance, namely Kyrgyzstan's two largest cities: Bishkek (995 700 inhabitants) and Osh (281 200 inhabitants). At the sub-national level, there are two layers of deconcentrated national government units, namely districts (*raions*) and regions (*oblasttar*). The first direct elections of local self-government bodies were held in 2001. All self-government bodies have elected representative councils, while Chief executives are appointed by the Prime Minister in districts and regions. Local government elections take place every four years.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. Local governments have an executive and a legislative body, respectively, the *ayil okmotu* and *ayil kenesh*. The elected members of the local council (*kenesh*) appoint the chief executives (upon proposal by the Prime Minister) of local self-government

bodies in the 17 cities of district significance. Local budgets are subject to the approval of local *keneshes*. Mayors of rural communities are elected by the legislative body on a proposal by the chief executive (*akim*) of their respective districts. The law on Local Self-Governance promotes inter-municipal cooperation, but to date there is no specific regulation for such arrangements. In practice cases of inter-municipal cooperation were not found either.

INTERMEDIARY LEVEL. The intermediary level of government in Kyrgyzstan is comprised of 40 districts (*raions*), administered by government-appointed officials, and 12 cities of regional significance with self-governing, elected bodies.

REGIONS. The regional level in Kyrgyzstan comprises 7 regions (*oblastar*) and the 2 cities of national significance (Bishkek and Osh). The 7 regions are managed by a governor appointed by the national government, while Bishkek and Osh both have self-governing, elected bodies.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

Local self-governments' competences are established by the 2011 Local Self-Government and Local State Administration Act and are the same for all kinds of local self-government bodies. They include own responsibilities and responsibilities which can be delegated to local governments by the central government, either by law or bilateral agreements. The law provides a list of 25 own responsibilities, the major ones concerning the provision of drinking water, libraries, local roads, parks and green areas, street cleaning and lights, recreation and sports, and cemeteries. Delegated responsibilities include marriage regulation, birth and death registration, as well as provision and maintenance of educational and healthcare facilities. The 2011 Act does not clearly distribute functions and tasks among tiers of government, and some functions can be overlapping across levels of governance. The two deconcentrated layers of government, namely the 7 *oblastar* and 40 *raions* do not have budgeting rights and functional responsibilities. They carry out only supervisory functions assigned to them by the national government.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONAL LEVEL	INTERMEDIATE LEVEL	MUNICIPAL LEVEL
1. General public services	Idem	Idem	Own: Administrative services; Local budget; Public buildings and facilities Delegated: Marriage; Birth; Notary; Particular taxes collection
2. Public order and safety	Idem	Idem	Own: Assistance to police forces; Domestic violence response
3. Economic affairs/transport	Idem	Idem	Own: Economic development; Local roads; Parking spaces; Urban transport; Student transport; Local tourism; Delegated: Veterinary and agriculture control
4. Environmental protection	Idem	Idem	Own: Parks and green areas; Street cleaning; Delegated: Environment protection
5. Housing and community amenities	Idem	Idem	Own: Distribution of drinking water; Water treatment and sewage facilities; Waste management; Cemeteries; Public lighting; Urban and land-use planning; Delegated: Heating provision
6. Health	Idem	Idem	Delegated: Facilities for hospitals and ambulances (management and maintenance)
7. Recreation, culture & religion	Idem	Idem	Own: Local libraries; Cultural events; Folk arts; Recreation areas; Local sports
8. Education	Idem	Idem	Delegated: Facilities for kindergartens and school buildings (management and maintenance)
9. Social protection	Idem	Idem	Own: Social care for children and youth; Support services for families Delegated: Support to low income families

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: cities under republican jurisdiction (Bishkek and Osh), districts (*raions*) under City of Bishkek, cities under regional (*oblast*) jurisdiction, cities under district (*raion*) jurisdiction and rural communities (*aiyl okmotu*).

Other:
IMF GFS

Availability of fiscal data:
High

Quality/reliability of fiscal data :
High

GENERAL INTRODUCTION. The 2003 Financial and Economic Principles of Local Self-Governance Act strengthened financial autonomy of local self-governments. Since 2014, Public Finance in Kyrgyzstan has been highly concentrated at the central government level, as regional and district budgets have been eliminated and integrated within the central government budget. In January 2017, the Budget Code and the Budgetary System replaced the Major Principles of Budget Rules in the regulation of intergovernmental fiscal relations and budgets at the national and local levels.

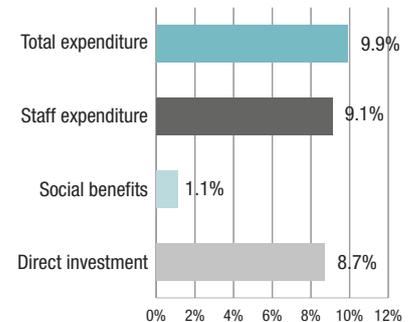
National legislation does not allow the central government to interfere in the budget decisions of local governments, although, de facto, local governments' revenues and expenditures depend significantly on the central government's general fiscal policy. According to law, the delegated responsibilities are to be followed by earmarked grants, yet they often do not cover necessary costs and local governments struggle to implement unfunded mandates. This results in underfunding of own responsibilities.

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SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
Total expenditure	131	3.7%	100%	
Incl. current expenditure	108	3.0%	82.0%	
Staff expenditure	40	1.1%	30.4%	
Intermediate consumption	45	1.3%	34.1%	
Social expenditure	4	0.1%	2.8%	
Subsidies and current transfers	19	0.5%	14.2%	
Financial charges	0	0.0%	0.2%	
Others	1	0.0%	0.4%	
Incl. capital expenditure	24	0.7%	18.0%	
Capital transfers		0.0%	0.0%	
Direct investment (or GFCF)	24	0.7%	18.0%	

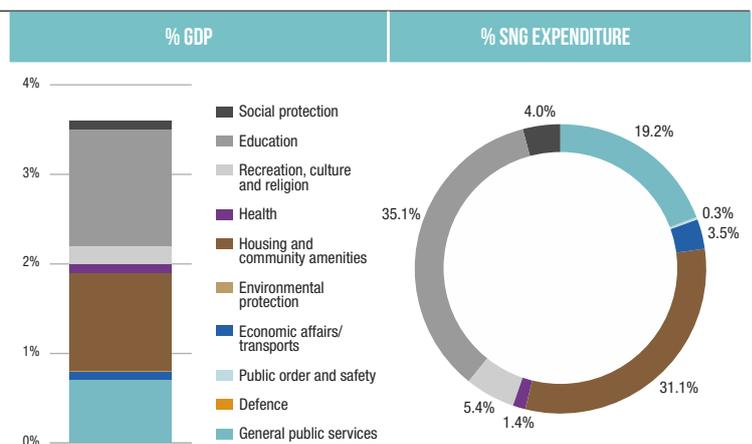


EXPENDITURE. After 2014, subnational expenditure levels fell due to the fact that districts and regions were deprived of budgetary rights and their spending started to be counted as national expenditures. As of FY 2016, SNG expenditure in Kyrgyzstan represented 9.9% of total public expenditure and 3.7% of GDP. 82% of total expenditure incurred at the subnational level is devoted to current expenditures, mainly for the provision of services and staff expenditures. The share of staff expenditures, which constitutes 30.4% of total subnational expenditure, is rather low compared to other Eurasian countries: staff expenditures account for more than 70% of subnational expenditures in Uzbekistan and about 60% in Tajikistan.

DIRECT INVESTMENT. The share of Local government investments corresponds to 8.7% of general government investments and 0.7% of GDP. At the subnational level, capital expenditures represent 18% of total expenditures, which is a quite significant figure compared to other Eurasian countries (only Kazakhstan and Tajikistan report higher figures). Local governments invest mostly in reconstruction and renovation of local social and common infrastructure. They also invest directly in the construction of school buildings and water-treatment facilities (their delegated functions).

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Education is currently the largest expenditure line by economic function at 35% of subnational government spending. This is a delegated responsibility which includes only maintenance of kindergartens' and schools' premises. The second largest item of expenditure is housing and community amenities (at 31%). Local governments cover about 1/3 of costs on housing and community services, thus subsidizing 1/3 of tariffs for citizens. The third-largest item of expenditure includes general public services (at 19%). Each of the three categories account for approximately 17% of total public spending in the same category. Culture (at 5.4% of total subnational government spending) and social protection (at 4%) spending per capita is very low: respectively 7 and 5 dollars PPP per capita in 2016. Other expenditure items, such as environmental protection, have a negligible impact on subnational budgets.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
Total revenue	132	3.7%	11.1%	
Tax revenue	91	2.6%	13.1%	69.4%
Grants and subsidies	21	0.6%		15.8%
Tariffs and fees	10	0.3%		7.9%
Property income	8	0.2%		6.4%
Other revenues	1	0.0%		0.6%

OVERALL DESCRIPTION. Local finance bodies are nominally independent but rather reliant on central government grants. Tax revenue is the most important source of income for local governments; corresponding to 13.1% of public tax revenue and 2.6% of GDP in FY 2016, and accounting for 69.4% of SNG total revenue. Tariffs, fees and property income play less important roles, accounting for only for 7.9% and 6.4% of total SNG revenues respectively while grants and subsidies accounted for 15.8%.

TAX REVENUE. Local taxes are established by the National Tax Code. Local taxes include land taxes and property taxes. The share of the property tax in particular is quite significant, making up 14.2% of total revenues and 20.5% of tax revenues. Shared taxes, regulated by the 2017 Budget Code, constitute a key source of local revenue. Particular shares of PIT, CIT and the sales tax assigned to each local government are defined by the central government in its yearly budget law. The PIT appeared to be the largest tax resource of local governments in FY 2016. It constituted 35.1% of tax revenues and 24.3% of total revenues, followed by the shares of sales tax, which comprises 24.7% of tax revenues and 17.1% of total revenues. The third category of sharing taxes is the CIT. Its share in tax revenues constitutes 19.8% and 13.8% in total revenues.

Local governments cannot introduce new taxes, but they can provide tax exemptions, such as exemption from property tax for up to 3 years in cases where the taxpayer has suffered material losses due to “force majeure”, and exemption from property tax for a period of up to 5 years for newly created organizations in case they guarantee the turnover of more than 30 million soms (i.e. \$0.2 PPP per inhabitant) per year. LGs also can grant full or partial exemption from land tax on agricultural land for a period of up to 3 years in cases where the land user suffered material losses due to “force majeure”. All taxes for local governments are being collected by the National Tax Service.

GRANTS AND SUBSIDIES. According to the legislation, local governments are eligible for two kinds of grants: equalization and targeted grants. Targeted grants in turn can be provided as categorical grants and matching grants. There are also intergovernmental transfers called “mutual settlements” which are in fact the transfers in both directions to off-set or balance earlier transfers.

Equalization grants are aimed at balancing local expenditures and revenues. Since 2011, they are calculated based on the per-capita budget capacity of local governments. In case a local government’s per capita fiscal resources exceed twice the average for all local governments, this local government has to transfer the difference to the central government.

Targeted transfers are aimed at funding the functions delegated from the central to the different levels of local governments; co-financing specific local responsibilities; and compensating additional spending mandates received from the central government. However, it seems like these grants are not being de facto provided, since they do not appear in central government budget allocations nor in budgetary reporting. Another kind of targeted transfers are so-called “stimulating grants”, for which local governments apply on a competition basis to receive additional funds. These grants are used mainly for renovation of social infrastructure.

The Development Programme of the Kyrgyz Republic for the period 2018-2022 states that central government funds are to be diverted from fiscal equalization budget to specific development investment budgets in those regions which have a competitive advantage (i.e., drivers of growth).

OTHER REVENUES. Local non-tax revenues amount to 15% of subnational government revenue. It includes tariffs and fees (at 10 dollars PPP per capita) property income (8 dollars PPP per capita) and other revenue. Put together, they represent 0.5% of the GDP. Tariffs and fees include a list of land-use license fees, waste management fees, pasture lease fees, revenues from paid services, revenues from lotteries, parking fees, hunting fees, fines and penalties. Local governments property income includes profits from locally-owned enterprises and local property lease.

■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	290	0.0%	0.6%	100%
Financial debt*	163	0.0%	0.4%	56.0%

* Currency and deposits, loans and bonds

FISCAL RULES. According to the Budget Code, local governments are subject to a balanced-budget rule and current expenditures cannot exceed revenues of the same fiscal year.

DEBT. Local governments are permitted to issue local securities and borrow from the central government for investment purposes. They are not allowed to issue guarantees on loans of third parties. Local government are allowed to borrow only in case debt repayment and debt service obligations do not exceed 20% of local annual revenues (excluding grants). All borrowing decisions must be approved by the local representative body (*kenesh*).