

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: 89918

Project Name	Scaling-up the Peer-to-Peer Learning in Public Finance at the Local Self-Government level in the Kyrgyz Republic
Region	EUROPE AND CENTRAL ASIA
Country	KYRGYZ REPUBLIC
Sector	PREM (100%)
Project ID	P148471
Lending Instrument	GRANT
Borrower(s)	GOVERNMENT OF THE KYRGYZ REPUBLIC
Implementing Agency	State Agency for Local Self-Government and Interethnic Relations under the Government of the Kyrgyz Republic 96B, Kievskaya Str., Bishkek, 720040, Kyrgyz Republic Tel: 996 312 66-46-56 Fax: 996 312 62-25-43 E-mail: gos_7777@mail.ru
Environmental Screening Category	[C]
Date PID Prepared	July 31, 2014
Estimated Date of Appraisal	July 30, 2014
Estimated Date of Approval	September 1, 2014
Decision	Combined appraisal/negotiations completed, proceed with approval

I. COUNTRY AND SECTOR BACKGROUND

A. Country Context

Kyrgyzstan is a landlocked country with a population of 5.5 million and a gross national income of US\$880 per capita (Atlas method, 2011). While Kyrgyz economy and society are considered to be the most liberal and open in Central Asia, the country has experienced significant political and social instability. In April 2005, after nearly 15 years in power, the country's first President was forcibly removed from office following his disputed re-election; in April 2010, his successor was overthrown following widespread public demonstrations against corruption, nepotism, and the misuse of public assets.

Political instability and weak governance remain major challenges. Following assertive attempts to improve the business climate – Kyrgyzstan is now ranked 70 out of 185 countries in the World Bank (WB) Doing Business 2013, the country still in the bottom third of all countries on most internationally recognized governance and transparency indicators. Education, health and social protection indicators and outcomes are stagnating or even deteriorating in some cases.

Against this background, issues of budget efficiency, transparency and accessibility, especially at the local level at which most citizens can observe readily and understand at first hand the impact, have considerable importance.

B. Sectoral and Institutional Context

Transparency efforts of the Kyrgyz Government were mainly driven by assistance from development institutions. Accessibility of the budget information is regulated by the Law “On access to information, maintained by state organizations and local self-government (LSG) bodies of the Kyrgyz Republic” adopted in December 2006. The reforms in the area of public finance management and budget transparency are led by the Ministry of Finance, which prepares an annual budget. The annual budget law sets rates of the tax allocations between the republican and LSG’s budgets, and stipulates the amount of equalization grant that would be transferred from the republican budget to the LSG’s budgets. Once the republican budget is approved by the Parliament, the Local Councils could approve LSG’s budgets.

The main revenue source of the LSGs is local taxes and tax allocations from the national taxes, and equalization grants from the national government. The country is divided into 31 cities and towns and 453 LSG – Ayil Aimaks (AA) which vary significantly in size, capacity and ability to raise funds for providing services to residents. Only a few LSG are self-sufficient, the rest of the LSG are receiving equalization grants from the national government that assist them in providing the public services in their respective territories.

These LSGs are managing about a quarter (22.7% in 2012) of the consolidated budget¹, which incorporates the republican budget and budget of the LSGs, and charged with delivery of a large number of public services to the local population. According to the Law on the Local Self-Governments these units are responsible for overall development of the territory, which includes economic development and attracting investment and grants; management of municipal property; management of the local budget; drinking water supply; management of sewage systems and water treatment facilities; maintenance of municipal roads; organization of street lighting; maintenance of cemeteries; landscaping and gardening in public areas; maintenance of parks, sport and recreation facilities; waste management; management of public transportation; protection of local cultural and historical sites; organization and maintenance of local libraries; establishment of rules on land use and enforcement of the regulations on urban planning and architecture; advertising issues; facilitation of public order; development folk art; creation of conditions for leisure; organization of activities for children and young people; development of physical culture and sports; facilitate prevention and mitigation of emergency situations.

While the LSGs are required to fulfill all these responsibilities and manage significant resources, not all LSGs have capability and staff to do these properly, while opportunities for professional development for LSG staff and elected officials are limited². The fiscal relations with the higher levels of government are also not necessary clear while transfers not always predictable. As a result, a significant proportion of services provided today by the local self-government do not satisfy the population. According to the adopted Program for Development of the Local Self-

¹ The consolidated budget refers to the budget of the entire country, which incorporates the republican budget and budget of the LSGs.

² In 2013 the State Personnel Service (SPS) started to train the LSG staff. Only 1025 LSG representatives were taught theoretical aspects of municipal management, strategic planning and economic development of the regions, social protection, and basics of financial management. Each of 450+ LSG units has an elected head, local elected council, and at least one deputy head and one financial officer.

Government in the Kyrgyz Republic in 2013-2017³ prepared by the State Agency for Local Self-Government and Interethnic Relations, this situation occurs due to the absence of a unified system of rules and procedures, insufficient reimbursement for certain services, lack of single set of requirements and responsibilities for local self-government units, etc. A lot of these problems stem from a poor understanding of how the local budgets are formulated, managed and executed and what are exact rights and responsibilities of LSG by all local stakeholders – residents, elected and appointed local officials and budget staff working at the local self-government units.

The main objective of the project is to support the Government in establishing countrywide communities of practice (COPs) and using these COPs to increase capacity of local budget officers, elected heads of LSG units and local council members through innovative peer-to-peer learning approach.

C. Relationship to CPS

The Country Partnership Strategy (CPS) for FY14-17 prepared in close cooperation between the World Bank Kyrgyzstan Country Team and the Government of the Kyrgyz Republic has improvement of governance as its main pillar. The CPS has been developed to support the Government of the Kyrgyz Republic own National Sustainable Development Strategy (NSDS). The Kyrgyz authorities' main goal in this area, outlined in the NSDS (Chapter 2.6), is to restore the public's confidence in the three branches of government-executive, judicial, and legislative. One of the specific objectives there is strengthening accountability and transparency in the management of public assets and finances. Against this background and based partly on the government's multi-sectoral Governance and Anti-corruption Action Plan adopted in 2012, the CPS program includes a mix of advisory, knowledge, and lending activities intended to help achieve two country development goals: (a) creating a robust public administration - including strengthened, more transparent public finance management; and (b) expanding access to, and improving the efficiency and quality of education, health, and other social services. The proposed project will contribute to achievement of these goals.

D. Operation Objectives

The main Project Development Objective (PDO) is to support the Government in establishing countrywide communities of practice (COPs) and using these COPs to increase capacity of local budget officers, elected heads of LSG units and local council members through innovative peer-to-peer learning approach.

II. RATIONALE FOR BANK INVOLVEMENT

The rationale behind the Bank's involvement and its leadership in this project can be explained by its expertise in this area and experience in implementing similar projects. In particular, the Bank has successfully implemented a pilot project "Transparency and Accountability in Local Budgeting – Peer-to-Peer Assisted Learning (TALB-PAL)". The current project is a continuation

³ The program was adopted by the Resolution of the Government of the Kyrgyz Republic #678 dated December 18, 2013.

and scaling up of the completed pilot project. Both projects use WB best practices and expertise developed under the Public Expenditure Management Peer Assisted Learning (PEM PAL) initiative to promote a peer-to-peer (PTP) learning approach at the sub-national level in the Kyrgyz Republic. The scaling-up was requested by the client; the project concept was discussed with and supported by the State Agency for Local Self-Government and the Ministry of Finance. Thus, Bank’s prior productive experience in implementing similar projects serves as a strong rationale for its involvement in this project.

III. TENTATIVE FINANCING

The project will be fully funded by the Multi-Donor Programmatic Trust Fund for Europe and Central Asia Public Finance Management (hereafter ECA PFM TF) US\$1,099,441 in funding.

Financing Source	Amount(US\$M)
BORROWER/RECIPIENT	0.00
ECA PFM TF	1,099,441
Total	1,099,441

IV. PROJECT DESCRIPTION

The activities to be conducted under four project components are outlined below.

Project management, including Community of Practice building activities. This component will fund the following activities: (i) Establishing a Project Management Unit (PMU) through hiring of consultants and capacity building; (ii) Contracting out the fiduciary oversight, which includes both - procurement and financial management functions will be undertaken by the Project Implementation Unit (PIU) under the Kyrgyz Ministry of Finance; (iii) Coordination of all project activities, i.e. PTP event for Recourse Persons and rayon level PTP events; (iv) Activities related to project oversight by the Steering Committee (SC), e.g. providing SC members with at least semi-annual activity updates, organization of SC meetings, etc.

Organization and delivery of learning events to the Resource Persons. This component will fund logistical and administrative arrangements related to organization and delivery of PTP learning and training events for 40 rayon level Resource Persons (RPs) in each COP that will help improve their understanding of Public Finance Management (PFM) at the local level and help them be effective leaders and resource persons of rayon-level communities of practice and to sustain COP at the rayon level. It is expected that the training for 40 rayon level RPs in each COP will be conducted at least once in three months.

Organization and delivery of PTP learning at rayon level. This component will fund rayon level PTP learning for all 40 rayons of the country- both formal events and advice provided to the COP members by rayon level RPs. It is expected that formal PTP events at rayon level will be held at least once in three months and will include relevant participants (financial officers, local council members working in budget committee) from each Ayil Okmotu (LSG units) in

that rayon (therefore, all 453 rural LSG units will be covered). Organization and conduct of the PTP events will be a shared responsibility of the PMU and rayon RP (for each COP). It is also expected that the formal PTP events when and if possible would be aligned with the relevant rayon level meetings COP members supposed to attend as a part of their work responsibilities.

Evaluation. This component will fund baseline and end-of-project data collection and benchmarking and end of project evaluation. It is expected that evaluation will be done by an independent entity that was not a part of project implementation. This component will also fund an independent end-of-project audit.

V. INSTITUTIONAL AND IMPLEMENTATION ARRANGEMENTS

The project will be implemented by the State Agency for Local Self-Government and Interethnic Relations under the Government of the Kyrgyz Republic with the support of the Project Management Unit (PMU). The PMU's main scope of work includes providing assistance in preparing, managing and supervising the project. In addition, it will ensure achievement of the project PDOs, facilitate delivery of the project, and meet the requirements of the WB and the Government. Fiduciary oversight functions for the project will be undertaken by the existing Project Implementation Unit (PIU) under the Kyrgyz Ministry of Finance.

The project results matrix will use easily observable indicators, so monitoring and evaluation of the project progress is not expected to present problems even for the inexperienced implementing agency. The main monitoring tool will be semi-annual progress reports that will be produced by the PMU as part of the project management activities. The progress reports will be submitted to the Project Director and the Steering Committee and will be also shared with the Bank team. Bank team will conduct monitoring through periodic field visits and progress monitoring audio or video conferences.

VI. RISKS AND RISK MITIGATION

While at the moment the project idea enjoys very strong support from the government counterparts, the political-economic situation in Kyrgyzstan is fluid and may change during project implementation. The risk of these changes to the project is seen overall as substantial. LSG capacity development has always been a weak spot for the GoKG and technical learning delivered to the LSGs was supported by all government counterparts. Nevertheless, these risks will be carefully monitored throughout project duration and if necessary will be addressed as a part of the overall policy dialogue.

Additional mitigation measures envisioned for this project include: (i) preparation of a detailed project implementation plan - to be prepared by the Implementation Agency with support from the PMU and approved by Steering Committee and the World Bank; (ii) close supervision of the project implementation by the World Bank team, including regular visits to project-funded events; (iii) initial support for capacity building for expanded PMU and independent selection of high quality experts for leadership training of the COP PRs through a Bank-executed TF complementary to the main recipient-executed TF.

The Implementation Agency’s procurement capacity is not sufficient, therefore, for a successful implementation of the project and to minimize the risks associated with the procurement it is expected that a PIU within MoF will be contracted for fiduciary assistance including procurement.

VII. POVERTY AND SOCIAL IMPACTS AND ENVIRONMENT ASPECTS

It is expected that the improved budgeting of LSG will lead to improved social services delivery to the population, in particular to the poor in such areas as health, education and social protection. The project will help improving the capacity of LSG representatives in applying the best practices learned in the course of COP meetings.

VIII. SAFEGUARD POLICIES (INCLUDING PUBLIC CONSULTATION)

The project focuses on capacity building of the LSG system within the broad context of the governance system reform. The project does not have any direct environmental impact, or include any civil works.

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP 4.01)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Natural Habitats (OP/BP 4.04)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Pest Management (OP 4.09)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Indigenous Peoples (OP/BP 4.10)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Physical Cultural Resources (OP/BP 4.11)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Involuntary Resettlement (OP/BP 4.12)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Forests (OP/BP 4.36)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Safety of Dams (OP/BP 4.37)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects on International Waterways (OP/BP 7.50)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Projects in Disputed Areas (OP/BP 7.60)*	<input type="checkbox"/>	<input checked="" type="checkbox"/>

IX. CONTACT POINT

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* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas

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