



## EVALUATION OF THE EUROPEAN UNION EXTERNAL ACTION

### COUNTRY STRATEGY EVALUATION

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# EVALUATION OF EU BUDGET SUPPORT AND BLENDING IN THE KYRGYZ REPUBLIC

## 2010-2019

(VOLUME I)

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*December 2021*

EVIDENCE  
MATTERS

A large, modern architectural structure consisting of two massive arches made of reddish-brown stone or concrete, standing side-by-side. They are set against a clear blue sky. In the background, there are other buildings, including a tall white skyscraper on the right. The foreground shows some green grass and a paved walkway.

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# **Evaluation of EU Budget Support and Blending in the Kyrgyz Republic 2010 - 2019**

## **Final Report**

The report consists of three volumes:

### **VOLUME I – MAIN REPORT**

- 1. Introduction**
- 2. Methodology**
- 3. Context**
- 4. Detailed findings**
- 5. Lessons learnt**
- 6. Conclusions**
- 7. Recommendations**

### **VOLUME II – COMPLEMENTARY INFORMATION AT JC LEVEL**

#### **Cluster 1: Strategy and implementation**

- 1. EQ1A Relevance and design (budget support)**
- 2. EQ1B Relevance and design (blending)**
- 3. EQ2A Opportunity framework in social protection, education, public finance management and electoral reform (direct outputs of budget support)**
- 4. EQ2B Opportunity framework (direct outputs of blending)**
- 5. EQ3 Effects on economic governance (induced outputs of budget support)**
- 6. EQ4A Policy formulation and implementation (induced outputs of budget support)**
- 7. EQ4B Policy formulation and implementation (project and induced outputs of blending)**

#### **Cluster 2: Effects of EU support in Kyrgyzstan**

- 8. EQ5 Outcomes – Democratic processes (policy outcomes of budget support)**
- 9. EQ6 Outcomes – Education (policy outcomes of budget support)**
- 10. EQ7 Outcomes – Social protection (policy outcomes budget support)**
- 11. EQ8 Outcomes – Water (project outcomes of blending)**
- 12. EQ9 Outcomes – Energy (project outcomes of blending)**
- 13. EQ10 Impacts (budget support and blending)**

### **VOLUME III – ANNEXES**

- 1. Terms of Reference**
- 2. Detailed evaluation methodology**
- 3. Evaluation matrix**
- 4. Overview of other development partners active in Kyrgyzstan**
- 5. Additional economic context: Public expenditure in Kyrgyzstan**
- 6. Sector note and intervention logic for social protection**
- 7. Sector note and intervention logic for education**
- 8. Sector note and intervention logic for electoral reform**
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## Acronyms/Abbreviations

ADB	Asian Development Bank
BS	Budget Support
BEE	Business Energy Efficiency
CA	Central Asia
CDS	Country Development Strategy
CEC	Central Election Commission
CSO	Civil Society Organisation
CSP	Country Strategy Paper
DCI	Development Cooperation Instrument
DG DEVCO	Directorate General for International Cooperation and Development
DG INTPA	Directorate General for International Partnerships
DFID	Department for International Development
DPCC	Development Partners Coordination Council
DP	Development Partner
EAEU	Eurasian Economic Union
EAMR	External Assistance Management Report
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EDS	Education Development Strategy
EE	Energy Efficiency
EIB	European Investment Bank
EMIS	Education Management Information System
ESMP	Environmental and Social Management Plan
EU	European Union
EUD	Delegation of the European Union (to Kyrgyzstan)
EUR	Euro
GDP	Gross domestic product
GIZ	Gesellschaft für Internationale Zusammenarbeit (German Development Cooperation)
GoK	Government of Kyrgyzstan
GPE	Global Partnership for Education
HEI	Higher Education Institution
HPP	Hydro-electric power plant
IFCA	Investment Facility for Central Asia
IFI	International Financial Institution
IG	Investment Grant
IL	Intervention Logic
ILO	International Labour Organisation
IMF	International Monetary Fund
IWMA	Integrated Water Management Approach
KGS	Kyrgyzstani Som
KGZ	Kyrgyzstan
KIHS	Kyrgyz Integrated Household Survey
KPI	Key Performance Indicator
LEPB	Law of Energy Performance of Buildings
LES	Law on Energy Savings
MG	Management Group

MIP	Multiannual Indicative Programme
MTBF	Medium-Term Budget Framework
MTDP	Medium-Term Development Programme
MTTP	Medium-Term Tariff Policy
NEHC	National Energy Holding Company
NGO	Non-Governmental Organisation
NSDS	National Sustainable Development Strategy
ODIHR	Office for Democratic Institutions and Human Rights
OECD	Organisation for Economic Co-operation and Development
OSCE	Organisation for Security and Co-operation in Europe
PAC	Public Advisory Council
PEFA	Public Expenditure and Financial Accountability
PFI	Partner Financial Institution
PFM	Public Finance Management
PID	Project Information Document
PISA	Programme for International Student Assessment
PIU	Joint Project Implementation Unit
PPCR	Pilot Program for Climate Resilience
REE	Residential Energy Efficiency
RIP	Regional Indicative Programme
RSP	Regional Strategy Paper
SBS	Sector Budget Support
SBSP	Sector Budget Support Programme
SDG	Sustainable Development Goals
SDR	Special Drawing Right
SECO	Swiss State Secretariat for Economic Affairs
SME	Small and Medium-Sized Enterprises
SP	Social Protection
SPD	Strategy for the Development of Social Protection of the Population of the Kyrgyz Republic
SPSP	Social Protection Support Programme
SRC	State Reform Contract
SRPC	Education Sector Reform Performance Contract
SRS	State Registration Service
TA	Technical Assistance
TC	Technical Cooperation
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
USD	US-Dollar
VC	Venice Commission of the Council of Europe
VET	Vocational Education and Training
WB	World Bank
WG	Working Group
WSWD	Water Supply and Wastewater Disposal

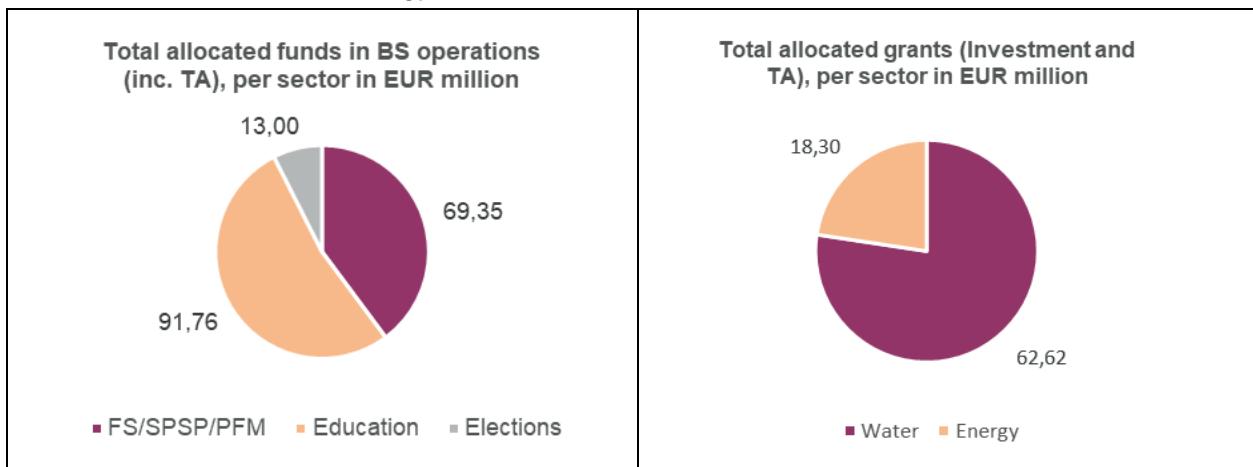
## Executive summary

**Between 2009 and 2019, the EU use of budget support and blending was suitable to channel most part of a substantial, soundly formulated aid package that was well aligned with Kyrgyz national and sector development strategies**



The EU and the Kyrgyz Republic established a strategic partnership that touched upon issues that were very relevant and important for both parties, for the larger Development Partner community and, especially, for the Kyrgyz citizens: i) Good governance and democratisation, ii) Growth and economic development, iii) Building effective public policies, and iv) Reducing poverty and inequalities. Both Budget support and blending are, in general, appropriate modalities to implement EU aid in the country.

- *Budget support* accounted for around 60% of the bilateral aid envelopes, with a total allocation of EUR 174.11 million, of which 52.5% were devoted to the education sector, 40% to Social Protection (including Food Security) and PFM and 7.5% to electoral reform.
- *Blending operations* covered by this evaluation<sup>1</sup> were implemented in collaboration with EBRD, SECO and EIB and included EU grants totalling EUR 80.92 million, of which Water absorbed 77.4% and energy 22.6%.



- EU cooperation was well *aligned* to the national and sector policy frameworks, as well as to EU strategic documents and guidelines.
- The potential success of programmes and projects transcends the choice of modality. It very much depends on having a joint *strategy*, along with government ownership and leadership and counting on favourable broader contextual factors.
- During most of the 2009-2019 period, local *context was moderately positive and EU-Kyrgyz relations remained stable and strong*, especially considering the politically and economically challenging international and regional contexts.
- The COVID-19 pandemic and the events that arose during and after the Parliamentary elections of October 2020 severely *altered this climate of stability* in the short term, eventually tending towards stabilization during 2021.

**Budget support and blending were complementary, each with its own characteristics and advantages. In the Kyrgyz Republic the design and implementation of budget support programmes was overall more polished than for blending projects.**



Budget support and blending have successfully co-existed although with little interaction between them during the evaluated period, as sectors covered by each modality were very different and no particular operational synergies were found, except the common expectation for both modalities to contribute to the same overall objectives of the EU-Kyrgyz partnership.

<sup>1</sup> This evaluation covers blending operations in water and wastewater and energy and does not include projects in the SME nor Solid Waste sectors.

- EU-funded interventions were *coherent and complementary* with interventions from other Development Partners, who coordinated well thanks to the work within the (mostly donor-driven) Development Cooperation Council (DPCC).
- Because budget support has been used for longer by the EU, overall programmes had comprehensive and beneficiary-focused Intervention Logics and accountability of implementing parties towards the EU and other stakeholders was good. This allowed that budget support programmes evidenced the *links* between EU inputs and GoK policy outcomes better than blending projects.
- Budget support programmes incorporated clearer mechanisms for comprehensive, structured and strategic *policy dialogue*, while blending projects have a narrower scope, but still addressed specific and important topics (e.g. tariff reform).
- Funding of blending operations partly compensated the *lack of public and private investment* and the fluctuant allocation of GoK capital budget in infrastructure-heavy sectors (e.g. basic public services, energy, transport). *Leverage* was generated and the amount of mobilized funds was larger and more traceable in blending projects than in budget support, responding more directly to closing the infrastructure gap. The origin of project funding were loans from IFIs and donor grants, no evidence was found on private sector financing being attracted.

**EU support helped GoK to build stronger frameworks and more capable institutions that improved their performance, but shortages in the delivery of public services to the population remain.**



EU support contributed to improving legal, policy and institutional frameworks and helped the Government of the Kyrgyz Republic (GoK) to produce more and better-quality goods and services for its citizens. Some progress was observed in development outcomes in social protection and education and is also expected in water and energy once the blending operations end. Nevertheless, the technical and financial sustainability of service delivery is uncertain given the limited capacity, the budgetary restrictions and the lack of cost recovery of basic services.

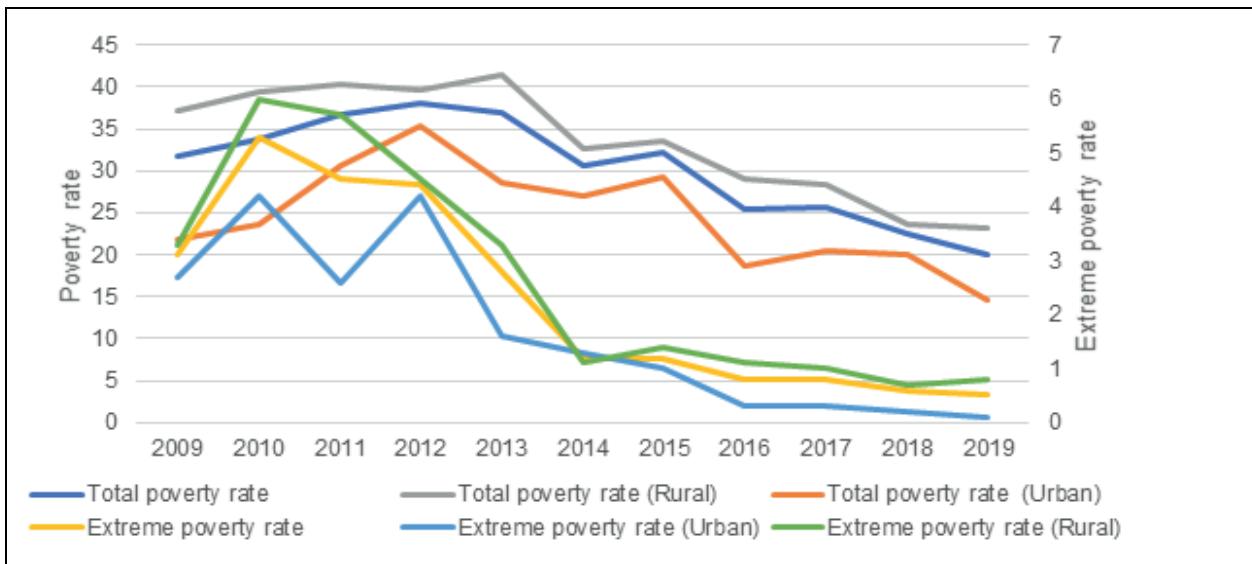
- *Policy dialogue* was a key EU input, especially accompanying GoK to formulate more comprehensive and coherent policies. *Technical Assistance* was instrumental to building capacity in the sectors. Both inputs were more effective and efficient when the EUD was directly involved in the implementation process.
- EU cooperation, especially in budget support sectors, helped to *improve the legal, policy and institutional frameworks*, nudging reforms to move along the right track, although effective policy implementation has been slow in many cases.
- Development of *capacities* of GoK entities (and of the utility companies in water and energy) showed a positive trajectory. The private sector and the role of civil society was also reinforced.
- BS disbursements created *fiscal space* that helped to finance public services. Blending operations financed *economically feasible projects* (but not commercially viable) in the water and energy sectors with high potential environmental and social benefits.
- Relevant increases in access and the use of some *public services* by the Kyrgyz population were observed in social protection and education, and the people's trust in sector institutions improved. Nevertheless, coverage and quality of services is still insufficient and a substantial part of needs remains unattended.
- The electoral system was successfully reinforced, and the percentage of voters satisfied with *democracy* in Kyrgyzstan raised significantly between 2014 and 2017, but fell dramatically at the end of 2020.
- Scarce human and financial resources, high staff turnover and political instability puts the *sustainability* of GoK efforts into question. In the water and energy sectors, sustainability is uncertain, particularly while private investment remains low, the State continues to subsidize consumption and tariff reforms are not implemented.



**Moderate growth and relevant progress in poverty reduction were achieved, although inequalities remain high, and the rural-urban and gender gaps have widened in the 2009-2019 decade**

Poverty reduction in the Kyrgyz Republic has been very notable, but equity and inclusion have seen little progress. Growth has been moderately good albeit very bumpy during the decade, but the differences in GDP and quality of life between rural and urban areas have not been reduced. Additionally, the relative conditions of women and ethnic minorities have not substantially improved in the period.

- Monetary *poverty reduction* has been successful (from 38% in 2012 to 20% in 2019) and extreme poverty has been virtually eliminated (4.2% in 2012 and 0.8% in 2019), but more than half the population remain very vulnerable, not far above the poverty, especially in rural areas.



- National GDP grew moderately in the period (4.4% annually in average) while economic activity that has boosted *growth* (e.g. construction and repair of transport infrastructure) remained focused mainly in the cities. Thus, the economic gap between cities (Bishkek and Osh) and the rest of the country widened.
- *Employment* remains largely informal and unequal. The total number of formally employed persons rose only by 1% annually and growth concentrated in Bishkek and Osh City while rural areas stagnated. The number of formally employed men increased (+14.2%) but women barely grew (+1.24%), despite clear improvements in female professional qualification. Considering that the total working-age population increased by 7%, in practice, proportionally less women are working in 2019 compared to 2009.
- The Gini index of income *inequality* for the Kyrgyz Republic steadily, albeit modestly decreased (indicating less inequality) and the score on Oxfam's Commitment to Reducing Inequality Index has improved. The multi-dimensional United Nations' Human Development Index has slightly improved. Overall, this suggests GoK had good intentions to increase equity, but results so far are modest.
- The incorporation of *cross-cutting* issues (gender, environment and inclusion of minorities) into EU operations was insufficient, with the exception of the electoral reform BS. This was partially corrected during implementation, particularly for education and energy and, overall, some efforts for increased consideration of these issues have been made recently, namely for gender mainstreaming.

The goals of EU-Kyrgyz partnership can be jeopardized by the lack of available data to assess which are the effects of GoK policies and donor support. This makes the overall picture of high-level effects of EU-Kyrgyz cooperation rather blurry.



- GoK policy and Development Partners' support have been severely affected by the country's *weak capacity to compile and publish reliable data* on economic and social development and public policy implementation. Gaps and inconsistencies have shown in a wide range of data, from aggregated indicators (GDP, employment) to socio-economic information (household surveys), sector outputs and outcomes.
- The EU has provided relevant support to develop GoK's *monitoring* capacities (e.g. EMIS in the education sector) but overall many outcomes and impacts are not yet well tracked. This was a particular challenge for EU budget support operations, as this modality is designed to follow national strategies and relied on monitoring systems that are still too basic and do not always contain accurate information.
- In blending operations, financial and infrastructure-oriented *supervision* is not fully combined with mechanisms that systematically identify the expected effects on the beneficiaries. Most blending operations do not specifically describe needs on the population during project design, nor do they include indicators to track the actual effects of project deliverables during/after implementation. Development outcomes and impacts are often declared as project objectives but not properly conceptualized, nor followed-up.

## MAIN RECOMMENDATIONS

1. *EU and GoK should continue to develop and elevate their strategic partnership, building on past experience and consolidating the underlying principles of their collaboration.* Promoting democracy and fighting corruption are essential issues that transcend specific operations but more than ever should continue to be at the centre of high-level political dialogue. Programmes and projects can be more ambitious and specific on their expected contribution towards achieving high-level effects (impacts): Promoting inclusive growth and reducing poverty and inequalities.
2. *Helping GoK to reduce inequalities and effectively mainstreaming cross-cutting issues into policies, programmes and projects should be a priority of EU support to the Kyrgyz Republic in the 2021-2027 period.* EU interventions should particularly be aimed at contributing to close the urban-rural gap and promote the effective inclusion of women and ethnic minorities. The challenge is to transcend the generic references to inclusion and cross-cutting issues that are included in the design of EU interventions. This can be done, for instance, by elevating the importance of gender and inclusion in policy dialogue and in capacity building actions or disaggregating performance indicators of budget support programmes. In blending operations, the assessment of the needs of the beneficiaries must be more detailed and more outcome indicators that monitor how project outputs (infrastructure) improve the quality of life of vulnerable persons or areas must be included in the monitoring system.
3. *GoK and its cooperation partners urgently need to address the severe shortage and inaccuracy of data at the project, sector and aggregate levels.* GoK policy and donor support need to be more evidence-based and count on more, better-quality, publicly available and updated information, especially on outcome and impact indicators. EU could devote part of its funds to supporting to the Statistics Office to increase its overall capacity, its links with sector information systems and, more specifically, enlarging and improving the Kyrgyzstan Household Integrated Survey. Involving and supporting CSOs in an overview role would also increase the transparency and accountability of GoK policy and donor support. More specific measures can be considered as part of budget support programmes to boost Monitoring, Evaluation and Learning. This includes running studies to help establish baselines, fine-tune sector targets and performance indicators and/or identify determining factors of outcomes and impacts, especially for key issues like growth and poverty reduction in rural areas, gender equality and inclusion.

*As of 2021, the EU and GoK should consider using the same modality structure (i.e. budget support for governance and social sectors and blending for infrastructure-related sectors) and continue improving their design and implementation.* The clear exception to this continued use of BS would be any future support to electoral reform, which should rather be a project, unless it is included as part of a bigger Rule of Law budget support programme. A possible simultaneous

use of blending and budget support in the water sector is an interesting option that will require the adoption of a sector strategy based on Integrated Water Resource Management by the GoK, establish baselines and targets for possible performance indicators and build the accountability and implementation capacity in GoK entities.

4. *The EU should work with partner IFIs to substantially improve blending projects design and implementation.* Intervention Logics need to be more comprehensive and transcend infrastructure-related outputs, thus also measuring how the project has supported improved service delivery (e.g. coverage rates of basic services), development outcomes (e.g. quality of life indicators, WASH indicators) and the possible contributions to impact indicators. In policy dialogue, IFIs and EU should be better aligned. Finally, the EU must have a bigger role in decision making and overview of Technical assistance and capital grants, and the accountability and learning arrangements of projects must be improved.
5. *EUD and its cooperation partners must jointly explore ways of increasing the efficiency and effectiveness of TA and grants to continue upgrading the capacities of institutions, utilities and CSOs, which are still low.* Budget support complementary support should continue to receive substantial funding, as it has proven a key element of EU cooperation. For both modalities, more focus should be put on increasing the technical sustainability of outputs and outcomes through a more realistic assessment of the capacities of beneficiaries, their absorption capacity and ability to continue delivering after donor support has ended. The EU also needs to have a more direct involvement when it relies on other Development Partners to implement capacity building actions, for instance through Trust Funds.

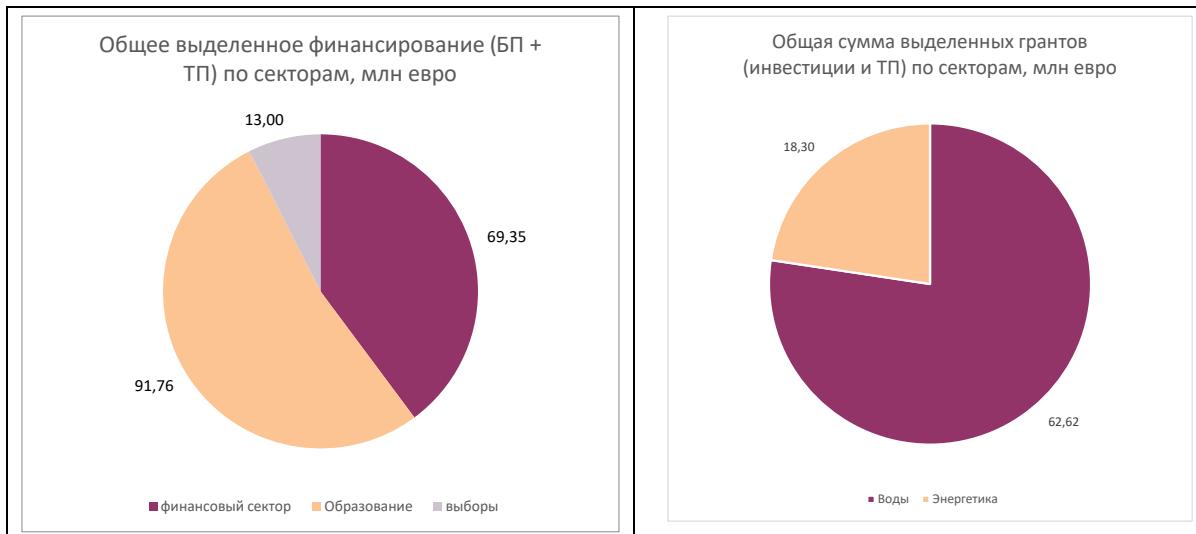
## Исполнительное Резюме

**В период с 2009 по 2019 годы, использование бюджетной поддержки и со-финансирования ЕС было подходящим для направления большей части существенного, обоснованно сформулированного пакета помощи, который был хорошо согласован с национальными и секторальными стратегиями развития Кыргызстана.**



ЕС и Кыргызская Республика установили стратегическое партнерство, которое затрагивало вопросы, очень актуальные и важные для обеих сторон, для более широкого сообщества партнеров по развитию и, особенно, для граждан Кыргызстана: i) Добросовестное управление и демократизация, ii) Рост и экономическое развитие, iii) Построение эффективной государственной политики и iv) Сокращение бедности и неравенства. Как бюджетная поддержка, так и со-финансирование, в целом, являются подходящими модальностями для реализации помощи ЕС в стране.

- **Бюджетная поддержка** составила около 60% конвертов двусторонней помощи, с общим объемом выделенных средств в размере 174,11 млн. Евро, из которых 52,5% были направлены в сектор образования, 40% - на социальную защиту (включая продовольственную безопасность) и УГФ и 7,5% - на избирательную реформу.
- **Совместное финансирование**, охваченные данной оценкой, осуществлялись в сотрудничестве с ЕБРР, SECO и ЕИБ и включали гранты ЕС на общую сумму 80,92 млн. Евро, из которых на водные ресурсы было выделено 77,4%, а на энергетику - 22,6%.



- Сотрудничество ЕС было хорошо *согласовано* с национальными и отраслевыми программами, а также со стратегическими документами и руководящими принципами ЕС.
- Потенциальный успех программ и проектов выходит за рамки выбора модальности. Он во многом зависит от наличия совместной *стратегии*, ответственности и лидерства правительства, а также от благоприятных более широких контекстуальных факторов.
- В течение большей части периода 2009-2019 гг., *местный контекст был умеренно позитивным, а отношения между ЕС и Кыргызстаном оставались стабильными и прочными*, особенно учитывая политически и экономически сложные международные и региональные условия.
- Пандемия COVID-19 и события, возникшие во время и после парламентских выборов в октябре 2020 года, серьезно изменили *этот климат стабильности* в краткосрочной перспективе, в конечном счете, наметив тенденцию к стабилизации в течение 2021 года.

**Бюджетная поддержка и софинансирование дополняли друг друга, каждый из них имел свои особенности и преимущества. В Кыргызской Республике, разработка и реализация программ бюджетной поддержки была в целом более отшлифована, чем с проектами совместного финансирования.**



Бюджетная поддержка и софинансирование успешно сосуществовали, хотя и с небольшим взаимодействием между ними в течение оцениваемого периода, так как сектора, охватываемые каждой модальностью, были очень разными, и не было видно особых операционных согласований, за исключением общих ожиданий, что обе модальности будут способствовать достижению общих целей партнерства ЕС-Кыргызстан.

- Мероприятия, финансируемые ЕС, были *согласованы и дополняли* мероприятия других партнеров по развитию, которые хорошо координировались благодаря работе в рамках (в основном управляемого донорами) Совета по сотрудничеству в целях развития (DPCC).
- Поскольку бюджетная поддержка использовалась ЕС дольше, программы в целом имели комплексную и ориентированную на бенефициаров логику вмешательства, и подотчетность реализующих сторон перед ЕС и другими заинтересованными сторонами была надлежащей. Это позволило программам бюджетной поддержки продемонстрировать *связь* между вкладом ЕС и результатами политики правительства Кыргызской Республики лучше, чем в проектах софинансирования.
- Программы бюджетной поддержки включали в себя более четкие механизмы для всестороннего, структурированного и стратегического *диалога по вопросам политики*, в то время как проекты совместного финансирования имели более узкий охват, но все же затрагивали конкретные и важные темы (например, реформа тарифов).
- Финансирование операций софинансирования частично компенсировало *недостаток государственных и частных инвестиций* и нестабильное распределение капитального бюджета Правительства КР в секторах с высокой инфраструктурной нагрузкой (например, основные государственные услуги, энергетика, транспорт). В рамках проектов совместного финансирования были созданы *рычаги воздействия*, а объем мобилизованных средств был больше и лучше отслеживался, чем в рамках бюджетной поддержки, что более непосредственно способствовало устранению инфраструктурного разрыва. Источником финансирования проектов были кредиты МФИ и гранты доноров, доказательств привлечения финансирования частного сектора не обнаружено.

**Поддержка ЕС помогла Правительству КР создать более прочные структуры и более дееспособные институты, которые улучшили свою работу, но недостатки в предоставлении государственных услуг населению остаются.**



Поддержка ЕС способствовала улучшению правовой, политической и институциональной основы и помогла правительству Кыргызской Республики (КР) производить больше и качественнее товаров и услуг для своих граждан. Определенный прогресс наблюдался в достижении результатов развития в области социальной защиты и образования, а также ожидается в секторах водоснабжения и энергетики после завершения операций совместного финансирования. Тем не менее, техническая и финансовая устойчивость предоставления услуг остается неопределенной, учитывая ограниченные возможности, бюджетные ограничения и отсутствие возмещения затрат на основные услуги.

- *Диалог по вопросам политики* был ключевым вкладом ЕС, особенно при оказании помощи Правительству КР в формулировании более комплексной и последовательной политики. *Техническая помощь* сыграла важную роль в наращивании потенциала в секторах. Оба вклада были более эффективными и действенными, когда Делегация ЕС была непосредственно вовлечена в процесс реализации.
- Сотрудничество ЕС, особенно в секторах бюджетной поддержки, помогло *улучшить правовую, политическую и институциональную базу*, подтолкнув реформы к

продвижению по правильному пути, хотя эффективное внедрение политики во многих случаях было медленным.

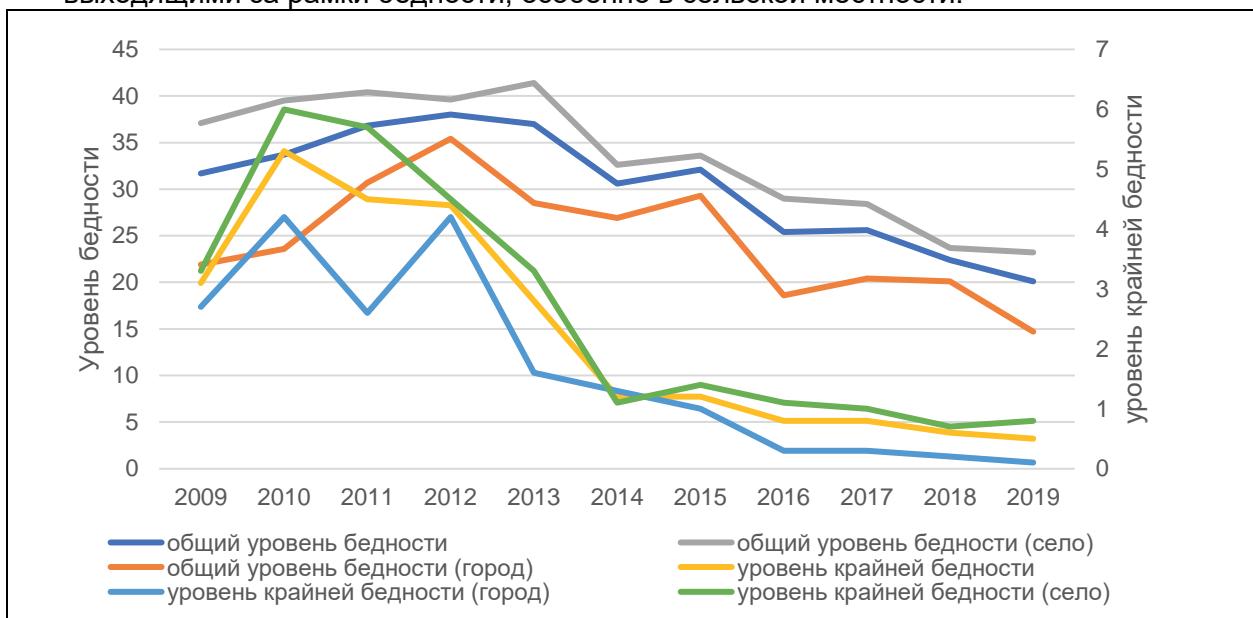
- Развитие *потенциала* структур Правительства КР (и коммунальных компаний в сфере водоснабжения и энергетики) демонстрировало положительную динамику. Частный сектор и роль гражданского общества также были усилены.
- Выплаты по линии бюджетной поддержки создали *фискальное пространство*, которое помогло финансировать государственные услуги. Совместные операции финансировали *экономически обоснованные проекты* (но не коммерчески жизнеспособные) в водном и энергетическом секторах с высоким потенциалом экологических и социальных выгод.
- Значительное увеличение доступа и использования некоторых *государственных услуг* населением Кыргызстана наблюдалось в сфере социальной защиты и образования, а также повысилось доверие населения к учреждениям секторов. Тем не менее, охват и качество услуг все еще недостаточны, и значительная часть потребностей остается неудовлетворенной.
- Избирательная система была успешно укреплена, и процент избирателей, удовлетворенных *демократией* в Кыргызстане, значительно вырос в период с 2014 по 2017 годы, но резко упал в конце 2020 года.
- Дефицит людских и финансовых ресурсов, высокая текучесть кадров и политическая нестабильность ставят под вопрос *устойчивость* усилий правительства КР. В секторах водоснабжения и энергетики устойчивость неясна, особенно в условиях, когда частные инвестиции остаются на низком уровне, государство продолжает субсидировать потребление, а тарифные реформы не проводятся.

**Достигнут умеренный рост и соответствующий прогресс в сокращении бедности, хотя неравенство остается высоким, а разрыв между селом и городом и гендерный разрыв увеличился в период десятилетия 2009-2019 гг.**



Снижение уровня бедности в Кыргызской Республике было очень заметным, но в области равенства и инклюзии прогресс был незначительным. Рост был умеренно хорошим, хотя и очень неровным в течение десятилетия, но различия в ВВП и качестве жизни между сельской местностью и городскими районами не уменьшились. Более того, относительные условия жизни женщин и этнических меньшинств за этот период существенно не улучшились.

- *Сокращение бедности* в денежном выражении было успешным (с 38% в 2012 году до 20% в 2019 году), а крайняя бедность практически ликвидирована (4,2% в 2012 году и 0,8% в 2019 году), но более половины населения остаются очень уязвимыми, не выходящими за рамки бедности, особенно в сельской местности.



- Национальный ВВП в этот период рос умеренными темпами (в среднем на 4,4% в год), в то время как хозяйственно-экономическая деятельность, способствовавшая *росту* (например, строительство и ремонт транспортной инфраструктуры), оставалась сосредоточенной в основном в городах. Таким образом, экономический разрыв между городами (Бишкек и Ош) и остальной частью страны увеличился.
- *Занятость* остается в основном неформальной и неравномерной. Общее число официально занятых лиц увеличивалось лишь на 1% в год, и рост был сосредоточен в Бишкеке и городе Ош, в то время как в сельской местности наблюдалась стагнация. Число формально занятых мужчин увеличилось (+14,2%), но женщин почти не выросло (+1,24%), несмотря на явное улучшение профессиональной квалификации женщин. Учитывая, что общая численность населения трудоспособного возраста увеличилась на 7%, на практике, в 2019 году по сравнению с 2009 годом работает пропорционально меньше женщин.
- Индекс Джини *неравенства* доходов для Кыргызской Республики неуклонно, хотя и незначительно, снижался (указывая на меньшее неравенство), а оценка по Индексу приверженности снижению неравенства Oxfam улучшилась. Многомерный индекс человеческого развития ООН немного улучшился. В целом, это говорит о том, что у Правительства КР были благие намерения повысить уровень равенства, но результаты пока скромные.
- Включение *сквозных* вопросов (гендер, окружающая среда и включение меньшинств) в деятельность ЕС было недостаточным, за исключением бюджетной поддержки избирательной реформы. Это было частично исправлено в ходе реализации, особенно в области образования и энергетики, и в целом, в последнее время были предприняты некоторые усилия для более широкого рассмотрения этих вопросов, в частности, для учета гендерной проблематики

**Цели партнерства ЕС и Кыргызстана могут быть поставлены под угрозу из-за отсутствия данных, позволяющих оценить влияние политики Правительства КР и донорской поддержки. Это делает общую картину результатов сотрудничества ЕС и Кыргызстана на высоком уровне довольно размытой.**



- Политика правительства КР и поддержка партнеров по развитию серьезно пострадали из-за *слабого потенциала страны по составлению и публикации надежных данных* об экономическом и социальном развитии и реализации государственной политики. Проблемы и несоответствия проявились в широком спектре данных, от агрегированных показателей (ВВП, занятость) до социально-экономической информации (обследования домохозяйств), результатов деятельности секторов и итогов.
- ЕС предоставил соответствующую поддержку для развития потенциала *мониторинга* со стороны Правительства КР (например, ИСУ в секторе образования), но в целом многие результаты и воздействия еще не отслеживаются должным образом. Это стало особой проблемой для деятельности ЕС по бюджетной поддержке, так как этот механизм рассчитан на следование национальным стратегиям и опирается на системы мониторинга, которые все еще являются базовыми и не всегда содержат точную информацию.
- В рамках операций софинансирования, финансовый и инфраструктурный *надзор* не полностью сочетается с механизмами, которые систематически определяют ожидаемые последствия для бенефициаров. Большинство смешанных операций не описывают потребности населения в ходе разработки проекта и не включают показатели для отслеживания фактического воздействия результатов проекта во время/после его реализации. Результаты развития и воздействия часто декларируются как цели проекта, но не концептуализируются должным образом и не отслеживаются.

## **ОСНОВНЫЕ РЕКОМЕНДАЦИИ**

1. *ЕС и Правительство КР должны продолжать развивать и повышать уровень своего стратегического партнерства, опираясь на прошлый опыт и укрепляя основополагающие принципы своего сотрудничества.* Продвижение демократии и борьба с коррупцией являются важнейшими вопросами, которые выходят за рамки конкретных операций, но более чем когда-либо должны оставаться в центре

политического диалога на высоком уровне. Программы и проекты могут быть более амбициозными и конкретными в отношении их ожидаемого вклада в достижение результатов (воздействий) высокого уровня: Содействие инклюзивному росту и сокращению бедности и неравенства.

- 2. Помощь правительству КР в сокращении неравенства и эффективном включении межсекторных вопросов в политику, программы и проекты должна быть приоритетом поддержки ЕС Кыргызской Республики в период 2021-2027 гг.** Вмешательства ЕС должны быть особенно направлены на содействие устранению разрыва между городом и селом и эффективному включению женщин и этнических меньшинств. Задача состоит в том, чтобы выйти за рамки общих ссылок на инклюзивность и сквозные вопросы, которые включаются в разработку интервенций ЕС. Этого можно добиться, например, путем повышения важности гендерной проблематики и инклюзии в политическом диалоге и в деятельности по наращиванию потенциала или путем разбивки показателей эффективности программ бюджетной поддержки. В рамках операций совместного финансирования, оценка потребностей бенефициаров должна быть более детальной, а в систему мониторинга должно быть включено больше показателей результатов, которые отслеживают, как результаты проекта (инфраструктура) улучшают качество жизни уязвимых лиц или местности.
- 3. Правительство КР и его партнеры по сотрудничеству должны срочно решить проблему острой нехватки и неточности данных на проектном, секторальном и агрегированном уровнях.** Политика правительства КР и поддержка доноров должны быть более обоснованными и опираться на большее количество, более качественной, общедоступной и обновленной информации, особенно по индикаторам результатов и воздействия. ЕС мог бы направить часть своих средств на поддержку Статистического Комитета для повышения его общего потенциала, его связей с отраслевыми информационными системами и, более конкретно, расширения и улучшения интегрированного обследования домохозяйств Кыргызстана. Вовлечение и поддержка организаций гражданского общества (ОГО) в роли наблюдателей также повысит прозрачность и подотчетность политики Правительства КР и донорской поддержки. Более конкретные меры могут быть рассмотрены в рамках программ бюджетной поддержки для усиления Мониторинга, Оценки и Обучения. Это включает проведение исследований, помогающих установить исходные уровни, уточнить цели и показатели эффективности сектора и/или выявить определяющие факторы результатов и воздействия, особенно по таким ключевым вопросам, как рост и сокращение бедности в сельской местности, гендерное равенство и инклюзия.

*Начиная с 2021 года, ЕС и Правительство КР должны рассмотреть возможность использования той же структуры модальностей (т.е. бюджетной поддержки для государственного и социального секторов и софинансирования для секторов, связанных с инфраструктурой) и продолжать совершенствовать их разработку и реализацию.* Явным исключением из этого дальнейшего использования БП будет любая будущая поддержка избирательной реформы, которая скорее должна быть проектом, если только она не включена в более крупную программу бюджетной поддержки верховенства права. Возможное одновременное использование софинансирования и бюджетной поддержки в водном секторе является интересным вариантом, который потребует принятия стратегии сектора на основе интегрированного управления водными ресурсами со стороны Правительства КР, установления базовых и целевых значений для возможных индикаторов эффективности и создания потенциала подотчетности и реализации в органах Правительства КР.

- 4. ЕС должен работать с партнерскими МФИ над существенным улучшением разработки и реализации проектов софинансирования.** Логика вмешательства должна быть более всесторонней и выходить за рамки результатов, связанных с инфраструктурой, таким образом, измеряя, как проект способствовал улучшению предоставления услуг (например, уровень охвата базовыми услугами), результатов развития (например, показатели качества жизни, показатели ВСГ) и возможный вклад в индикаторы воздействия. В политическом диалоге, МФИ и ЕС должны лучше согласовывать свои действия. Наконец, ЕС должен играть более значительную роль в

принятия решений и обзоре технической помощи и капитальных грантов, а также необходимо улучшить механизмы подотчетности и обучения в рамках проектов.

5. *Делегация ЕСД и ее партнеры по сотрудничеству должны совместно изучить пути повышения эффективности и результативности ТП и грантов, чтобы продолжить наращивание потенциала ведомств, коммунальных служб и ОГО, который все еще остается низким.* Бюджетная поддержка, как дополнительная поддержка, должна продолжать получать значительное финансирование, поскольку она зарекомендовала себя как ключевой элемент сотрудничества ЕС. В рамках обоих механизмов, следует уделять больше внимания повышению технической устойчивости результатов и итогов путем более реалистичной оценки потенциала бенефициаров, их способности к освоению и способности продолжать работу после прекращения донорской поддержки. ЕС также должен принимать более непосредственное участие, когда он полагается на других партнеров по развитию в реализации мероприятий по наращиванию потенциала, например, через трастовые фонды.

## 1 Introduction

### 1.1 Objectives and Scope of the strategic evaluation

As set out in the Terms of Reference (ToR), this evaluation will: i) provide an *independent and evidence-based assessment* of EU budget support (BS) and blending operations in Kyrgyzstan, including the effects achieved at outcome and impact level; ii) take stock of what has been achieved and identify *key lessons* on what have been the main (positive/negative) factors which have influenced the effectiveness and impact of the support provided through the two modalities; iii) produce *recommendations* regarding how to improve current and inform on future EU BS and blending operations and, in particular, how to foster synergies between the two modalities and enhance learning across modalities.

The evaluation covers the *period 2010-2019*, with attention to pre-2010 and post-2019 activities as necessary to establish the initial conditions for the analysis and take into account recent developments. The two EU programming cycles under which the evaluation falls are 2007-2013 and 2014-2020. The evaluation examines EU BS operations in four main *policy areas*: i) Education, ii) Social Protection (SP), iii) Public Financial Management<sup>2</sup> (PFM), and iv) Electoral reform.<sup>3</sup> Regarding blending, the analysis focuses on the EU-funded operations in two sectors: i) Energy; and ii) Water.<sup>4</sup> In terms of EU financing instruments, both *bilateral and regional budget lines* are considered. The team also examines complementarity, synergies and divergences with other EU interventions, including regional programmes and the support provided through thematic programmes. The evaluation further pays special attention to what extent *gender and ethnic minorities issues are included* in the support to all sectors. The analysis also covers the integration of *environment and climate change* issues in the design and implementation of EU BS and blending operations in Kyrgyzstan.

### 1.2 Management of the Evaluation

The evaluation was governed by a *Management Group (MG)* formed by representatives from DG INTPA and the Government of Kyrgyzstan (GoK). Additionally, the EU Delegation to Kyrgyzstan (EUD) and the European Bank for Reconstruction and Development (EBRD, as main partner of the Commission for blending operations in Kyrgyzstan) were present as observers. The role of the MG was to receive, comment and approve the outputs produced, as well as to guide the evaluators and facilitate access to documentation and to relevant stakeholders and other actors. The main deliverables of the evaluation were delivered electronically to MG members to comment.

### 1.3 Structure of the Final Report

The report is distributed in three Volumes:

- Volume I is this document, the main report, structured around seven chapters: After the introduction (Section 1), the methodology is presented (Section 2), followed by Context (Section 3), Detailed Findings reported by EQ and JC (Section 4), Lessons Learnt (Section 5), Conclusions (Section 6) and Recommendations (Section 7). Vol. 1 is designed as a *concise, self-standing document for the general reader*, with multiple references made to Volumes II and III.
- Volume 2 of the report includes the completed full Evaluation Matrix, addressing indicator per indicator for each JC. A reader who wishes to have detailed information about a specific area or topic dealt by the evaluation will necessarily need to *consult Vol. 2 to obtain a clear picture*.
- Volume 3 gathers the different annexes with complementary information, including, i.a., the ToR, the Evaluation Matrix, Sector notes and sector Intervention Logics (ILs) and lists of documents and persons interviewed.

<sup>2</sup> PFM was included as part of the BS programmes that support the Social Protection sector. It is treated in EQ3 as a separate area of analysis, as it is also relevant as overall context of EU aid and for all BS operations.

<sup>3</sup> As the Food Security Programme supported thematic issues closely related to Social Protection, this intervention was analyzed as part of the Social Protection sector.

<sup>4</sup> EU blending operations in Kyrgyzstan cover two other sectors: SME development and solid waste, which are not part of this evaluation.

## 2 Methodology

### 2.1 Summary of applied methodology<sup>5</sup>

As a strategic evaluation, the task is to provide an overall assessment of *EU support through the budget support and blending modalities* rather than to have an aggregation of individual evaluations. EU-funded operations are grouped per sector or area of intervention included in the scope of the evaluation. An overall Intervention Logic (IL) combines and aggregates the results of the analysis of the IL of each sector<sup>6</sup>. This methodology is also designed as *a pilot exercise*, as BS and blending operations had never been assessed in the same country-level evaluation in the context of EU cooperation.

Because of the distinct nature of budget support and blending, two separate analytical frameworks (including Theories of Change) need to be applied. In order to maintain the unitary nature of the evaluation, both frameworks must be compatible and comparable. The methodology used *the structure of the OECD-DAC methodological approach for budget support evaluations* (incl. its five levels of analysis) as a basis of the overall analytical framework. The approach was based on the *Comprehensive Evaluation Framework* (CEF) that sets out a hypothesised sequence of effects of budget support (inputs → direct outputs → induced outputs → outcomes → impacts) which needs to be systematically tested. Effects observed in all sectors should converge at the impact level, jointly contributing to fostering economic growth and to reducing poverty and inequality in the country.

In order to facilitate comparison of findings between modalities and the presentation of the final evaluation results, a *unique evaluation matrix* was constructed, consisting of two sets of questions: i) a set of EQs covering the five levels of analysis of the methodological approach to budget support evaluation ("A" questions); and ii) a set of evaluation questions mirroring the ones focussing on budget support, adjusted to reflect the specificities of blending operations ("B" questions).

### 2.2 Evaluation Questions

Data collection and analysis were structured around 13 Evaluation Questions (EQs), each of them subdivided in a number of Judgement Criteria (JC) and Indicators. The scope of each EQ is summarised in Table 1. Section 4 of this report presents the main findings for each EQ.<sup>7</sup> The questions fit into the different levels of the Intervention Logic.

*Table 1 Overview of the Evaluation Questions*

Levels 1 and 2 of the Intervention Logic: Design, implementation and first level of effects			
	EQ1A Relevance and design (budget support)		EQ1B Relevance and design (blending)
	EQ2A Opportunity framework in Social Protection, Education, PFM and electoral reform (direct outputs of budget support)		EQ2B Opportunity framework (direct outputs of blending)
Level 3: Effects on public policy and project formulation and implementation			
	EQ3 Effects on economic governance (induced outputs of budget support)		

<sup>5</sup> Please refer to Vol. 3, Annex 2 for the complete Evaluation methodology.

<sup>6</sup> Please see Section 2.4 for the Overall Intervention Logic and Vol. 3, Annexes 6 to 10 for the Sector Intervention Logics.

<sup>7</sup> Please refer to Vol.3, Annex 3 for the Evaluation Matrix.

 BS	EQ4A Policy formulation and implementation (induced outputs of budget support)	 BL.	EQ4B Policy formulation and implementation (project and induced outputs of blending)
<b>Levels 4 and 5: Effects on public policies' sector outcomes, progress in project outcomes</b>			
 BS	EQ5 Outcomes – Democratic processes (policy outcomes of budget support)	 BL.	EQ8 Outcomes – Water (project outcomes of blending)
 BS	EQ6 Outcomes – Education (policy outcomes of budget support)	 BL.	EQ9 Outcomes – Energy (project outcomes of blending)
 BS	EQ7 Outcomes – Social Protection (policy outcomes budget support)		
 BS	EQ10 Impacts (budget support and blending)		

## 2.3 Limitations to the analysis

The evaluation was officially launched in July 2020. Overall, the objectives of the evaluation were achieved, but the process was affected by several *contextual, practical and methodological factors* that have conditioned the reach and extended the duration of the exercise.

- The **COVID-19** situation did not allow for any travel of the international members of the evaluation team. This has limited to some extent data collection. This was partly compensated with the enlargement of the team and the appointment of three additional national evaluators.
- It took time for GoK members of the *Management Group* (MG) to be confirmed and appointed and there were several changes of MG members and key staff of several institutions during the evaluation, which slowed down and complicated accessing documents and interviewing stakeholders. Feedback from EU staff to evaluation deliverables was quick and substantial, while GoK members reacted much slower, if at all.
- **Political instability and uncertainty** were a constant disruption after the parliamentary election on 6 October 2020, including some episodes of political violence in Kyrgyzstan: Access to GoK became already difficult during the weeks previous to the elections and was next to non-existent after the social and political crisis that followed and paralyzed the country for several weeks. The situation evolved slowly and was improving only gradually after the Presidential elections of 10 January 2021, which were held in parallel with a referendum on the state model. the appointment of the new Government in February along with a major re-structuring of the government. This further restricted access, as Ministries and departments were merged and, along with that, responsibilities were re-distributed. The situation only stabilized after the second part of the referendum on 11 April on a new constitution.
- A certain **weakness or absence of institutional memory** in GoK and in some Development Partners (DP) limited access to information and the interviews for the analysis of interventions that happened in the first half of the evaluation period (approximately 2009-2014).
- **The access to systematized, updated data on policy implementation at the sector level** was much lower than expected and desired for the evaluation, in practice totally restricting the quantitative analysis. The data provided by the GoK did not allow for a quantitative analysis that would have added value to the evaluation, especially in education and social protection. The Education Management Information System (EMIS), which runs only since the academic year 2019/2020 suffers from fragmented use and limited acceptance on the

side of the administrators, making an econometric analysis in the education sector impossible. The KIHS data that was made available to the evaluation very late in the process provided only limited information about the focal groups of the BS programmes. Outcome analysis has therefore had to rely very much on basic statistical data and on qualitative assessment.

- The data used for the observation of trends in *impact indicators* was in general available for growth and poverty analysis but less appropriate to analyse employment and inequalities. While aggregate data on indicators were provided by international organisations, disaggregated data was much more difficult to obtain, as the GoK was very slow or non-responsive to data requests, which was presumably due to the major shifts in the political landscape during the evaluation period.

## 2.4 Intervention Logic

The Overall Intervention Logic (IL) presented in Figure 1 intends to display a *representation of the overall desired effects* of EU cooperation in Kyrgyzstan using BS and blending, presented in 5 consecutive levels (see also Figure 1 for a graphical representation of the expected Overall IL):

**Level 1: Inputs.** EU interventions provide three types of inputs: i) it provides non-reimbursable financial resources to the sectors, ii) it finances capacity building actions, and iii) it enters into policy dialogue with GoK and other relevant stakeholders.

- In *budget support* financial contributions are mostly disbursements made to the Single Treasury Account (STA) of the GoK and the funds are incorporated into the country's national budget and cannot be traced (fungibility principle). In the seven blending operations, EU *investment grants* are channelled as non-reimbursable contributions that can be traced and are pooled with loans from EBRD and, in occasions, other DPs.
- In BS *Complementary Support* is designed to build capacity of sector entities with Technical Assistance (TA) and support the achievement of the objectives of the public policy supported, sometimes complemented with grant schemes for Civil Society Organisations (CSOs). In blending operations, so-called *EU TA Grants* are normally devoted to capacity building of utilities or to project appraisal activities (feasibility studies, design, etc).
- In BS programmes, *policy dialogue* involves the GoK and the EU, and eventually other DPs and stakeholders. It should be based on the national or sector strategy in force and be pro-active, strategic, structured, documented and be properly resourced and inclusive<sup>8</sup>. Dialogue in blending interventions is undertaken by EBRD is mainly focused on financial and banking aspects of projects, and on specific policy issues (e.g. tariffs).

**Level 2: Direct Outputs.** The use of EU intervention inputs directly generates a number of outputs, sometimes in combination with GoK's own resources:

- Outputs of Technical Assistance such as policy papers, technical reports, trainings, feasibility studies, project design, etc. are provided on demand to public entities and utilities.
- Regular policy dialogue meetings between the GoK, the EU and other players result in policy analysis and proposals, especially at the sector level.
- Cooperation among different partners provides opportunities for increasing donor coordination and harmonisation, including aligning aid to national procedures and reducing transaction costs of traditional individual-donor operations. In the Kyrgyz Republic, the main forum for donor coordination is the Development Partners Coordination Council (DPCC).
- BS disbursements are expected to create fiscal space, allowing the GoK to incorporate and allocate resources to policy priorities (usually but not necessarily in the sectors of intervention).
- As for blending, the main financial direct output expected from an EU grant is a leverage effect. The easing of financial conditions of loans generated by EU investment grants is understood to result in securing financing from IFI and other partners and eventually attracting additional investment from the public and private sectors. This should help to

<sup>8</sup> European Commission Budget Support Guidelines, 2017

finance projects with sufficient size to finance infrastructure and utility development in the water and energy sectors.

**Level 3: Induced policy and project outputs.** Induced Outputs are the effects created on the public institutions or utilities of the sector by the combination of inputs and direct outputs.

- In BS programmes, these effects are changes in the *internal capacity of public entities* and their ability to produce Goods and Services (G&S) for the use of the population, private sector and/or other public entities. The notion of *induction* implies that the BS programme encourages such developments, but it does so indirectly and is never the only factor, but rather one of the contributors to the successful implementation of a GoK's sector strategy.
- Another expected effect of BS support is the improvement of *legal and strategic frameworks* in the sectors of intervention, with views to foster and institutionalise reforms. One more induced objective is the strengthening of the *capacities* of public sector entities to formulate, monitor and implement comprehensive and coherent *policy actions*.
- More specifically for the education and SP sectors, policy actions will result in an increase in *quality and quantity of goods and services* produced for service delivery. In education, this includes, among other outputs, developing and improving school infrastructure, providing teacher training, approving curricula reform and setting up a National Qualification System. For Social Protection, some of the targeted outputs were developing the child protection system, establishing social services and transfers in benefit of the most vulnerable (including outsourcing to CSOs) and developing and maintaining statistical data.
- In electoral reform, induced policy includes the effective registration of voters and the effective implementation of several *electoral processes* since 2015.
- Most improvements in *macroeconomic management and PFM* are defined as induced outputs. EU supports the priorities of the Action Plan for PFM reform both at general level (within MoF) and for SP and education (not for electoral reform). The aspects prioritized by EU support relate to expenditure (including links between multi-annual budgets and policy-based budgeting), internal audit and transparency, accountability and the fight against corruption.
- In the case of blending operations (unlike in BS) the objective is not to support the whole sector policy, but to provide financing and technically support utilities and the implementation of specific capital investment projects, normally infrastructure-related. The *most visible effects* are therefore traditional project outputs that refer to the improvement of infrastructure and service delivery including: New connections to water and wastewater networks, improved reliability (reduced interruptions of service), improved quality of water and of effluents; better resilience and security of energy sector (reduced distribution losses, improved energy network operational and safety management), and allocation of funds for energy efficiency projects (in buildings).

**Level 4: Policy and project outcomes.** Outcomes are generated through the interaction of users with outputs (G&S) that have been described in Level 3.

- In BS interventions EU support is expected to contribute towards the *achievement of sector policy outcome targets* established in GoK's sector strategies and are normally observed at the national level. This is clearly identified for the education and social protection sectors: The former includes improving access to quality education (enrolment of children), learning outcomes (better grades) and links with the labour market (employment levels for exiting students), and doing it in an inclusive manner. Social Protection policy outcomes include increased access to SP schemes (individuals in need, children and people with disabilities), reducing social and economic vulnerability and empowering women and minorities. For electoral reform and PFM, outcomes identified are an increased turnout of voters and increased access to budgetary information by the population, respectively. Additionally, a cross-sector outcome is the improvement of *transparency and citizens' trust* in the democratic system and in the education and SP sector institutions.
- In blending operations, outcomes are defined in a different way: The use of outputs by the targeted population is expected to generate not policy but *project outcomes*. Some outcomes are similar for the water and energy sectors: Increased *economic activity* and reduction of impact on the *environment* and *climate change*. In the case of water, the sector

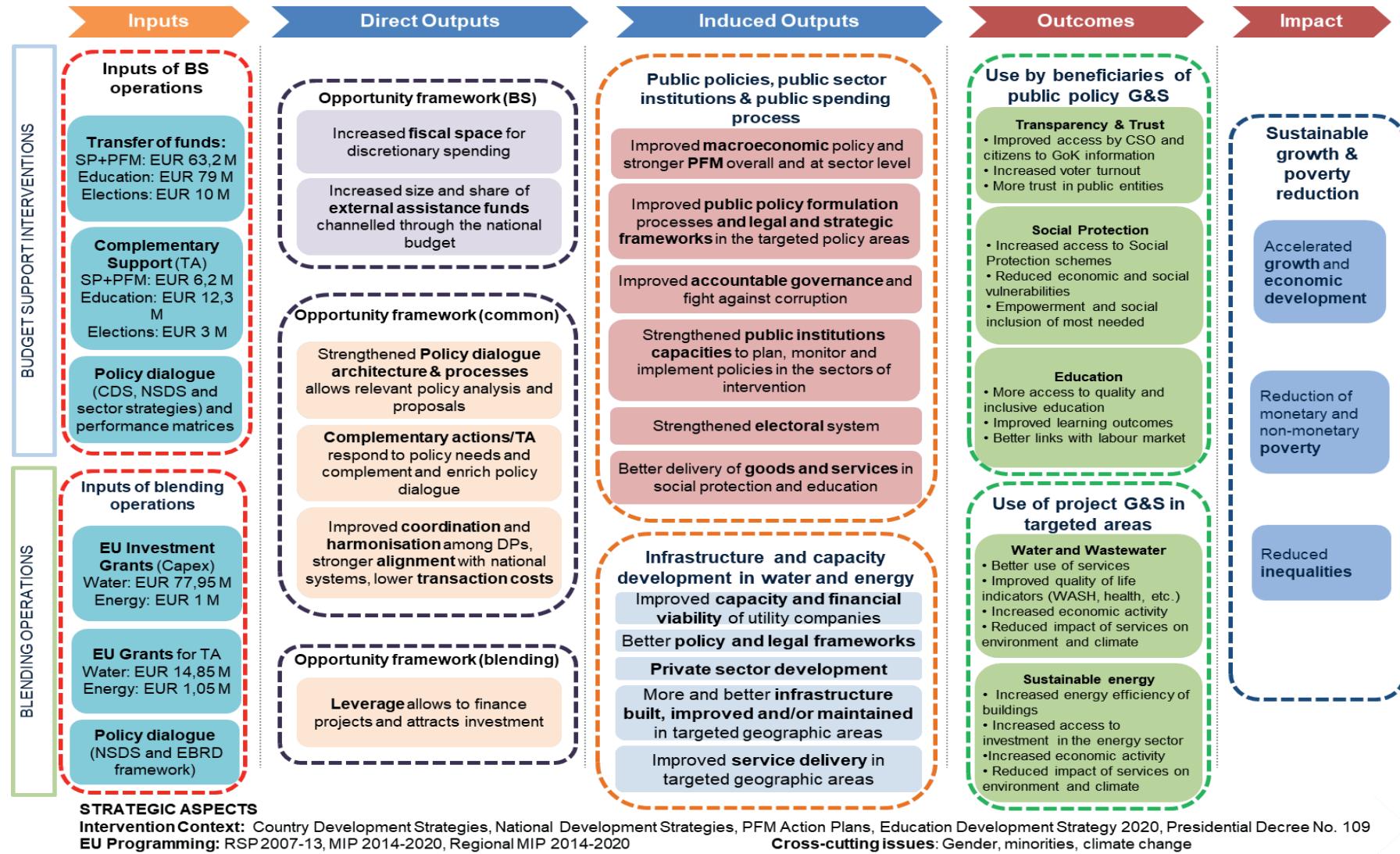
IL is focused directly on *improving the services* (effective use of connections to the water and wastewater networks and user satisfaction) and *improved quality of life indicators* of the population of the targeted areas. The expected outcomes for energy projects are making buildings more energy efficient for households, industries and SMEs.

### **Impacts (Level 5)**

EU interventions across all sectors are expected to contribute to overall objectives of the GoK (as foreseen in CDS up to 2012 and NSDS since 2013) and the EU (as established in the programming documents for the 2007-2013 and 2014-2020 periods). Progress is wanted on: Accelerated *growth and economic development* (employment); *poverty reduction* (both monetary and non-monetary or related to access to services); and *reduced inequalities* (gender, ethnic/linguistic minorities, generational, geographic and rural vs. urban).

For the purpose of this evaluation, it is important to clarify that the contribution of EU interventions towards impacts cannot be quantified and the capacity to make qualitative judgements about why impacts occur (or not) is also very limited and was not part of this evaluation.

**Figure 1 Overall Intervention Logic: Budget support and blending 2009-2019**



### 3 Context

#### 3.1 Political, Economic and Social context (2009-2019)

The *political and institutional context in the Kyrgyz Republic* was marked by two important crises, one at the beginning of the period concerned by this evaluation and one immediately after it ended, with a decade of relative stability between 2012 and 2019. In April 2010, as result of riots and revolution against the former regime, President Mr. Bakiev had to leave the country and Parliament and Government were dissolved. A *new constitution* that was adopted on 27 June 2010 and, after a transition period, Mr. Atambayev was appointed as President of the Republic on December 1, 2011, succeeded by Mr. Jeenbekov on November 24, 2017. The parliamentary elections of October 4, 2020 were a turning point for the Kyrgyz political system: The Organization for Security and Cooperation in Europe's (OSCE) and the Office of Democratic Institutions and Human Rights (ODIHR) initially confirmed that the voting process was efficient, well organised and peaceful, but also raised concerns over allegations of vote buying and other irregularities. Those allegations and irregularities became a catalyst for political instability in the country. Most of the opposition parties, many civil society organisations and a significant share of the population did not accept the outcome, leading to violent protests and turmoil throughout the country. On 6 October, the Central Electoral Commission (CEC) declared the elections void. Under pressure from the population and opposition parties, Mr. Jeenbekov resigned as president on 15 October 2020 and the Speaker of the Parliament, the Prime Minister and his Government, along with several high officials also left their posts. New Presidential elections took place on 10 January 2021 and were won by Mr. Zhamarov, who secured 79.2% of votes and took office on 28 January 2021. Together with the presidential election, a referendum on the future political system of the country took place and 81% of voters selected the presidential system over the current parliamentary one. Based on that result, the Constitutional Assembly prepared new Constitution that was submitted to Parliament's review in the middle of February 2021. After the parliamentary approval of the new Constitution, another referendum on the adoption of the Constitution took place on April 11 while national parliamentary elections are initially expected in October 2021. No single party enjoys a majority in the current Parliament and parties need to form a coalition to confirm these approvals. The position of Prime Minister was significantly strengthened following a referendum in 2016 and the subsequent amendments to the Constitution, with the 12<sup>th</sup> Prime Minister, Mr. Sadyr Zhamarov, appointed in February 2021. Kyrgyzstan is considered a very corrupt country by international standards, ranked 124/180 with a total score of 30/100<sup>9</sup>. In retrospect, although the Kyrgyz Republic is still considered the most democratic country in Central Asia, political stability and governance are still fragile. The Government has committed to a number of reforms to address these problems, the most important of which may be that it has made efforts to genuinely promote democracy through a more inclusive and effective elections process.

The Kyrgyz Republic is a lower-middle income country with a *resilient though volatile economic context* that made overall progress toward macroeconomic and financial stability under eight successive IMF-supported programmes. Since the Extended Credit Facility, ended in April 2018, after some structural benchmarks and quantitative performance criteria were not met, no new arrangement has been established. Kyrgyz *Gross Domestic Product (GDP)* increased in nominal terms from KGS 201.2 billion in 2009 to KGS 619,1 billion in 2019, equivalent a per capita GDP of USD 1,430. According to the IMF statements “the Kyrgyz economy has weathered effects of the global crisis well. Since 2009, real growth in GDP has averaged 4% annually, in line with the average of developing countries in Central Asia, although with great variations from year to year. The Kyrgyz Republic’s economy is heavily dependent on private remittances, gold extraction, and import and re-exports bazaar trade (mainly from China to CIS countries). *Remittances inflows* sent by labour migrants (most of them working in Russia) reached 32% of GDP in 2017-2018 and the contribution of gold mining company Kumtor to the economy was 8.6% of GDP and 18.1% of industrial production. Rising gold production has boosted real GDP growth in the last two years.

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<sup>9</sup> <https://www.transparency.org/en/countries/kyrgyzstan>

**Table 2 Selected Economic Indicators in Kyrgyz Republic (2009–2019)**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Social Indicators</b>											
Population (million)	5.37	5.41	5.5	5.6	5.7	5.8	5.9	6.0	6.1	6.3	6.4
GDP per capita (USD)	910	920	1,183	1,233	1,339	1,331	1,163	1,179	1,296	1,364	1,430
Poverty rate (national threshold, in %)	31.7	33.7	36.8	38.0	37.0	30.6	32.1	25.4	25.6	22.4	20.1
GINI Coefficient	0.37	0.37	0.38	0.42	0.46	0.43	0.41	0.41	0.39	0.38	0.36
<b>Economic Indicators</b>											
Nominal GDP (in billions of KGS)	201.2	220.4	285.9	310.5	355.3	400.7	430.5	476.3	530.5	569.4	619.1
Real GDP (growth in %)	2.9	-0.5	6.0	-0.1	10.9	4.0	3.9	4.3	4.7	3.8	4.6
Inflation (CPI, yearend)	0.0	19.2	5.7	7.5	4.0	10.5	3.4	-0.5	3.7	0.5	3.1
<b>Fiscal Sector (% GDP)</b>											
Total revenue	27.7	26.3	27.2	28.0	28.7	29.8	29.8	27.4	28.2	26.6	27.0
Total expenditure	29.1	31.2	32.0	34.5	29.3	30.3	31.3	31.8	31.3	27.7	27.1
Overall balance	-1.5	-4.9	-4.8	-6.5	-0.7	-0.5	-1.4	-4.4	-3.1	-1.1	-0.1
Public debt outstanding (in % GDP)	52.8	55.1	45.6	46.3	43.7	52.3	64.9	58.1	58.8	54.8	54.1

Source: Prepared by the authors based on data from the National Statistics Committee (social, real sector and foreign direct investment), MoF (fiscal sector - state budget without the Social and Mandatory Medical Insurance Funds) and IMF estimations (most of external sector, savings and investment), National Bank (private remittances).

*Inflation* was low on average, albeit unstable from year to year. The GoK maintained consistent budget and fiscal policies during the assessed period, implementing an active *fiscal policy* from 2009 to 2019. Total revenue grew moderately while external grants were reduced from 5.1% of GDP in 2009 to 2.2% in 2019. Expenditure sharply increased between 2009 and 2012, was reduced in 2013 and, after a slight growth in subsequent years, gradually reduced again. The composition of *spending*<sup>10</sup> is tilted towards wages, subsidies, and untargeted social benefits that squeeze capital investment and targeted anti-poverty social assistance. Budget deficits of 2017 and 2018 were mostly financed by concessional external loans provided by international financial institutions. Public debt is on the high side and it is largely denominated in foreign currency, exposing the country to foreign currency risk (after currency depreciation in 2020 the percentage is now more than 65% of GDP). The business climate is ranked by the WB<sup>11</sup> at Nr. 80 out of 190 countries, with a total score of 67.8/100 and major problematic issues related to access to electricity, protection of investors, and enforcing contracts.

At 0.655, the UNDP Human Development Index (HDI) classifies Kyrgyzstan as a *medium human development country*. Its multi-ethnic population is young and growing rapidly. There are only 32 inhabitants per km<sup>2</sup> and almost two thirds of the population are living in isolated rural and mountainous areas. The National Statistical Committee estimates that the *headcount poverty rate dropped* from over one-third to under one-quarter in 2011-2018 and extreme poverty went down from 4.5% to 0.6%. *Poverty* is most pronounced in rural, mountainous regions. there is large bulge of households just above the poverty line, and this at risk of shocks (e.g. an unexpected health event, an interruption of remittances or rise in food prices) driving them below it. Inequality is high and worsened between 2009 and 2014, the Gini coefficient is now back to 2009 levels. There is a strong regional dimension to inequality, with the North, bordering China, Kazakhstan, and Russia, better off than the South, which is part of the Ferghana Valley. There are also marked differences between ethnic groups.

<sup>10</sup> Please refer to Vol. 3, Annex 5: Public Expenditure in Kyrgyzstan for details

<sup>11</sup> <https://www.doingbusiness.org/content/dam/doingBusiness/country/k/kyrgyz-republic/KGZ.pdf>

### 3.2 The use of budget support and blending in EU support to the Kyrgyz Republic

In the Kyrgyz Republic, the EU has used budget support since 2007. The modality has accounted for around *60% of the bilateral aid envelopes* both in the 2007-2013 and 2014-2020 programming periods. The *total allocation of funds for budget support Programmes is EUR 174.11 million*, of which 52.5% were devoted to the education sector, 40% to Social Protection (including Food Security) and PFM and 7.5% to electoral reform. Of these, EUR 152.19 million were BS disbursements.

Complementary support was systematically provided in all interventions, except one of the SPSP programmes. In total, complementary support amounted to EUR 21.92 million which, in average, accounted for 12.6% of the total funding, with relevant differences between sectors, being less than 9% of SPSP/PFM funding and 23% of the electoral reform BS.

*Figure 2 Financial overview of BS operations per sector*

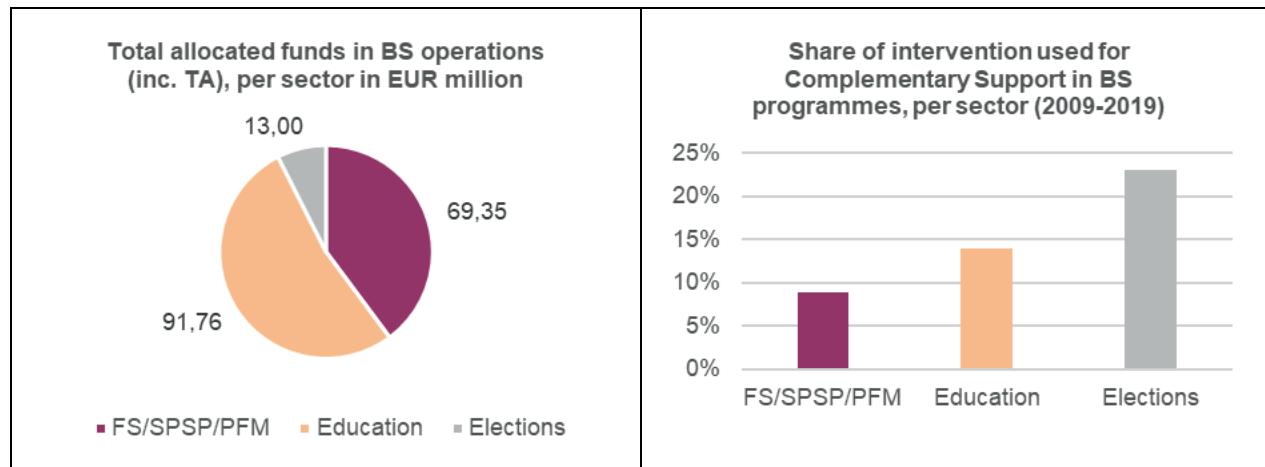


Table 3 details the BS operations included in the scope of this evaluation.

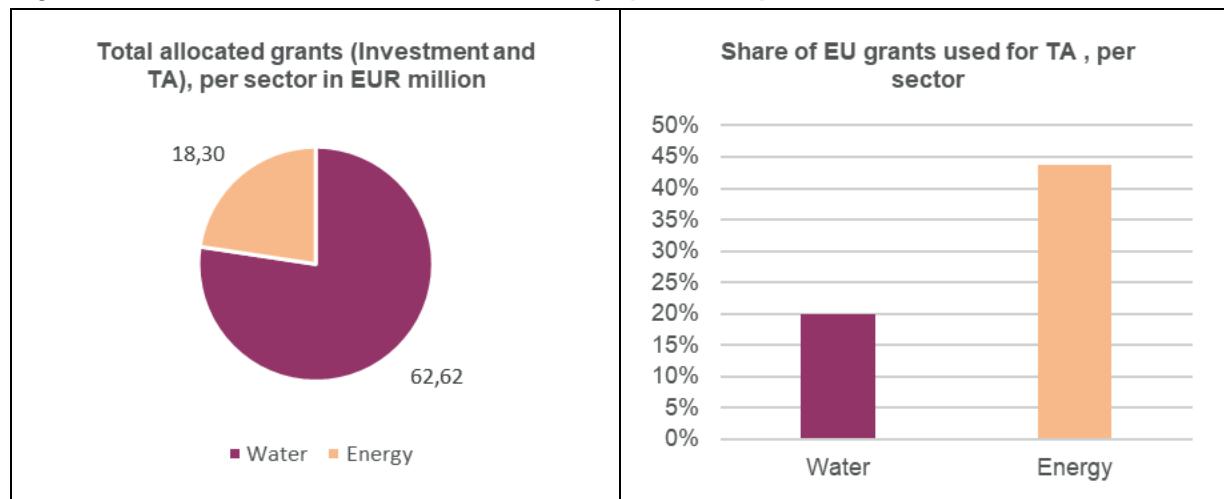
*Table 3 EU budget support operations in the Kyrgyz Republic (2009-2019)*

Decision	Title	Sector/s	Timeframe	Status
D-19169	Food Security Programme	Food Security	2007-2011	Closed
D-19237	Sector Policy Support Programme	Social Protection and PFM	2008-2010	Closed
D-21363	SPSP – Social Protection and PFM	Social Protection and PFM	2010-2013	Closed
D-22484	SPSP – Social Sector	Social Protection	2010-2012	Closed
D-22884	SPSP – Social Protection and PFM	Social Protection and PFM	2011-2014	Closed
D-23373	SPSP – Support to the reform of the Education sector in Kyrgyzstan	Education	2012-2015	Closed
D-25021	Sector Reform Contract – Social Protection	Social Protection	2014-2019	Closed
D-38149	Support to the Reform of the electoral system	Rule of Law	2015-2019	Closed
D-37809	Education Sector Reform Contract	Education	2015-2018	Closed
D-39937	Education Sector Reform Performance Contract	Education	2019-2021	Ongoing

In *blending operations* in Kyrgyzstan covered by this evaluation, grants made available by the EU totalled EUR 80.92 million<sup>12</sup>, of which Water absorbed 77.4% and energy 22.6%.

EU funds are divided in Investment Grants and TA Grants. The latter account for under 20% of the total funds for water sector operations and over 40 % in the case of energy.

**Figure 3** *Financial overview of blending operations per sector*



The blending interventions that are included in the scope of this evaluation are the following:

**Table 4** *EU blending operations in the Kyrgyz Republic (2009-2019)*

Decisions	Title	Sector/s	Timeframe	IFIs & other DPs	Status
D-278348	Central Asian Technical Assistance Framework for the preparation and implementation of EBRD Municipal and Environmental Infrastructure Projects	Water	2011-2019	EBRD	Closed
D-308996	Kyrgyzstan Sustainable Energy Financing Facility (KyrSEFF)	Energy	2013-2016	EBRD	Closed
D-333285	Framework for Strengthening Municipal Infrastructure in Central Asia – Selected Projects of the Water Component Talas and Khatlon (TJ)	Water	2013-2022	EBRD	Ongoing
D-373987	Kyrgyzstan Sustainable Energy Efficiency Financing Facility – Extension (KyrSEFF II)	Energy	2016-2021	EBRD	Ongoing
D-376349	Oshelectro Rehabilitation Project	Energy	2016-2021	EBRD	Ongoing
D-380145	Support to the Kyrgyz Republic for Water and Wastewater Investments, Tranche I (Kara-Suu / Osh Water II / Cholpon-Ata / Kyzyl-Kiya)	Water	2016-2022	EBRD, EIB, ADB, SECO	Ongoing
D-386220	Support to the Kyrgyz Republic for Water and Wastewater Investments, Tranche II (Uzgen / Toktogul / Balykchy / Maili-Suu)"	Water	2016-2021	EBRD (lead), EIB, ADB and SECO	Ongoing
D-378602	TA Framework for the Implementation of EBRD Municipal and Environmental Infrastructure Projects-Extension	Water	2016-2019	EBRD	Closed
D-399645	Water and Wastewater Investments, Phase 3 Kerben, Naryn, Isfana, Jalal-Abad and Myrza Ake-Kurshab-Don Bulak	Water	2019-2023	EBRD (lead) & EIB	Ongoing

<sup>12</sup> This evaluation covers water and wastewater and energy and does not include operations in the SME nor Solid Waste.

## 4 Detailed findings

The EQs are structured along the levels of the Intervention Logic. In the first 3 levels (inputs, direct and indirect outputs), EQs for BS and blending are mirrored. Therefore, EQs referring to budget support are named “A” and their equivalent EQs for blending are named “B”.

### Levels 1 and 2: Design, implementation and first level of effects

#### 4.1 EQ1A Relevance and design of budget support operations

To what extent has the design of the budget support operations responded to the specificities of the country context (incl. evolution in country needs and government's policies) and the evolution in the aid framework at country and global level?



##### Overall Answer to the Evaluation Question

BS operations have been *closely aligned with national priorities and policies*. In particular, operations were fully consistent with sector action plans where such documents existed (e.g. the Country Development Strategy (CDS) 2009-2011, the National Sustainable Development Strategy (NSDS) 2013-2017, the Education Development Strategy 2012-2020 and its Education Action Plans of 2012-2014, 2015-2017, and 2018-2020, the Social Protection Development Programme 2015-2017). The *design of BS operations* only partially took the specificities of the country context into account, the design of some operations, including accompanying measures, did not sufficiently consider and address the capacities of national institutions and beneficiary entities.

BS programmes were *consistent with EU global and regional key reference documents* valid over the evaluation period, including the EU budget support Guidelines and EU policy documents relevant for education and social protection, as well as EU commitment to democratic reform. Risk assessments underpinning BS design have been of varied quality, with electoral reform being the better developed.

EU BS inputs (disbursements, complementary support and policy dialogue) were relevant and internally balanced, with TA usefully complementing policy dialogue in all sectors.

Overall, the design of BS operations was *internally consistent*, with coherent Intervention Logics (IL) from input to outcome level in SP and education. For electoral reform, the absence of a sector strategy made it more difficult to have a clear IL. *Key Performance Indicators (KPI) were usually SMART* but presented some weaknesses: The number of indicators in the SP sector was too high to allow for smooth policy monitoring. In electoral reform, baseline data was unavailable for certain indicators and the ability to accurately measure achievements was compromised from the start.

*Synergies and complementarities* between BS and blending operations are only evident when considering they are intended to have a *shared framework at impact level*. This is only normal given the significantly distinctive nature of BS and blending, and the also different expected outputs and outcomes of the sector Intervention Logics of the sectors covered by each modality. The EU and its main cooperation partners (EU MS, SECO and IFIs) are making important efforts to promote synergy and complementarity among their interventions.

*Cross-cutting-issues* were not properly incorporated into the design of most BS operations. Only the intervention on electoral reform and the ongoing education BS 2019-2021 paid enough specific attention to gender issues. The latter promotes gender equality through the newly adopted gender expertise of learning materials. Promotion of ethnic minority inclusion was even more limited, as only the ongoing education BS programme addresses it through the promotion of multilingual education in schools.

#### JC1A.1 The BS operations have been responsive to the evolving country context and GoK priorities Social Protection

BS for Social Protection (SP) was well aligned to the national policy framework. The thematic focus on social protection of *children and families* in difficult life situations, persons with disabilities, and

the elderly, corresponds to clear needs of the population. The four BS operations<sup>13</sup> covering the SP sector have had as overall objectives to sustain poverty alleviation and promote social justice and improve living standards and access to social services for vulnerable sectors of the population while enhancing public accountability, good governance and transparency. All were well aligned with government policy and priorities. BS disbursements were accompanied by TA complementary measures to support GoK to implement its social development strategy, manage its budgetary resources, monitor performance, and ensure transparency and reporting. The IL logical chain running from direct inputs in the form of financial resources, TA, and policy dialogue organised around national development strategies to better policies, stronger institutions, a stronger social safety net and ultimately reductions in poverty and vulnerability was sound. It could be called standard in the SP field. At the same time, conspicuous for its absence in the IL is the close fiscal link between social insurance (essentially pensions) and social assistance. While the focus on social assistance was appropriate in view of the EU's focus on poverty and vulnerable populations, the availability of funding for such programmes is strongly affected by the priority placed by the GoK of financing formal-sector pensions.

Overall, *Key Performance Indicators (KPIs)* were *SMART*, based on national strategies, and linked to expected policy progress. Some problems were identified with the large number of indicators monitored, especially in the latter years. This strained the monitoring and reporting capacity of relevant institutions. Adaptations of indicators and targets, as well as postponement of compliance reviews, were necessary and, in spite of these, all three Variable Tranches of the SBSP (2015-2019) were only partially disbursed due to poor performance in some KPIs (53%, 78% and 58%). The gradual weakening of indicators risked transforming the budget support programme into a general budget subsidy. Conditionality tended towards micro-managing, rather than directing and controlling the general thrust of reform in line with EU goals. However, the financial amount or support provided has been consistent with goals and needs. Policy dialogue engagement with Government at political, strategic, and operational level was correctly included in project design (see also EQ2).

## **Education**

BS for education has been *relevant to country needs* as it correctly identified and prioritised the problems in the national context in the Kyrgyz Republic. The objectives and indicators included in the BS for education were aligned with the focus areas of the Education Development Strategy (EDS 2020) and the actions foreseen in the corresponding Action Plans of Education Development (APEDs), particularly in relation to the objectives regarding pre-school education, school modernisation, curriculum revision, inclusive education, VET, and per capita funding for schools.

According to interlocutors, BS has been a crucial factor in the *strategic development* of the education system because BS has covered all aspects of education and helped to focus on vulnerable points of the sector. There was agreement among all interviewed state and non-state interlocutors that the jointly agreed BS indicators helped to commit the Government to its own priorities and thus markedly contributed to the strengthening of national commitments and ownership in the reform process. For example, BS was a key moment in the development and finalisation a national education qualification framework as a crucial step towards improving the quality of education.

However, the 2019 Evaluation of education BS found that several issues needed further strengthening to *increase overall relevance* of the EDS and APEDs, including links between policy, planned objectives, implementation of policy and reform actions and regular sector operations, resource allocation, prioritisation by sub-sector, and monitoring and evaluation of performance. Since the evaluation took place, progress has been made to address these shortcomings, but monitoring remains a weak point. The Education Management Information System (EMIS), which is a compulsory component of BS, is already in existence but still very limited in terms of coverage and data availability.

## **Electoral Reform**

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<sup>13</sup> SBSP 2007-2010 (EUR 40 million including EUR 2.25 for TA), SBSP 2011-2012 (EUR 13 million including 0.75 million TA), SBSP 2012-2014 (EUR 13 million including 0.75 million TA); and the Sector Reform Contract (SRC) 2015-2019 (EUR 30 million including EUR 4 million TA).

BS for electoral reform was aligned with the National Sustainable Development Strategy (NSDS) 2013-2017. The objective of electoral reform policy was *ensuring free and democratic elections* and *preventing fraudulent practices*. The NSDS called for sweeping reform and strengthened enforcement of election laws, greater media freedom to cover campaigns, improved conditions for the exercise of voting rights by vulnerable groups, including people with disabilities and ethnic minorities, and the introduction of new voter identification and voting technologies to prevent multiple voting, ballot box stuffing, and manipulation of vote count and tabulation. BS also responded to joint Venice Commission (VC) and OSCE/ODIHR recommendations. Priority areas of support were grouped under three specific objectives, namely, to increase: i) credibility, ii) inclusiveness and iii) transparency of electoral processes. BS seems a somewhat unusual choice as an aid modality to support electoral reform, given that elections are not a GoK area nor a sector – they fall, rather, under the domain of the Rule of Law -- and there was no “sector reform strategy” in place, only the aspirational NSDS (the production of the electoral reform strategy, which was approved, after a significant delay, in 2018, was one of the Specific Conditions of BS). Two rationales have been identified. First, the selection of BS was influenced by EU political priority to support GoK commitment, unique in the Central Asia region, to democratic reform. Overall, Kyrgyzstan was viewed as a comparatively reliable and constructive partner in the Central Asian region, one of growing strategic importance for the EU. Second, as sector policies are set and implemented by elected governments, electoral reform can be viewed as a meta-sector, in which improvements eventually have an impact on all sectors. The intervention logic and the associated indicators and targets have been consistently used to measure performance of BS operations across reporting periods, and the diverse set of BS inputs was an appropriate combination to take a broad approach to electoral reform. Capacity building and policy dialogue were important components of programme design.

At the same time, and with the violence that followed the October 2020 parliamentary elections in mind, the implementation and sustainability of electoral reforms was overestimated or, which is the same thing, risks were underestimated. The BS miscalculated the level of entrenched political distrust in the country; i.e., while correctly identifying legal and procedural barriers that are the visible tip of the iceberg, it *underestimated the challenging political culture* that lies below the surface.

#### *JC1A.2 The BS operations have been coherent with the development cooperation framework of the EU*

##### **Social Protection**

Budget support to SP was designed to be aligned with the Central Asia Regional Strategy Paper for 2007-2013 and the Multiannual Indicative Programme (MIP) for Kyrgyzstan for 2014-2020, also with the *“European Union and Central Asia: Strategy for a New Partnership”* initiative providing an overall framework for cooperation in the region. RSP 2007-2013 identified as *priority sectors* Central Asia regional cooperation and good neighbourly relations, poverty reduction and increase in living standards (under which SBSPs in social protection were supported), and good governance and economic reform. Focal sectors in the bilateral MIP 2014-2020 are integrated rural development, including delivery of basic social services and the phasing out of budget support to social protection, education, and Rule of Law. The recently closed SRC 2014-2019 was financed under this bilateral MIP. The SBSPs and SRC were also consistent with the EU's 2012 Communication on social protection in external action.

Among risks identified during formulation of the programmes were the *insufficient Government allocation* of budgetary resources to SP (particularly in view of possible revenue shortfalls), corruption, political instability, violence, and other contextual factors. As brought out in the Final Evaluation of the SBSPs and SRC, however, there was limited appreciation of mundane risks that the evaluators said could be better termed “realities.” These included low capacity, high staff turnover, limited ownership, poor interagency coordination, and similar institutional factors. The Identification Fiche for the SRC 2015-2019 did cite the risk of low capacity, but proposed to mitigate this merely with complementary assistance, not taking into account that TA provided in a setting of high turnover and dependency on outside advice would be of limited effectiveness. One possible

risk-mitigation factor is that BS to Social Protection was accompanied by support to PFM reform, both at sector level and to the Ministry of Finance and Chamber of Accounts<sup>14</sup>.

## **Education**

The *overall objective* of the MIP 2014-2020 states “to support the Government to implement structural reforms in the Education Sector in line with the EDS and the APED in order to enhance the quality of human capital, alleviate poverty, stimulate socio-economic development, and improve the quality of life of the citizens of Kyrgyzstan”. Of the specific objectives the first and second were directly and explicitly addressed by EU BS from the beginning: i) “To strengthen the capacities of the national and local authorities to formulate, implement and monitor educational policy, and to ensure sound and effective financial management and resource allocation”; ii) “To ensure equitable access to high-quality education and training”. The third objective (“to ensure greater synergy between the needs of the labour market and the skills and qualifications offered by the general and vocational education and training systems”) has been addressed since 2016 and is particularly included under the current 2019-2021 BS (AAP 2018&2019).

The RIP for Central Asia 2014-2020 did not include support for primary and secondary education amongst its objectives and focussed on *higher education* instead. Activities under RIP could thus be seen as complementary to BS while avoiding duplication. However, there were no strong linkages, between the national-level support to education and regional-level support to HE, to achieve a coherent and holistic approach covering all educational stages from pre-primary to university.

Risk assessment for the education sector takes place as part of the annual internal risk assessment in the EUD and was appropriate overall. Moreover, there is an independent Review mission in place.

## **Electoral Reform**

BS support to electoral reform is aligned with the MIP for the Kyrgyz Republic 2014-2020. Concerning Rule of Law, the *overall objective* identified for providing support to elections is to “promote credible, inclusive and transparent elections to ensure that the people of Kyrgyzstan can exercise their political rights and generally to strengthen democracy in the country.”

In 2014, in its annual Risk Management Framework (RMF), the EUD carried out an overall country risk profile and rated the average risk of the country as “substantial”, as compared to “moderate” in its previous assessment. The *major risks identified* that are specifically relevant for electoral reform are the following:

- Freedom of expression and the right to peaceful assembly are violated
- Legislative initiatives (e.g. “NGOs as foreign agents”) bring risks against civil society and human rights
- Many citizens may be omitted from voting rolls and the election outcomes may not be accepted as credible. Specifically, there are risks that many citizens will be omitted from voting due to the biometric data collection campaign, problems with registration of internal migrants, and lack of clarity on voting among the very high number of external migrants. Democratic space is shrinking.
- There is substantial risk for a violent conflict; e.g. due to tensions before elections, political instability, trans-national threats, etc.
- The effectiveness of the government is reduced, and corruption presents a major risk.

It is positive and important that the SRC presented a detailed summary of all risk factors, possible negative consequences, mitigating measures, progress on mitigating measures, and a comparison of the score/level of the risk as compared to previous assessments. The Action Document of the BS operations further highlights these risks. In its “Risks and Assumptions” table, it explains four major risks related to i) human rights and draft laws, ii) democracy/electoral process and related issues on voter registration and credibility, iii) new legal framework for elections, and iv) initiative to change the Constitution. Though not very detailed, it remains comprehensive and notes *mitigating measures* where possible. However, a weakness of risk assessment in electoral reform was that it underestimated (i) the structural and deeply embedded political culture of distrust that prevails in

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<sup>14</sup> Please refer to EQ3 for further details on support to PFM

Kyrgyzstan, (ii) the limited space for independent media, and (iii) the fact that the biometric voter identification system was a double-edged sword, limiting access as well as promoting inclusion.

#### **JC1A.3 The BS operations have *synergy and complementarity* among them, with other EC-funded operations, EU Member States and with other donors**

*Synergies and complementarity* between BS and blending operations are not strong. This is not a negative thing *per se* as the modalities differ from each other and address very different sectors. Nevertheless, both modalities are intended to contribute to common high-level objectives of GoK and EU, as reflected in the Overall Intervention Logic<sup>15</sup> of the programmes reconstructed by the evaluation team.

There are appropriate synergies and complementarities among budget support programmes in Kyrgyzstan and *with other EC-funded interventions* (projects) in the Education and Social Protection sectors. A common (but marginal) point of attention for the education and SP BS operations is the support to (education and social assistance to) persons with disabilities. Overall, there are also strong synergies and complementarities between the actions of DP, although with some differences in approach in SP and with little synergy between the support to education and Higher Education (HE).

#### **Social Protection**

The EU's consecutive SP sector BS operations make it by far the *largest donor* in the area. Several DPs, in addition to the EU, have been also active in the sector, each complementing the EU. They include: i) UNICEF in child protection; ii) WB in targeting of social assistance, supporting the automated information system at MoLSD (as it then was), and supporting a disability assessment system; iii) USAID support to the development of mechanisms for subcontracting non-state providers of social services and information; iv) WFP implementing "Food for Work" and "School Lunch" programmes.

The sector BS Final Evaluation found *consistent evidence* of synergies and complementarities, including with EU MS donors. While there has been complementarity, it must also be recognised that there are strategic differences. In SP, WB tends to favour improved targeting over universality; the EU tends otherwise (somewhat surprising, ILO had little voice in the SP policy debate in Kyrgyzstan). In child protection, the EU strongly supported outsourcing community service provision to NGOs, while UNICEF feared that such an approach, if rigidly applied, risked crowding out the public sector from what should be a basic public responsibility.

#### **Education**

*Synergies exist with other EU-funded programmes*, in particular Erasmus+ (ongoing), the Central Asia Education Platform (CAEP, 2012-2019) and the Central Asian Research and Education Network (CAREN, 2010-2019). EU Central Asian Education Platform events held in the past few years boosted bilateral cooperation between Kyrgyzstan, Latvia and Poland based on co-operation agreement in the field of education.

The EUD and other Development Partners, especially ADB, jointly worked towards the establishment of a National Qualification Framework (NQF) to *improve the authentication of the skills* of the Kyrgyz labour force and those who migrate to other countries. This is one of the targets of the ongoing education sector BS 2019-2021, and has already been achieved. According to interlocutors the EU and ADB cooperated to establish a National Qualifications Council. However, the EU and ADB proposed different NQFs. The ADB-proposed National NQF was said to be simpler and less costly for GoK in comparison with the EU-model of NQF, which was very comprehensive and more complex. Eventually, MoES prepared a consolidated draft based on the EU and ADB input. The NQF was adopted in 2019 and the related Action Plan was approved in 2020.

Some joint actions and measures have taken place in the form of similar triggers/conditions by key donors to *promote politically sensitive reforms*. According to interlocutors, upon agreement with ADB, WB and UNICEF, the EU put forward some "politically costly indicators" – which reflected the donors' common concerns – as BS targets such as a textbook renting scheme, pre-school education and

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<sup>15</sup> Please refer to Section 2.4: Intervention Logic

per-capita funding, all of which were successfully leveraged and achieved. The EU has channelled complementary support through DPs and International Organisations (e.g. WB has implemented the Multi-Donor Trust Fund MTTF or, WB together with UNICEF, have been implementing the Global Partnership for Education where EU is a co-funder). IOs have participated as observers of the EU Education Programme Steering Committees. As far as EU Member States are concerned, synergies have particularly been achieved with GIZ interventions in the field of TVET and directed at the labour market.

### **Electoral Reform**

Following the events of April 2010 and the commitment of the new government to democratic reform, EU support was channelled through the UNDP-implemented Kyrgyzstan Election Support Programme (KESP), a basket fund financing a number of parallel project contracts. Contributions came from the EU, Austria, Germany, UK, Japan, UNDP and the Open Society Institute. While UNDP set up a Phase II KESP basket fund, mostly to provide *TA to the Central Elections Commission* (CEC), several independent donor support programmes were also in place by the time the EU's budget support programme was formulated. South Korea supported provision of New Voting Technologies (NVT) equipment, software, and training. OSCE, with funding from Germany, Switzerland and Norway, provided advice on legislative changes, data security and protection regarding biometric data population register and voters list; and supported domestic election observation. Funding provided by Japan supported computers and fingerprint readers for voter identification on election day. USAID supported training, voter education, and domestic observation for the 2015 elections.

*JC1A.4 Cross-cutting issues (especially gender equality and inclusion of minorities) have been mainstreamed in the BS operations*

### **Social Protection**

While EU documentation consulted recognises the presence of ethnic inequalities and tensions, these did not explicitly figure in BS design. The Final Evaluation of sector BS for SP found that *design was not gender sensitive and gender was not incorporated in conditionality*. This is a striking weakness in an area where gender aspects are prominent and differentiated policy responses are needed. While there is a relatively strong legislative structure for gender equality in the country, it is not implemented. Where inclusion was at the heart of the EU BS, it was related to improving access to basic social services for vulnerable populations, and in particular children and the disabled.

### **Education**

Gender mainstreaming has received limited attention in the design and objectives of BS, only in the last BS programme. It must be noted that *GoK was committed to gender mainstreaming* in national development planning and, in practice, *EU supported the efforts during implementation*. To advance with SDG 5 (achieve gender equality and empower all women and girls), the EUD financed a Gender Study (2017) and its findings and recommendations were considered in new development plans of the Government. At the time of the evaluation, MoES was in the process of implementing measures to address gender issues from the education perspectives in the current (EU-supported) APED 2018-2020. In November 2019 a methodology and regulation on anti-discrimination and gender expertise was approved. Furthermore, the MoES undertook a textbook review in order to eliminate gender stereotypes in school learning materials.

The objectives of the thematic priority of the EU's GAP (Women's Economic and Social Empowerment) were addressed during the implementation of the BS operations. The *gender analysis recommendations* produced in 2017 were used to inform the design of the SRPC. Some indicators are gender-specific and require gender disaggregated data and aim to promote a rights-based approach in the education policy. Sex-disaggregated data is required to be reported in the EMIS, which is a compulsory component of SRPC. The requirements for gender expertise of all new textbooks and gender disaggregated data are part of the policy matrix enabling to leverage improvement of gender equality in education sector. Furthermore, multilanguage education is a crucial focal point of BS to strengthen the inclusion of minorities.

## Electoral Reform

Relevant gender issues in the electoral system were identified and taken into consideration in the design of the BS operation. At the project identification stage, a *Gender Equality Screening Checklist* was undertaken to, inter alia, ensure gender issues relevant to the project were identified and raised the importance of considering gender-disaggregated statistics and a gendered stakeholder analysis. The Action Document of the Electoral Reform BS operations marks gender as a “significant objective”. Within the framework of the EU Gender Action Plan 2016-2020, the project is set to contribute to “Women’s increased participation in policy, governance and electoral processes at all levels”. In terms of dialogue and donor coordination, DPCC’s 2019 report showcases important considerations related to gender as they discussed the 30% gender quota for local elections, its impact and alignment with international standards. Gender is also raised, although briefly, in the yearly BS Eligibility Assessments. For instance, both the 2018 and 2019 disbursement notes make reference to attempting to renew commitment to SDGs 5 (Achieving gender equality and empower all women and girls) and 16 (Promote peaceful and inclusive societies) during the work of each reporting period. By comparison with gender, *promotion of ethnic minorities inclusion was limited*. Although the Action Document makes reference to the importance of minority representation in the public sphere, it is not identified as one of the cross-cutting issues addressed in this action, while the human rights-based approach and the promotion of gender-based policies are specifically addressed.

## 4.2 EQ1B: Relevance and design of blending operations

To what extent has the design of the blending operations responded to the specificities of the country context (incl. evolution in country needs and government's policies) and the evolution in the aid framework at country and global level?



### Overall Answer to the Evaluation Question

Blending operations have been *responsive to country context and GoK priorities* (even as the rules and requirements for blending support were themselves developed around 2015). GoK policies have changed little over the past decade although such stasis has been the result of a lack of action in implementing agreed reforms, especially in the water sector but also in some aspects of the energy sector (as regards tariff reform). Support to the energy and water sectors demonstrates a *concentration on infrastructure, institutional support and capacity building outputs* in the earlier part of the evaluation period, with increasing consideration (and reporting) of social (and gender) issues in recent years. Blending operations have been aimed at sector priorities but it is less clear how blending projects supporting utility companies are expected to leverage this investment ‘footprint’ into policy dialogue and sector reform.

Blending operations in both water and energy sectors have been *coherent with the development cooperation framework of the EU* (and EBRD) including bilateral and regional programming documents and have synergy and complementarity with other EC-funded operations, EU Member States and with other donors. The overall guidance framework has evolved and some blending projects have accommodated such changes in successive project phases (e.g. KyrSEFF I and II).

With the exception of gender, *cross-cutting issues have been acknowledged* in blending operations design albeit that they may not have been described directly (e.g. climate change mitigation and resilience is little-mentioned and yet blending projects potentially address such issues). As regards gender issues recent studies in the water sector found serious concerns ('gender blindness') concerning sector policy frameworks. However, in recent years there has been more coverage of gender issues in both energy and water sectors.

The *link to poverty* of project outputs and outcomes is assumed rather than demonstrated through impacts on economic growth and social wellbeing, with a presumed, but not confirmed, ‘trickle down’ impact upon poverty of capital investment in infrastructure.

### JC1B.1 The blending operations have been **responsive** to the country context and GoK priorities

Blending operations were focused on addressing **sector priorities** such as supporting service provision operations of **utility companies, resource efficiency and sustainability**. However, given the limited policy reforms, strategic changes and alignment of national policies that have resulted from policy dialogue associated with the blending portfolio (especially in the water sector) the level of GoK coherence to the sector development gives pause for thought. It is not clear either how blending projects that are focused on raising capacities of utility companies can actually contribute to overall policy dialogue and sector reform.

The design of blending operations has not built on clearly defined ILs. No full Theory of Change or Logical Framework (LFM) has been identified for any project in either sector. Whilst consultations have taken place for preparation of all projects it appears to have focussed more at institutional than at community or beneficiary levels. The **link of project inputs** and outputs to development outcomes and contribution to poverty alleviation is **assumed rather than evinced**.

Overall **target groups** are implied rather than specifically identified but given the poor quality of service provision (which the support projects directly address) the needs of target groups (taken to be the population served by a water company) are clear enough. Consultation before project submission included EUD, geographic units, local partners, regional organisations and other stakeholders. The implementation arrangements for all sector blending projects involve the utility company being supported by TA working with a PIU set up by the utility specifically for project implementation (i.e. support to the PIU covers design, procurement and construction supervision).

#### Water

All water sector blending projects have a very similar approach (i.e. rehabilitation/provision of infrastructure together with TA support to implementation and institutional capacity building) and the **objectives of water sector blending projects** have remained consistent throughout as the basic needs (service delivery, potable water supply, wastewater management, cost recovery, institutional capacity building, environmental protection and sustainability issues) have been largely and steadily featured in sector legislation and policy. Only in more recent projects has reference been made to Integrated Water Resource Management (IWRM) and reforms to water supply and sanitation services<sup>16</sup>. Beneficiary institutions' human, financial and institutional capacities and needs have been taken into account and, in general, counterparts welcomed the support offered by projects.

National policies and programmes have been little implemented by GoK in practical terms, as the Water Code of 2005 was never fully enforced whilst the State Water Agency only became operational (to a limited extent) in 2019 and effectiveness was then constrained by the COVID-19 pandemic and further political upheaval. The constant institutional changes among the different agencies and departments dealing with water resources do not allow the necessary stability for reforms.

#### Energy

The government has, until recently, avoided tackling the sector's **long-term issues**, as the low running costs of the pre-dominant hydro generation capacity allowed it to keep low tariffs for the end-users. However, the adverse hydrology in recent years has ended this situation and energy efficiency has become increasingly important. Energy efficiency was an important policy orientation in the *National Energy Programme (NEP)* and the consecutive *National Strategies for Sustainable Development (2013-2017 and 2018-2040)*. Efficiency has been a fundamental element of blending projects in the energy sector as Kyrgyzstan still imports >65% of its primary energy supply. Market barriers were identified that prevented priority investments in energy efficiency. These consist mainly in a lack of technical expertise and finance, missing focus on energy efficiency (financing or marketing), lack of awareness and information and absence of market mechanisms. Blending projects in the energy sector are of **two different models**:

- Oshelectro Rehabilitation is a predominantly **infrastructure** and **institutional capacity building** project with target groups of end beneficiaries and their needs not identified except in general terms (e.g. 345.000 residential customers and 23.000 legal entities).

<sup>16</sup> E.g. 399645 – Support to the Kyrgyz Republic Water and Wastewater Investments Phase III.

- KyrSEFF I & II provides credit lines for PFIs (Participating Financial Institutions) for *on-lending to private sector borrowers for sustainable energy investment* (e.g. insulation, better doors/windows, heat pumps, boilers, solar panels). In design of the project there was consultation with commercial banks and MFIs (Micro-Finance Institutions) as well as potential beneficiaries and government institutions. KyrSEFF I & II did not identify target groups except as regards the two on-lending windows (residential and commercial/business/industrial energy efficiency) although PFIs and MFIs could also be considered as indirect target beneficiaries in terms of capacity building. The KyrSEFF I & II TA and capacity building are directed at financial institutions and implementers (such as suppliers and installers of equipment) more than the final borrowers of funds for energy-efficiency works (SMEs and households) although final borrowers did receive advice on choice of suitable replacement equipment and economic considerations<sup>17</sup>.

#### *JC1B.2 The blending operations have been coherent with the development cooperation framework of the EU*

Blending interventions respond to the three EU programming documents covering the scope of the evaluation i.e. Regional Strategy Paper (RIP) 2007-2013; Multi-annual Indicative Programme (MIP) for Kyrgyzstan 2014-2020 and Regional MIP Central Asia 2014-2020. Blending operations normally fall under the regional envelope financed by the Investment Facility for Central Asia (IFCA).

The *design of blending operations* has been compliant with changes in EU guidance framework for blending. Blending operations in Kyrgyzstan date back to 2013. Whilst documentation and guidance frameworks were available for preparation of these early blending projects, other key elements such as the Guidelines on EU blending Operations (which set out key strategic and operational aspects) were only published in 2015 and disseminated in 2016. Similarly, a revised and more comprehensive application format was introduced in 2014. Thus, some elements of the guidance framework were developed as the Kyrgyzstan blending programme was already in progress suggesting some degree of 'learning by doing' at country, regional (and EU HQ) levels. In addition, project selection criteria have become more demanding<sup>18</sup>. Training in theory and practise of blending has been rolled out in parallel with these changes at EUDs and HQ, plus blending presentations at regional and thematic meetings including seminars for IFI partners (including EBRD, EIB, AFD, KfW, AECID and ADB).

Overall, *risk identification appears realistic*, but most identified mitigation measures rely upon action by government (e.g. tariff reform) and are thus outside of the control (or remit) of the project (or financing agency), although such issues have been the subject of dialogue for many years. A direct comparison of perceived risks between KyrSEFF and Oshelectro would not be a valid approach although essentially implementation risks are a feature of both (and progress reporting understandably focusses on implementation rather than longer term outcomes and sustainability). Sustainability is not identified as a risk despite most identified risks would directly impact upon sustainability prospects. In the energy sector explicit risk assessment was carried out for the Oshelectro Rehabilitation Project but no explicit risk assessment has been scrutinised for KyrSEFF I and II, although it is possible to identify risks (and mitigation measures) from progress reports. In the water sector, a standard-format risk assessment has been scrutinised for four out of seven (4/7) water sector blending projects covering the same identified risks<sup>19</sup>. Given the similarity of concept and approach of all these projects, the almost word-for-word similarity of proposed mitigation measures is perhaps to be expected.

<sup>17</sup> SMEs received technical assessment, advisory services in choosing the right equipment, economic and financial analysis (NPV/IRR/payback), and implementation monitoring and verification. Households were advised by local consultants' regional outreach activities on innovative replacement equipment (e.g. heat pumps) replace coal stoves and support on home insulation.

<sup>18</sup> i.e., 'hard' (grant size, sector, geography), 'soft' (project design features) and policy alignment with facility and beneficiary country policy objectives

<sup>19</sup> i.e., political (potential unwillingness to accept or implement a full-cost recovery tariff), economic (borrower's capacity to service the debt), financial (affordability and tariff setting), social, environmental and implementation

### **JC1B.3 The blending operations have synergy and complementarity among them, with other EC-funded operations, EU Member States and with other donors**

As mentioned for BS, further to common objectives at the impact level, no particular synergies or complementarity is found between BS and blending in Kyrgyzstan, as the sectors addressed are very different. The situation is similar for synergies between blending operations in the energy and water sectors, as they cover different issues and complementarities are not obvious (which is not a bad thing). An exception to this is that KysEFF II has financed over 15 projects in water efficiency in the agriculture and hospitality sectors.

**Synergies and complementarity** can be found between blending operations and other interventions from EU MS (particularly KfW and the – then EU MS – UK, and to a smaller extent with AFD and AECID), EIB and non-EU donors including EBRD, SECO and ADB. The number of actors in the water and wastewater sector is much larger than in the energy sector.

**EBRD is the EU's main partner** for the implementation of blending operations in Kyrgyzstan. It participates in all EU interventions in the country using the blended finance modality and is therefore a key stakeholder of this evaluation. The EBRD Country Strategy for the Kyrgyz Republic for the period 2015-2018 was designed to continue to support municipal water utilities and seek to support sustainability of the power sector by rehabilitating assets and developing a more attractive institutional framework for private investment<sup>20</sup>. EBRD loans and IFCA grants<sup>21</sup> are common to all projects in both water and energy sectors and represent the only financing for energy sector blending projects. Water sector financing sources are more varied with various IFIs and facilities/modalities represented in sector blending projects.<sup>22</sup> There are no examples of use of IRS, guarantees, equity or risk capital investment. For loan financing the greatest coherence is between EBRD and EIB (4/7 water projects) whilst the Asian Development Bank (ADB) and the Swiss State Secretariat for Economic Affairs (SECO) only combined with EBRD and EIB on a single project<sup>23</sup>. For grant financing SCCF (IG) is represented in 2/7 water sector projects with SECO only in one single project. The European Investment Bank (EIB) participates with the EU and EBRD in the three phases of the Support to the Kyrgyz Republic for water and wastewater investment projects. Other donors are also carrying on projects in the water and energy sector in Kyrgyzstan: ADB has participated with the EU in two operations in the Kyrgyz Republic<sup>24</sup>, World Bank (WB); United States Agency for International Development (USAID); Department for International Development DFID – UK; and KfW Development Bank.

It must be noted that due to debt sustainability concerns, any public infrastructure projects financed by loans must be financed with 35% of co-financing grants or concessional loans from other IFIs or bilateral donors.

### **JC1B.4 Cross-cutting issues have been mainstreamed in the blending operations design**

The two most commonly mentioned cross-cutting issues in water sector project documentation are environment and gender issues. Despite reference to gender issues being mainstreamed in project design for some water sector projects (and integration of gender and social issues into Social Support Programmes, SSPs) it is noticeable that there is concentration upon ‘hardware’ in project targets and monitoring. Lately, in both energy and water sectors gender and social issues have been better considered, as EBRD guidelines require more explicit inclusion of cross-cutting aspects. Yet there is limited explicit reference to gender issues in the range of pre-2019 documentation scrutinised and for most of the scope of this evaluation.

The **Kyrgyz counterparts** at national level do not yet fully own the process of integrating cross-cutting issues in general, and gender in particular. Particularly for the water sector, even now there are doubts expressed concerning coverage of gender issues, involvement of vulnerable groups and

<sup>20</sup> Policy Dialogue: the Bank conducted policy dialogue to address remaining issues in the investment climate, to further its efforts to strengthen the regulatory and legal basis for energy efficiency investment and to improve the macro-prudential environment for local currency finance

<sup>21</sup> Usually investment grant and/or TA, TC and ‘incentives’ (for KyrSEFF I & II)

<sup>22</sup> Loans – EBRD, EIB, ADB, SECO; Grants – IFCA, EBRD, SCCF, SECO

<sup>23</sup> Support to the Kyrgyz Republic for Water and Wastewater Investments: Tranche II – Uzgen, Jalal Abad II, Toktogul, Balykchi, Maili-Suy Karakol, this intervention has the largest financing package in the water sector blending programme (EUR 57.35 million).

<sup>24</sup> Phases 2 and 3 of the Support to the Kyrgyz Republic for Water and Wastewater Investments (2016-2020) project

community involvement. Five of the seven (5/7) water sector projects have reference to gender under blending ‘Monitoring and Evaluation’ in a single sentence. Other water sector blending projects assert that ‘*Gender issues are mainstreamed into the project design*’ without further detail and/or note that the SSP will consider integrating gender and social norms. There is little or no evidence of gender mainstreaming or promotion of gender equality in blending operations design in the energy sector or in related policy dialogue. There is only a single reference to coverage of gender issues for Oshelectro Rehabilitation Project and little reference is made in design of KyrSEFF I and KyrSEFF II. That being said, there is reporting on aspects of gender coverage under KyrSEFF.

*Climate Change*<sup>25</sup> is identified as a cross-cutting issue in blending operations but a systematic approach to the possible incidence of projects and related policy is missing, most monitoring indicators concentrate on infrastructure. Blending interventions have concentrated on reducing losses and energy consumption and on the sustainability of operations all of which lead towards greater climate change resilience. Water sector blending projects make reference to climate change albeit with some conflation with more general environmental issues. Typically, there is reference to “...water supplies are vulnerable to the projected impacts of climate change on water resources...” and to climate change resilience or mitigation being an expected project result. The energy sector is “characterised by a high rate of energy issues, obsolete energy infrastructure and outdated and inefficient equipment at both energy supply and energy end-use levels. Improving energy efficiency is important[...].”<sup>26</sup> This statement neatly summarises the mitigation response of energy sector blending projects to effects of climate change although there is little or no mention of climate change per se in project documentation. This said, in practice project objectives of Oshelectro Rehabilitation Project and KyrSEFF are fully responsive to aims of mitigation and adaptation to climate change.

The inclusion of minorities does not seem to be a priority in the *design of blending projects*, probably because the focus is on infrastructures rather than on end-users of the services. All sector blending projects include a SSP which includes potential support to low-income families (which could indirectly suppose support to minorities) but minorities are not identified as such in water nor in energy sector project documentation scrutinised. Project results (outputs and outcomes) are not disaggregated by target groups other than as identified in energy sector operations by geographical location and/or (partially) by sub-project (e.g. clothing, agri-businesses, catering, commercial) and there is no acknowledgement of possible relationships between income and ethnicity of water users. ‘Rights’ of target groups are not explicitly discussed in project documentation (unless it is taken that a population has a right to access to potable water and wastewater treatment).

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<sup>25</sup> Climate change has contributed to an average temperature increase of 4.8 – 6 degrees centigrade in the past 20 years which has led to droughts. Glaciers which supply 90% of water in Kyrgyzstan have shrunk by 15% in 30 years.

<sup>26</sup> 4<sup>th</sup> Annual Donor Report 2019 – KyrSEFF II

### 4.3 EQ2A Opportunity framework in Social Protection, Education, PFM and electoral reform (direct outputs of budget support)

To what extent have the financial and non-financial inputs of budget support contributed to creating new opportunities for the GoK and improved the aid framework at national level?



#### Overall Answer to the Evaluation Question

The contribution of EU inputs in the frame of BS operation in SP, education and electoral reform has overall been *relevant and well balanced*. EU disbursements, policy dialogue and complementary support (TA and grants) have each played a role and together they have effectively supported the targeted policies.

BS disbursements are understood to have created *fiscal space* that GoK potentially used to finance priority policy initiatives. This was possible thanks to an orthodox management by GoK of BS payments, which were non-targeted and effectively fungible with the Republican Budget. EUR 138.4 million were paid out in the 2009-2019 period, a significant figure for the GoK both in absolute and relative terms. Overall *performance of BS operations* was good in terms of amounts paid and with good annual predictability (88% of allocations were disbursed, of which 84% in the year programmed). Nevertheless, most payments were done late into the fiscal year (68% in December), which in some cases posed some problems for the in-year execution of funds and should be a point of attention in the future.

*Policy dialogue* is held regularly, with the EU playing an *active role* at all levels. In SP, policy dialogue was especially fruitful in the area of de-institutionalisation and made a significant contribution to advancing the de-institutionalisation agenda, while in education dialogue between MoES, DPs, and the public has improved continuously and markedly since 2013. Nevertheless, there seems to be no systematic records kept for each round or mile-stone policy dialogue held, a weakness given the *virtual absence of institutional memory* due to high turn-over in the GoK and changes in DP staff other than the EU. Policy dialogue in Electoral Reform was somewhat strained early in the BS when the Venice Commission was highly critical of the first draft Strategy.

The provision of *complementary measures* has proven as a key factor in facilitating and guiding some key reforms and related policy measures. This was even more the case for electoral reform, where TA providers were highly appropriate and grants to CSOs assisted in building stronger civil society participation and overview. In education, TA was effective and grants to CSO were also important to promote reform and inclusion. In SP, *TA was very important* to support policy dialogue and adapting frameworks but had a less effective role in capacity building. A number of factors discussed under JC2A3, ranging from high turnover to lack of complementary measures to support deinstitutionalisation to low GoK inter-agency coordination and the short-term, profit motivated nature of contracting out social service provision limited the effectiveness of TA.

BS has contributed to *build on existing initiatives* to improve donor coordination in BS-supported topics, particularly through policy dialogue, although the leadership of GoK is not always strong. The Development Partners Coordination Council (DPCC) is a good example of alignment among Development Partners (DP) and collaboration among EU and with non-EU agencies is notable. Joint Programming is not yet a reality, though.

#### JC2A.1 The disbursements of the BS operations have been predictable and have increased size and share of budget available for discretionary spending

The funds scheduled to be disbursed to the Central Treasury for all the BS operations evaluated EUR 137.5 million in the FA. The amount actually disbursed was EUR 138.4 million (equivalent to KGS 10.56 billion) or more than 100% of the total allocated funding<sup>27</sup> However, it should be noted that an additional amount of EUR 17.3 million was disbursed<sup>28</sup> for COVID-19 impact mitigation and support to the GoK. Thus, there would be EUR 121.1 million or 88% of the total originally allocated

<sup>27</sup> Table 4 of Volume 2.

<sup>28</sup> Additional BS funds were provided through SRC Social protection (EUR 9.5 million) and SRPC Education operations (EUR 7.8 million

funding, without that additional amount. This figure is very close to the international standard of disbursements, higher than 90% of the scheduled funding being considered a good performance.

BS disbursements allowed the GoK to plan for the availability of these funds with a *high degree of certainty*. The funds scheduled as Fixed Tranche (FT) disbursements were fully disbursed. In the meantime, the GoK did not receive about EUR 16.4 million of Variable Tranches between 2010 and 2020 due to the underperformance regarding some of the targets defined for the agreed indicators. Most BS disbursements arrived in the fiscal years expected in the FA but a closer analysis shows that disbursements arrived very late into the fiscal year, potentially having negative implication on GoK budgetary programming and spending. The total amount of funds disbursed in the expected year was EUR 116.9 million, equivalent to 84% of the total disbursed in the period as a whole, which would in principle be reasonably positive and allow the GoK to plan for the availability of these funds with a high degree of certainty. Nevertheless, 68% of the total disbursed amounts between 2010 and 2020 were transferred to the Central Treasury in December. This practice can probably be improved by advancing the dates of GoK disbursement requests or by moving the plan of disbursements to the first quarter of the next fiscal year instead of the last quarter of relevant year. Additionally, a review of compliance with the quarterly disbursement schedules shows differences with the arrangements established in the Financing Agreements and actual disbursements<sup>29</sup>. In most cases delays in the quarterly disbursements of BS funds are due to late implementation of program conditions. These differences between scheduled and disbursed quarterly amounts as well as disbursement of funds at the end of financial year *complicate proper cash management* of the Central Treasury. Delays may lead to MoF temporarily authorising only priority expenditures (such as wages, social benefits, pensions, etc.) while non-priority expenditure is subject to income from other resources, therefore the efficiency of ministries programs implementation can be reduced.

The share of BS funds provided by EU between 2010 and 2019<sup>30</sup> was relatively noticeable and, in general, allowed to increase discretionary expenditures. One of the main opportunities that budget support modality is expected to bring is an increase in fiscal space, defined as revenue available to allocate to priority objectives that would otherwise not be financed. Disbursements were in average 0.95 of tax revenue, 4.41% of deficit before grants, 0.61% of total expenditures and 4.04% of capital expenditures. In absolute values, overall budget discretionary expenditures increased from KGS 48.5 billion in 2009 to KGS 128.3 billion in 2019 (growth – 2.6 times compare to 2009).

**JC2A.2** *The frameworks for policy dialogue and learning have been strengthened, effectively cover both performance assessment and broader policy issues and combine appropriately with BS monitoring structures*

### **Social Protection**

In SP, the SPSP indicators, i.e., the Policy Matrix and, in particular, Key Performance Indicators (KPIs) were a good basis for policy dialogue. The *SP Sector Steering Committee* (MoLSD, MoH, MoES, Ministry of Foreign Affairs) was headed by the MoLSD. The EUD co-chaired the Steering Committee which met twice a year. The Task Manager at the EUD normally held daily meetings / communication through the TA with the stakeholders, although not all of these can be considered formal Policy Dialogue. Policy dialogue was especially fruitful in the area of de-institutionalisation and made a significant contribution to advancing the de-institutionalisation agenda. According to the Final Report of the 2015-2019 SRC, ownership at the beginning of the SRC was weak and faced opposition (particularly from MoES). While expressing some doubts on whether budget support was the most effective approach, the Final Report concluded that observed policy changes (e.g. expansion of foster care and provision of social services through CSOs, as well as progress on the Child Residential Institution Optimisation Plan) would not have materialised in the absence of budget support. The main actors in the Social Protection WG at the level of Development Partners Coordination Council (DPCC) are the EUD and UNICEF, both with reasonably aligned approaches but with a different view on the convenience of contracting out social services.

The EU has promoted the role of civil society in national SP (and education) dialogues through *joint work on the sector strategy* with CSOs, involvement of civil society in monitoring implementation of

<sup>29</sup> Figure 2 of Volume 2

<sup>30</sup> Table 5 of Volume 2

the SP sector strategy and the promotion of contracting-out for the provision of social services. Government's attitude towards civil society in the area of SP has been constructive. Based on the Law on Social Services, to whose drafting EU BS contributed, CSOs have been commissioned to provide community services to vulnerable populations, especially but not only disabled children. The performance monitoring and assessment of BS SBSPs have been conducted regularly., in accordance with the framework included in the FAs. The internal reviews, as well as day-to-day monitoring of the SBSPs were supported by the TA teams. In addition, several External Review Missions have been conducted to assess whether the General and Specific Conditions as stated in the FAs were fulfilled and if the committed funds could be disbursed. As noted under JC1A.1, non-compliance with conditionality indicators led to significant reductions in disbursements, were persistent, and aroused concern that BS conditionality (i.e., indicators) was being diluted to the point of being a budget subsidy.

## **Education**

In education, policy dialogue had taken place on a regular basis already in 2011 but the start of the budget support operation provided a particular push. The policy dialogue between MoES, DPs, and the public has improved continuously and markedly since 2013. This is mainly due to the establishment of the *Joint Steering Committee on education* (chaired by MoES of the GoK and co-chaired by the EUD), which is responsible for oversight of the ongoing Education Sector Reform Contract (ESRC), the Education Sector Donor Working Group, Public Advisory Council (PAC), and the Joint Project Implementation Unit (PIU). All fora have been functioning well and facilitated a process that enabled a more holistic approach to education sector development. Overall, BS has provided a stable environment and entry point in facilitating policy-led dialogue in the fields of education sector governance and systemic reform. SPSP and SRC were assessed as being highly effective in supporting the policy dialogue (I-2A.2.1).

MoES has organised annual public hearing events in the form of conferences and round tables with participation of the civil society organisations and the Development Partners, where MoES discusses results of implementation of the ongoing Annual Action Plan and presents the new plan covering 2021-2023 with the expected budget for coming year.

As part of the dialogue process between sectoral stakeholders, substantial time and efforts have been devoted to the planning process in support of developing the Education Development Strategy 2020 and the Action Plans (APED 2012-2014, 2015-2017, 2018-2020) and in relation to performance monitoring.

## **Electoral Reform**

At political level, there was regular dialogue in the area of electoral reform aimed to address bottlenecks and agree on removal of obstacles on the way to achieve the expected results of the programme. At strategic level, policy dialogue sought to build consensus with relevant authorities on achievement of indicators, on challenges faced, and on quality of results. The Programme Manager and Head of Delegation met with the President on an ad hoc basis. The Head of Cooperation met with the Ministry of Foreign Affairs at Deputy Minister level and the HoC and/or Programme Manager met on an ad hoc basis with the heads of the CEC and SRS. Interlocutors of the Programme Manager and Head of Cooperation were, in addition to the above, the presidential administration and the *donor coordination Working Group on Elections*. At operational level, policy dialogue under budget support aimed to increase the credibility of electoral processes; to improve inclusiveness of electoral processes; to increase transparency in the management of electoral processes; to elaborate and adopt new and comprehensive Strategy on democratic and electoral reform. Interlocutors of the Programme Manager were representatives of civil society, the Venice Commission, the Ministry of Finance (which was responsible for allocations to the CEC), the CEC itself (specifically, the head of the international department), and the SRS. As mentioned above, policy dialogue with the CEC was strained early in the BS by the VC's criticism of the first draft of the Electoral Reform Strategy, which contributed to the fact that the Strategy was delayed until 2018.

A *working group on Electoral Assistance* was formed under the Development Partners Coordination Council in order to determine the main challenges, measures and the means of coordination of interventions. The group also developed a matrix with development partner activities in the electoral sector (i.e., UNDP, OSCE, German Embassy, EUD, Swiss Embassy, USAID, JICA and DfID), and

produces annual reports to summarize main discussion points, achievements, challenges and future objectives.

**JC2A.3 Complementary support has been used efficiently and strategically for analytical and capacity-building work related to the formulation and implementation of public policies at national and local level**

### **Social Protection<sup>31</sup>**

TAs have mainly been allocated to the MoF and MoLSD, covering Internal Audit, performance monitoring, assessments and reporting, as well as other institutional and capacity building activities to support implementation of social sector reform programmes, particularly those wholly financed by the central government Republican Budget (i.e. the main social assistance programmes: Monthly Benefit for Poor Families with Children (MBPF) and Monthly Social Benefit (MSB), aimed at specific categories of persons such as the disabled. TA has not been directed to the Social Fund, which is responsible for social insurance pensions, but which receives significant subsidy from the Republican Budget (see also the discussion under JC3A.2 below). MoES received some support.

The TAs were helpful in maintaining the flow of dialogue with the EUD, while assisting with meeting the KPIs, drafting some of legislative documents as well as co-ordinating between the GoK, DPs active in the social sector, and NGOs. These contributions must have all enhanced effective high-level policy dialogue in targeted areas. TAs contributed to the implementation of certain Policy Matrix Indicators and targets pertinent to General and Specific Conditions. Further positive effects regarding the MoLSD resulted from *social assistance targeting* broadening beneficiary access to community social services (e.g. by drafting job descriptions and setting educational qualification requirements for social workers, personal assistants, physical therapists, and occupational therapists), functional analysis, profiling new organisational structures, and delivering end-user trainings. With EU TA support, the MoLSD put in place a functioning unit for the monitoring and inspection of both public and private residential institutions. TAs efforts have also proven helpful for drafting normative documents, especially in drafting the Social Service Law, an important piece of legislation that made possible the out-sourcing of social service provision to NGOs. Note that, as of the time of the SRC Final Report, the Social Service Law had still not been adopted.

### **Education**

The TA and other complementary measures linked to the budget support were performed timely, efficiently and in full, according to the 2019 BS evaluation, EU documents and interlocutors. TA was mostly channelled through private sector companies and the German Konrad Adenauer Stiftung (KAS). The BS Evaluation rates overall conversion of BS inputs and means into actions during implementation as “*efficient*”.

#### **Box 1 Accompanying measures to EU BS in the education sector**

- Support to the Education Sector in the Kyrgyz Republic (Addendum to contract 335-360), EUR 1.5 million, c2016-375672
- Development of financial mechanisms for a safe educational environment at schools in the Kyrgyz Republic, EUR 1 million, c2016-380726
- Strengthening the education attainment assessment to affect decisions about instructional needs, curriculum and funding, EUR 1 million, c2016-380735
- Public awareness and visibility of the education sector reform contract, EUR 217k, c2018-390686
- Promotion of IT training for people with disabilities, EUR 264k, c2017-391553
- Promotion of inclusive education in Kyrgyzstan, EUR 600k, c2019-399011

Source: EU Education SBS Evaluation 2019.

Some CSOs have participated in the education project activities related to research, studies and trainings at the local and national level. In addition, two contracts were awarded in the beginning of 2017 to European NGOs in partnership with local CSOs under the Call for Proposals to support education reforms at the grass root level and promote inclusive education. According to the EUD

<sup>31</sup> BS support to SP included also support to PFM reform. The analysis on complementary support to PFM can be found under EQ3.

and interviewed NGO representatives , these projects added value to the promotion of safety schools with special attention to healthy environmental and psychological aspects; and the student assessment and promotion of inclusive education. The KAS project (2018-2019) in particular elaborated national safety standards which were subsequently approved by the Government. It also established “Centres for tolerance and a safe educational environment” at three selected pilot universities (Kyrgyz State University, Osh State University, and Adam University).

### **Electoral Reform**

Complementary support in the form of two grants to support technical assistance projects made tangible contributions to electoral reform. The first focused on *civil society contribution to the electoral reform process* and was coordinated by the Coalition for Democracy and Civil Society (CDCS); the second, implemented by the Venice Commission (VC), had as overall objective to support the national counterparts in electoral reform and practice in line with applicable European and international standards through provision of advice on legislative reform and its effective implementation. The first TA aimed to conduct a nationwide voter education campaign in support of transparent, inclusive and effective electoral processes in the run-up to the 2017 presidential elections, with delivery of voter awareness materials via broadcast, digital and print channels, as well as public discussion forums. It aimed to elevate civil society support to the electoral reform process through specialized research and publications, public opinion polls, policy discussions and CSO coordination, working mostly through the Committee for Civic Control, the civil society platform formed after the violent political transition of 2010. As part of this TA a legal aid NGO, Legal Clinic Adilet, provided nationwide electoral rights legal aid services to citizens through a combination of telephone hotline, individual counselling and legal defence. A stakeholder interviewed expressed the opinion that Adilet's provision of technical advice went well beyond what was strictly required by the contract (see also JC4A.1).

The second, VC implemented, TA focused on i) developing a comprehensive strategy, ii) building capacity of SRS and CEC to ensure the accuracy of voter lists and inclusiveness for the 2017 Presidential election, iii) developing a complaints and appeals system, iv) strengthening data protection systems, and v) building capacity of a range of stakeholders including electoral commissions and political parties. Main activities were the provision of expert advice on issues identified by the authorities and legal opinions on request, study visits to CoE member states, and training courses. Despite some difficulties encountered with national authorities in maintaining constructive dialogue and fruitful cooperation, (the VC was reportedly very critical of the first draft of the strategy, arousing some degree of opposition within the Government), the quality of deliverables was ensured through the VC's inclusive approach and strong expertise. Moreover, the VC ensured resources were used in an optimal manner by co-operating and coordinating its activities with other international organisations to avoid duplication and combine efforts.

### ***JC2A.4 There have been positive trends in the level of harmonization of International Cooperation in Kyrgyzstan, and a decrease in transaction costs***

budget support has contributed to build on existing initiatives to improve donor coordination, particularly through policy dialogue. Although donor coordination has not been traditionally strong in Kyrgyzstan, the *Development Partners Coordination Council* (DPCC) has improved the situation. In the last decade different donors have been active in the education, social protection sectors, as well as in PFM. The use of a Joint Matrix among donors has been useful to coordinate their work across the different sectors, define a clear division of labour and cooperation, promoting ownership and also to providing timely information. In the Education Sector, the Development Partners Coordination Council (DPCC) sub-group a division of labour between the donors has been jointly elaborated and followed. Furthermore, similar triggers/conditions were put forward by key donors such as WB, ADB and EU to promote politically sensitive reforms such as textbook renting scheme and per-capita funding; In the Social Protection Sector, the DPCC working group on Social and Child Protection is in place. The EU Delegation chairs the working group together with UNICEF and coordination meetings on social protection issues take place at least twice a year; Regarding the Electoral Reform, a working group on Electoral Assistance was formed under the DPCC and it developed a

matrix with development partner activities in the electoral sector (i.e., UNDP, OSCE, German Embassy, EUD, Swiss Embassy, USAID, JICA and DfID), and produces annual reports.

The EU Joint programming strategy is yet to be developed. Steps have been taken in 2016 by the EU Delegation and Member States to elaborate a joint programming roadmap. A formal joint programming document, including a joint analysis and response, is yet to be developed. The European Development Partners present in Kyrgyzstan are France and Germany (EU), as well as the UK and Switzerland.

Although there is limited information after 2010, the *proportion of funds devoted to programme administration* is not substantial, as it happens with BS modality: Already in 2010, a substantial closure of parallel PIUs by the ADB, the EU and Switzerland took place since 2005. EU alone had zero PIUs in place in 2010. It must be noted that EU-funded and the WB-managed the Multi-Donor Trust Fund (MDTF) that includes two phases of the Capacity Building PFM (CBPFM) project that have a PIU. However, in aggregate, this progress is almost entirely cancelled out by the creation of 35 new parallel PIUs to implement aid received from Turkey.

The *share of external aid aligned to the GoK budgeting processes* and the use of national procedures has increased during the implementation period<sup>32</sup>. The volume of aid that uses partner country PFM systems (budget execution, financial reporting and auditing) as a proportion of total aid disbursed for the government sector in the Kyrgyz Republic has made considerable progress. In 2007, 13% of aid used national PFM systems, in 2010 the percentage had increased again to 32%. As much as 28% of aid to the Kyrgyz Republic used national procurement systems in 2010, and 12% in 2017. However, only four donors used the procurement system at all - the EU Institutions, Germany, the United Nations, and the World Bank.

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<sup>32</sup> Please refer to Volume 2, EQ2A, JC2A.4, Indicator I-12A.4.3.

#### 4.4 EQ2B Opportunity framework (direct outputs of blending)

To what extent have blending operations contributed to creating new opportunities for the GoK and the private sector, and improved the aid framework at national level?



##### Overall Answer to the Evaluation Question

**Leveraging** of blending funding in the Kyrgyz Republic is confirmed but *below average*. Leverage of 1:5 to 1:12 is reported for the energy projects, 1:3 to 1:8 for water sector<sup>33</sup> (international blending experience reports an average investment rate of 1:20)<sup>34</sup>. The additional (non-EC) financing in Kyrgyzstan blending projects ranged between 10% and 34% (22% overall) of total project financing and was provided by IFIs only; no private sector financing was involved.

Blending projects do support *policy dialogue* but the effectiveness varies between the project approaches and thus not all projects contribute equally. Despite formally being part of the EU-EBRD arrangement, the *involvement of EU in policy dialogue* in blending operations is still too limited. Overall, the framework for policy dialogue and learning has been strengthened but remains mostly at local level. Factors that affect the effectiveness of dialogue refer to project design and implementation (i.a. references and expectations of dialogue, linkage to policy dialogue platforms, complementarities with other interventions or capacity of the local IFI to conduct dialogue). The approach to policy dialogue is articulated in much more detail for KrySEFF than other blending projects. In the *water sector*, dialogue at the national scope did not reach the expected results and only two of the projects have more than a passing reference to policy dialogue and there is little or no reference to it in any of the monitoring and progress reports<sup>35</sup>.

*Technical Assistance* has been used strategically for analytical, capacity building, implementation support and quality assurance of infrastructure works. Limited reporting shows *high effectiveness* although efficiency has been temporarily constrained by some delays in mobilisation and implementation. Given the identified capacity problems of utility companies and local contractors combined with the number of utility companies and large number of infrastructure contracts, such delays are to be expected. The *modalities for channelling of TA* are appropriate and cost effective. The level of TA support is high and such levels are appropriate and justified, although consultants are more heavily involved in ‘doing’ rather than the intended advisory role. The quantity of TA outputs is reported to be satisfactory for actual project implementation while the quality has been acknowledged by KrySEFF reporting, but there is no such specific assertion for other projects.

Although *donor coordination* has not been historically strong in Kyrgyzstan in recent years there have been more concerted efforts to support such structures. However, policy and institutional reform has been a slow process and this stasis has limited effectiveness of dialogue and coordination efforts. The establishment of Development Partners Coordination Council (DPCC) has improved flows of information between donors and with GoK and thus facilitates networking, dialogue and a *shared vision* trending towards harmonisation of approaches and activities. Potential synergies in EU/EBRD collaboration have not yet been optimised, there is reportedly little consultation by the leading EBRD with EUD on oversight and supervision of Technical Assistance or implementation decision making.

##### JC2B.1 Extent to which blending operations generated financial leverage

*Leveraging of 1:5 to 1:12 is reported for the energy blending projects, 1:3 to 1:8 for the water sector*, although differing perceptions of risk between these two sectors do not appear to have been a consideration in the different recorded proportions of loans and grants. However, GoK’s policy to only borrow externally for public investment that has at least a 35% grant equivalent is obviously a factor that limited additional investment and thus higher leverage.

<sup>33</sup> The evaluation team followed the blending manual to calculate leverage ratios. According to EUD calculations, the leverage ratios are smaller. For more detail please see Volume 3, Annex 9.5.8.

<sup>34</sup> For details, please refer to Vol. 3, sections 9.5 (water) and 10.5 (energy) and to the Evaluation of Blending Final Report (Dec 2016, ADE) for international leverage average.

<sup>35</sup> In ‘parallel’ with the water sector blending programme, EUD has been active in water sector policy dialogue and promoting IWRM as co-Chair of the DPCC for the water sector.

There is a clear difference between sectors as regards the nature of (total) grants/total project value i.e. for water sector interventions grants represent 53% of total costs, in the energy sector ~26%; overall the ratio is ~47%, this figure being ‘skewed’ somewhat due to the relative values of the different sector programmes. Over the period 2009 – 2019 blending investments (€200.12 million and €69.25 million respectively) represents a very considerable increase in water and energy sector investment, particularly in comparison with reported national capital spending (e.g. average from 2015 USD 4.16 million per annum)<sup>36</sup>. The additional (non-EC) financing in Kyrgyzstan blending projects was provided by IFIs only; no private sector financing was involved. The main non-EBRD financing sources were WB (grant /loan), EIB (loans), ADB (grant/loans)SECO (loans), with SECO and SOCF (grants) but only for the water sector projects.

However, arithmetic (leverage) ratios do not, in themselves, imply causality. A more persuasive argument is that having proven the effectiveness of earlier projects (particularly in the water sector) other potential funding agencies were persuaded to co-finance at lower perceived risk, drawing on experience. The “bundling” of smaller project components into a single project is a pragmatic response for smaller rural (water) utility companies given that individual utilities do not have the capacity to effectively manage a larger investment (certainly not as a ‘first’ investment project which could conceivably build project management capacity for subsequent phases/projects) and such ‘bundling’ allows some level of rationalisation of scale of project administration. Finally, specific value may be assigned to the grant component of a blending package (beyond the assertion that grants ‘attract’ other funding), as explained further under JC.2B.3.

*JC2B.2 The frameworks for policy dialogue and learning have been strengthened, effectively cover broad policy issues and combine appropriately with project monitoring structures*

Overall, the framework for policy dialogue and learning has been facilitated by accompanying infrastructure and capacity building investment, albeit that there is little or no reference to policy dialogue activities in any of the monitoring and progress reports scrutinised for utility company support projects. This is explained because policy dialogue under these projects concentrates on local issues rather than higher level national policy<sup>37</sup>. The ‘leverage’ of blending projects in promoting and facilitating effective policy dialogue depends on several factors, including the explicit inclusion in the project design of policy dialogue, the compliance of project objectives with national sector policies, the linkage to wider policy dialogue platforms, linkage and complementary with other sector programmes (especially EU IFI sector, including possibly BS) and levels of local IFI representation (in-country).

*Policy dialogue also varies in form and intensity between the project approaches:*

- Projects in the **water sector** and Oshelectro in the energy sector support utility company capacity and infrastructure and expect dialogue to be supported by demonstration effect (commercialisation, inclusion, effectiveness of approach) and advocacy of policy change at local and national levels (such as tariff methodologies, climate change adaptation, energy efficiency and compliance with international norms). In practice, investigation suggests that the water sector blending portfolio has not ‘leveraged’ policy dialogue at national levels to the extent expected<sup>38</sup>.
- In the **energy sector** the KyrSEFF approach linked infrastructure investment to policy dialogue activities mostly promoting awareness among the general public, policy makers and other stakeholders of issues related to energy efficiency and also advocating associated

<sup>36</sup> However, government capital investment budgets do not include capital investments of utility companies which, as SOEs, have independent budgets which do not feature in government sectoral budgets

<sup>37</sup> Although the EU does hold its own policy dialogue on water with GoK, not as part but in parallel to project implementation

<sup>38</sup> It is also reported that previous consideration has been given to introduction of BS in the water sector in Kyrgyzstan (with the intention of promoting increased policy dialogue aimed at national sector policy change) but that this initiative did not go forward at that time due to lack of national water sector strategies.

legislative change regarding energy efficiency. The approach to such policy dialogue is articulated in much more detail for KyrSEFF than other blending projects and thus implies a greater degree of strategic planning and intent.

Monitoring arrangements as regards policy dialogue and learning are sufficiently developed in the *blending projects*' description and the main responsibility for M&E<sup>39</sup> falls mainly on EBRD. However, whilst monitoring of project implementation activities has generally been effective<sup>40</sup> there is less reference to dialogue in such monitoring such that EBRD interaction with EU and other partners and information on project progress transferred to the EU has not always been timely, despite arrangements in place for exchanges between EBRD and EU (and other co-financing IFIs).

In the *energy sector*, EBRD plays an important role in policy dialogue and the Bank has pledged to “*strengthen policy dialogue* with the authorities in order to improve the investment climate”. The current strategy, while taking stock of the progress achieved, including contributions made by the Investment Council (IC), highlights the *need for continuous support* in the area. In particular, the strategy proposes policy dialogue actions where “...the Bank will step up its support to the Secretariat of the Business Development and Investment Council to maintain active public-private dialogue and continue facilitating improvements and changes in the legal and regulatory framework encouraging a more stable and supportive business environment.” This being said, in the last years the Council has not been particularly active, according to sources. JC2B.3 Technical Assistance has been used efficiently and strategically for analytical and capacity-building work to improve the formulation and implementation of public policies at national and local levels.

There is evidence that the provision of TA in the water and energy sectors disseminated information, *contributed to building institutional and individual capacities in sector entities and private sector*, supported policy dialogue and contributed to the implementation of economically feasible (but non-commercially viable) projects. The role of TA to formulation and implementation of public policies has been to support higher level advocacy and policy dialogue (by EU, EBRD and other IFIs) together with awareness raising for policy-makers and the general population at national level whilst at local levels has involved more direct engagement with utility management and utility clients.

The *modalities for channelling of TA* are appropriate and cost effective (whilst noting that a number of the utility support projects have only recently initiated implementation activities). Given the fragile institutional and managerial capacities of utility companies in Kyrgyzstan, grant financing was used extensively (but not exclusively) for TA. The level of this TA support is high but, given the levels of initial capacity (especially of utility companies) and/or innovative nature of the project approach (KyrSEFF) such levels are considered to be appropriate and fully justified. The establishment of a PIU within the utility company supported by a consultant aims at building in-house capacity and ownership whilst also attempting to maximise the proportion of implementation activities actually undertaken by the utility (as opposed to the consultant being entirely ‘hands on’). However, there are reports of high turnover of utility personnel which, together with the acknowledged capacity deficits, has resulted in the consultants being more heavily involved in ‘doing’ rather than the intended advisory role in project implementation.

Efficiency of TA has been constrained by *some delays in mobilisation* albeit that most delays have arisen from administrative and legal issues. However, these delays were likely given the identified capacity problems of utility companies being supported and local contractors combined with the number of utility companies and large number of infrastructure contracts (construction, rehabilitation and supply of equipment in situations of logistical difficulty). Implementation delays have occurred due a number of factors including quality of project design, technical, administrative and financial capacities of beneficiary institutions, contractors and suppliers, administrative issues, to some extent, national political stability and, over the past 18 months, COVID-19 restrictions. In the case of Oshelectro, project implementation continues to be delayed due to various issues including external factors (e.g. multiple replacements of high level personnel in National Energy Holding Company and State Committee of Industry, Energy and Mineral Use; delays in ratification of legal documents and

<sup>39</sup> Including financial standing of utility, implementation progress, environmental and social issues, TA implementation, corporate and policy dialogue.

<sup>40</sup> Please refer to Vol. 2, indicator 1B2.2 for further details of monitoring arrangements.

amendment to Subsidiary Grant Agreement by Parliament) and project-related factors (e.g. overload of Oshelectro technical capacity, lack of experience of international tender procedures).

However, blended projects have achieved (or are likely to achieve) planned outputs, due to mitigating actions that have been taken by the implementation team during the course of project implementation. The quantity of TA outputs is in all cases reported to be satisfactory for actual project implementation (and quality of final product) although the relatively early stage of implementation is noted for several utility support projects. The quality of consultancy services has been acknowledged by KrySEFF reporting but there is no such specific assertion for other projects.

**JC2B.4 There have been positive trends in the level of harmonization of international cooperation, and a possible decrease in transaction costs**

Efforts for *harmonisation and coordination of international cooperation* support go back more than a decade and although donor coordination has not been historically strong in Kyrgyzstan, in recent years there have been more concerted efforts to support such coordination structures. Policy dialogue has been a feature of sector donors' activities throughout with certain IFIs providing particular sector impetus (e.g. WB in the water sector whilst EBRD has been active in the energy sector). However, policy and institutional reform has been a slow process and the limited role played by GoK in donor coordination has limited effectiveness of such dialogue and coordination efforts. The establishment of DPCC covering 10 sectors (including water and energy sectors) has definitely contributed to improving overall donor coordination and harmonisation<sup>41</sup>.

IFIs involved in the energy sector include Switzerland, JICA, Russia, USAID, Turkey, China, ADB, EBRD, WB and EDB. EU and EBRD continue policy dialogue with the Kyrgyz authorities and international donors, taking into account the strategies adopted by Kyrgyz Government, projects implemented or envisaged by civil society and international organisations.

The recent *Enhanced Partnership Framework Agreement* (EPFA) between EBRD and Government of Kyrgyzstan is a 5-year agreement that extends to 2025 and builds upon the previous such agreement signed in 2017. The EBRD Framework is in line with the EU's Regional Strategy Paper for Assistance to Central Asia: by supporting the sustainable management, governance and infrastructure investments in the water sector and the provision of quality water. Furthermore, the Framework complements the Multiannual Indicative Programme and the EU Water Initiative for Eastern Europe and Central Asia by promoting improved and more sustainable use and management of water resources, contributing to the consolidation of long-term development prospects; in particular the Framework addresses integrated water resource management and reforms of water supply and sanitation services. Cooperation between EBRD and EU in Kyrgyzstan is in accordance with an MOU and Cooperation Agreement covering strategic partnerships, operational cooperation, co-financing and in-country collaboration.

From 2018 an *Inter-Ministerial Working Group* has held water sector meetings whilst sector donors have supported the DPCC for alignment of the sector reform programme. Donor supported financial commitments for water sector projects for the coming decade have been discussed with GOK and prioritised whilst the IDWG (Inter-departmental Working Group) has encouraged donor cooperation in the sector. WB has led support in rural water sector since 2013 whilst also, together with SDC, having supported the National Water Resources Management Project Phase I (NWRMP – I 2014-2018) implemented by DWRLI (Department of Water Resources and Irrigation). SDC and WB have agreed to continue support of the wider sector approach under NWRMP II<sup>42</sup>.

*Transaction costs* are not (yet) reducing, at least during the early phases of support when capacity deficits are most pronounced in their effects on implementation effectiveness. Costs resulting from

<sup>41</sup> No reference has been noted in documents scrutinised to the Mutual Reliance Initiative (MRI)[2009] between the AFD, KfW, EIB and EBRD which delegates most tasks of an operation to the lead financier and establishes mutual recognition of procedures (although EIB and EBRD are only co-financiers of some water sector projects).

<sup>42</sup> Integrated Water Resource Management is recognized as an increasingly important issue. Given that 13% of the rural population uses surface water as drinking water (source: WHO/UNICEF), the State Programme for Irrigation Development, State Programme on Construction of Water Facilities and Development of New Irrigated Lands and the transfer of water resource management to the Ministry of Agriculture and Water Resources, consider, on the one hand, the nexus between drinking water supply and sanitation, and, on the other hand, SDC and WB-funded projects on irrigation and drainage, because irrigation canal water is often used as an unsafe source of drinking water in rural areas.

the establishment and operation of PIUs are limited in the sense that PIU personal are expected to devote 50% of their time to the PIU whilst undertaking their normal duties and their salaries and operating expenses are borne by the utility company. Given the recognised capacity deficits and levels of staff turnover in utilities TA to the PIU is more involved in actual project management and administration than was originally intended. However, PIU-related costs are only one component of the TA support (e.g. capacity development project consultant).

### **Level 3: Effects on public policy and project formulation and implementation: Production of goods and services**

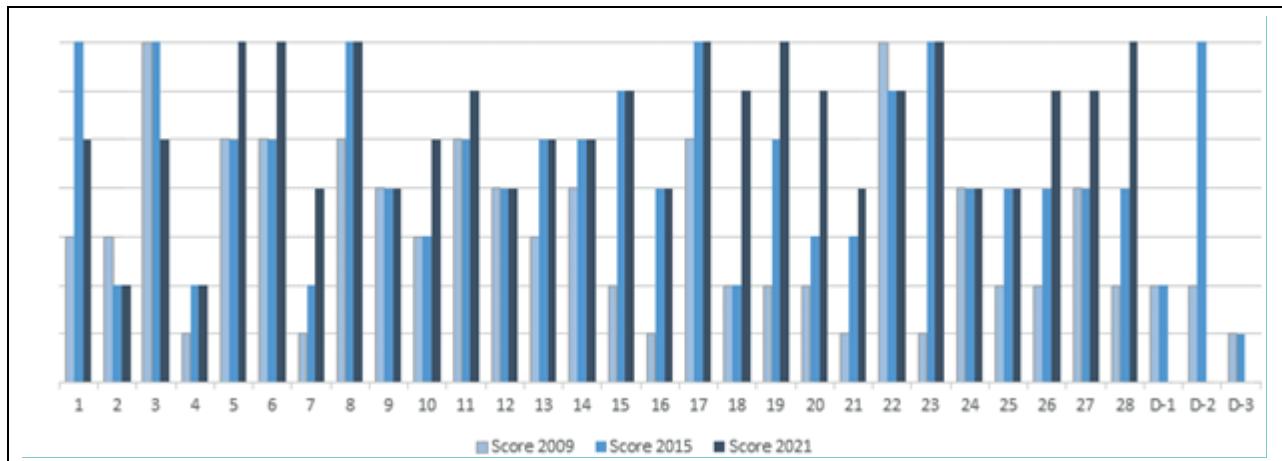
#### **4.5 EQ3: Effects on economic governance (induced outputs of budget support)**

To what extent has budget support contributed to improvements in the quality of GoK's overall Macroeconomic policy, Public Finance Management and budget transparency since 2009?	 BS
<b>Overall Answer to the Evaluation Question</b>	
<p>GoK Macroeconomic policy has had to adapt to <i>unstable external and domestic influences</i> while complying with the conditions of IMF programmes. Growing differences between projected and effective expenditure and revenue existed but were due to the external circumstances. PFM reform in the 2009-2019 period has been successful although some tools (i.e. PBB, MTBF) encouraged and supported by the EU are still more formal than substantial. Internal and external audit have been largely developed. Budget transparency has improved but corruption remains a critical issue in the Kyrgyz Republic.</p> <p>EU support has <i>contributed to PFM reform</i>, especially on budgetary, control and transparency issues and to a lesser extent on macroeconomic and fiscal policy. The contribution of EU support towards reducing corruption is less evident as, while the annual Risk Management Framework (RMF) does identify corruption as a severe issue, among the tools used to formulate and monitor EU interventions there is not a specific one that systematically refers to it..</p> <p><i>Dialogue</i> and the <i>conditionality</i> attached to budget support have encouraged the Government to improve different aspects of PFM such as <i>performance reporting</i>, presentation of detailed <i>medium-term expenditure plans</i>, greater <i>efficiency</i> and transparency in procurement, expansion and quality management of internal audit, development of public external audit. Substantial policy dialogue in PFM took place within the DPCC and several Development Partners (DPs) applied simultaneous pressure for broadly the same PFM reforms. As well as the EU, the most active DPs were SECO, WB, IMF, USAID and DFID, mostly well-coordinated with each other, with IMF having the heaviest leverage on GoK.</p> <p>Technical Assistance was delivered mostly through the contributions to two rather inefficient successive phases of the Capacity Building PFM (CBPFM) project financed the Multi Donor Trust Fund (MDTF), financed by EU and SECO and administered by WB and implemented by MoF (see also JC 1A3). According to the WB's own assessment, CBPFM-1 was relevant and well designed, but showed <i>modest results and efficiency</i>. It is still early to assess any contribution of CBPFM-2 as this phase suffered several delays and actual implementation only began in 2020. Additionally, an EUD-financed TA in 2015 supported the Accounts Chamber's application of international auditing standards. Finally, two EU interventions financed outside of (but complementary to) the CSP and RSP can be highlighted: A EUR 30 million operation (half grant and half soft loan) in Macro-Financial Assistance originally planned in 2011 but paid in 2015, and 2016 and a study on Gender-Responsive-Budgeting published in 2015 as part of a global EU-UN partnership.</p>	

According to the PEFA assessments of 2009, 2015 and 2021, *PFM reform in the Kyrgyz Republic has been a success*. When comparing<sup>43</sup> the evolution of scores, 18 out of 28 score B or higher (which is considered good practice) and only six I-indicators have not improved since the 2009 baseline.

<sup>43</sup> The scores for 2021 are preliminary and have been adjusted to the PEFA 2011 framework, in order to make it comparable with previous PEFA assessments. Actual scores of the 2021 PEFA assessment follow the 2016 framework and do not correspond to those shown in the figure. Also, "D" indicators are not assessed in the 2021 PEFA.

**Figure 4 Trends in PEFA indicator scores in 2009, 2015 and 2021 assessments**



Source: *Particip with info from PEFA Secretariat and preliminary assessment for 2021*

EU support to PFM reform came through policy dialogue, conditionality and TA. More specifically on the latter, contributions were made to the Multi Donor Trust Fund (MDTF) administered by the WB and that provides financing to the Capacity Building PFM project (CBPFM). Phase 1 was implemented between 2010 and 2015 for a total of USD 7.491.433, partly provided by the EU through BS to Social Protection. There is an important lack of institutional memory in GoK and WB on PFM CB 1, with modest results according to WB' own assessment, limited efficiency was especially due to the delays in approving the Budget Code and related legislation<sup>44</sup>. CBPFM-2 was designed in response to the 2015 PEFA, for implementation between 2018 and 2020 for USD 6 million, of which the EU provided EUR 1 million as part of the Education SRC. After a delayed start due to COVID-19 and the institutional instability, several contracts have been awarded and the project has been extended.

#### **Box 2 Accompanying TAs to EU BS in PFM**

- Capacity Building PFM (CBPFM – 1) - 2010-2015, budget USD 7.4 million.
- Capacity Building PFM (CBPFM – 2) - 2018-2022, budget USD 6.000.000, includes several contracts in topics such as MTEF, fiscal forecasting, debt, as well as the 2021 PEFA assessment.
- Support to the Accounts Chamber to build capacity to enable the CoA to apply the International Standards of Supreme Audit Institutions (ISSAI) and thereby promote sound financial management, budget transparency and accountability – 2015, budget USD 164,515

Source: *Particip using documentation from the EU, WB and INTOSAI*

#### **JC3.1 Fiscal Policy, Debt Management and Monetary Policy have been improved**

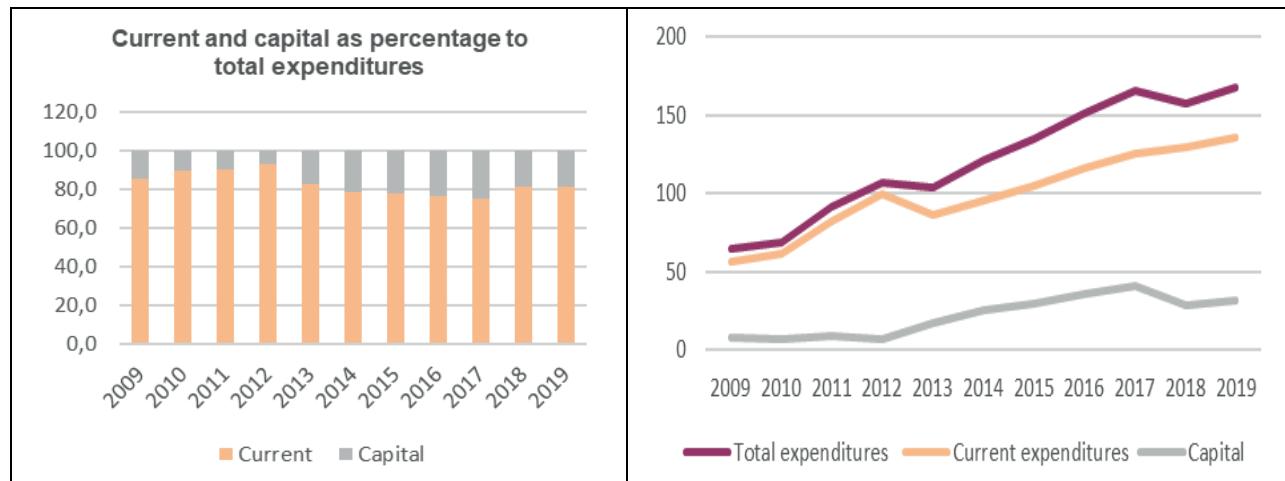
Throughout the period 2009-18 Kyrgyzstan was continuously engaged in IMF programmes, compliance with which was an essential condition for the provision by development partners of the external grants and concessional loans needed to maintain external balance. These began with a drawing under the *External Shocks Facility* in 2009, followed by a further drawing under the *Rapid Credit Facility* in 2010. There were then two successive *Extended Credit Facility Programmes* 2011-14 and 2015-18. In 2020 two drawings were made from the IMF under the emergency facilities put in place to ease the difficulties resulting from the COVID-19 crisis. EU support to forecasting and taxation reform was done through PFM CB1, but these were not priority areas of intervention.

The fiscal balance improved substantially during the years up to 2019, from a deficit of 4.4 per cent of GDP in 2016 to 0.1 per cent in 2019, but there was no overall improvement in revenue effort or in

<sup>44</sup> WB IEG report ICRR0020087. The report also indicates that the eventual approval of the Code in 2016 was "directly related to project efforts".

medium-term expenditure planning. *Total General Government Expenditure increased to more than 40 per cent of GDP* in 2012 because of the collapse in gold production, and thereafter fell back under the IMF Extended credit Facility (ECF) programme. GGE again had to be cut back from nearly 40 per cent of GDP in 2016 to 34 per cent in 2019. Public investment grew in relation to GGE, especially between 2013 and 2017, but has tended to be treated as the residual, given the difficulty of making significant reductions in current expenditure on the main education, health and social protection functions<sup>45</sup>. Although the Government undertook as part of its arrangement with the IMF in 2017 to reduce the paybill in 2018 and subsequent years by at least one per cent of GDP, this commitment was not followed through.

*Figure 5 Trends in current and capital expenditure (2009-2019)*



Source: *Particip*

*Public debt as a percentage of GDP* fell from 64.9 per cent in 2015 to 54 per cent in 2019 helped by a substantial write-off of debt to Russia and an appreciating exchange rate against the US dollar. This progress has been substantially reversed by the impact of COVID-19; according to the IMF by March 2021 debt as a percentage of GDP had risen to 68 per cent as a result of a fiscal deficit of 3.3 per cent in 2020 and a 19 per cent depreciation of the Kyrgyzstani Som (KGS) against the US Dollar. The IMF has remained satisfied with the conduct of *monetary policy*. The banking system has remained well-capitalised, with the National Bank allowing exchange rate depreciation to absorb part of the external shock (with IMF support), and increasing domestic interest rates only modestly so as to avoid deepening the recession. But the heavy demand by the banks for collateral and the wide margin between deposit and lending rates mean that the banking system contributes little to business growth.

*Tax administration* has made some moderate progress in recent years, with the development of facilities for on-line filing and payment but doubts remain about the completeness of tax registers, and the adequacy of links to other databases. Apart from the 27.25 per cent social contributions levied on the paybill of larger enterprises, tax rates remain relatively low (income tax 10 per cent, VAT 12 per cent), but the sharp disparity between the tax treatment of small businesses which escape liability to pay social contributions, and the burdens imposed on businesses exposed to the full rigour of the system, continues to act as a brake on growth. Improvements in the efficiency of tax registration and enforcement could yield a useful increase in revenue, although the 2016 TADAT report found that the scope is limited by the way tax legislation is drafted. A 5-year project to improve the functioning of the tax system with \$17.5m financing from WB/IDA was initiated in 2021.

### **JC3.2 Budget Credibility has been improved**

It was only in 2018 that the external position was strong enough for the country to manage without IMF support. As for EU-funded assistance to the reform of the budget process, it was also through

<sup>45</sup> Please refer to Vol. 2, EQ3, JC 3.1, I-3.1.1 for further details.

the CBPFM-1, with partial achievement, according to WB's IEG assessment. CBPFM-2 is expected to further contribute to GoK efforts in, among others, this topic.

While procedures and transparency have improved, *budget credibility* is still not up to standards. The 2021 PEFA assessment gives slightly lower scores to the indicators measuring the differences between the original Republican Budget and actual out-turn for both expenditure and revenue. It does not appear that this situation results from culpable carelessness, but from the degree of instability the Government has had to confront, both externally and in the domestic political environment. There have continued to be considerable changes in the mix of expenditure as between budget and out-turn, much of which reflects delays in the implementation of public investments. The fragility of capital expenditure allocation in these circumstances will not help to attain effective growth.

One useful change since 2015 is the requirement in the new Budget Code which took effect in 2017 to present the budgets for the social insurance funds – the Social Fund and the Mandatory Health Insurance Fund – to the Parliament alongside the central government budget. The social insurance system, consisting largely of formal-sector pensions (many related to employment under the Soviet system) is in a slow-moving crisis, and its fiscal drain limits what GoK can achieve in social assistance. The transfer required each year from the Republican Budget has been increasing, and this trend is expected to continue<sup>46</sup>.

### *JC3.3 The overall quality of **strategic allocation** of resources and budget execution have been improved*

*Comprehensiveness* of the Republican Budget has increased. The new TA-supported Budget Code is in force from 2017 and ensures that the budget enactment, reporting and audit arrangements for the Social Fund and the Mandatory Health Insurance Fund are synchronised with those of the Republican (central government) Budget. Responsibility for servicing external loans to finance investment by public corporations is assumed directly by the Government on the budget, but advances to electricity undertakings to cover their continuing operating losses are treated as financing rather than definitive expenditure.

It is difficult for GoK to be flexible enough to adapt the resources to development priorities, due to *several factors that limit resources available for investment*: i) the rigidity of the budget (33% of total State Budget exp in 2019 was devoted to wages<sup>47</sup> and the public sector wage bill amounts to 13 per cent of GDP, and 30 per cent of public expenditure, according to the concluding statement of the March 2021 IMF mission closing statement); ii) the weakness of the country's external position; and iii) expenditure is not properly targeted and there is no evidence of an overall improvement in the performance of the public health or education services. Social assistance services absorb a relatively high proportion of total expenditure but are insufficiently targeted towards meeting the needs of the poorest members of society.

While relevant processes and frameworks to improve *budget allocation and execution* have been put in place, GoK's compliance with the requirement of its development partners to have medium-term projections and improve allocation seems to be still more formal than substantial. Developing and implementing a Medium-Term Expenditure Framework (MTEF) was a key component of (partly) EU-funded PFM CB 1 (2010-2015), but it was not successful due to the lack of integrated and automated information systems supporting the MTBF process, and delay in the adoption and implementation of a new Budget Code. In this situation, medium-term expenditure planning has had little traction, with each successive year's projections bearing little relation to those of the previous year. The public investment element in medium-term planning remains incomplete, because

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<sup>46</sup> Please refer to JC4A.1 of this Volume 1 and to Volume 2, I-4A.2.4 for further information on financial sustainability of SP.

<sup>47</sup> This figure can be compared with 13% for Kazakhstan in 2019, 31% for Uzbekistan, 27% for Ukraine and 12.5% for Georgia (Source: IMF).

investments are only taken into account when external financing is expected to be available on concessional terms. PFM CB 2, also funded by the EU through the MDTF, has picked up on developing MTEF, this time with the Budget Code in force since 2017.

*Gender-Responsive Budgeting* (GRB) has been developed for over a decade. Gender assessments of national budget drafts and forecasts have been submitted for annual parliamentary review since 2012 and the MoSDL piloted application of gender-responsive budgeting. The EU has been contributing to UN efforts in this regard, including a study<sup>48</sup> in 2015 that recognised some progress in the Kyrgyz Republic while pointing out the constraints that still exist.

Since 2017 all domestic revenue and expenditure of the central government and all 484 local government units passes through the *Treasury Single Account* (TSA). The Mandatory Health Insurance Fund is also integrated into the TSA, but for the time being expenditure from the Social Fund remains outside the system. A cash flow forecast is prepared at the beginning of each year, and updated monthly in the light of experience.

Under the new Procurement Law which took effect in 2015 all government procurement takes place through an electronic platform<sup>49</sup>. An independent complaints machinery began working in 2019. Internal audit received substantial support from PFM CB 1. Ethical standards were established in 2013, and auditing standards in 2014; a mechanism for the certification of internal auditors was put in place in 2018. Internal Audit is now operational in 30 different bodies responsible for 85 per cent of budget expenditure, with appropriate focus on the performance of administrative systems.

#### *JC3.4 The oversight function has been enhanced and budget transparency and public participation has been improved*

The audit practice of the *Chamber of Accounts* (AC), the country's Supreme Audit Institution, has been substantially developed during the decade from 2009, with financial audit and the beginning of performance audit undertaken alongside compliance audit. AC has received useful assistance through the PFM CB 1 and through EU-financed training in the application of international auditing standards through advice from Latvian, Lithuanian and Polish SAIs<sup>50</sup>. All audit reports are now published as soon as they are approved by the AC Council. The new Budget Code requires the delivery to Parliament of the audit report on the previous year by 1 September each year, so that the audit findings can be taken into account as the Parliament considers the budget proposals for the following year. Parliamentary hearings are well developed covering both budget proposals and audit reports and recommendations, and fully accessible to the general public. This said, some sources point out that the quality of audit reports still needs to be substantial improved.

A citizen's budget is now produced, there is monthly publication of budget execution and debt statistics. Information about all aspects of public procurement is readily available on-line, and an independent body has been established to hear complaints from disappointed bidders. Since 2017, the Ministry of Economy and Finance is required to hold public consultations before putting budget proposals to the Parliament.

The 2019 Open Budget Survey scores the Kyrgyz Republic at 63/100 – up from 10/100 in 2010. Budget proposals (including a simplified Citizen's Budget), in-year and end-year budget execution reports, internal and external debt reports, procurement opportunities and contract awards, and external audit reports are all published without delay.

*Corruption remains an unsolved issue* in the Kyrgyz Republic, acting as discouragements to investors and citizens. Further to raising the issue in policy dialogue, the EU lacks specific tools to

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<sup>48</sup> Niyazova, A. (2015): "Initiatives to promote gender-sensitive budgeting within the framework of UN Women and PF "Innovative solution Inc." partnership project with the financial support of EU".

<sup>49</sup> www.zakupki.okmot.kg.

<sup>50</sup> EAMR 2015, p.9.

directly address the question of corruption, as it is neither clearly part of the conditions attached to EU BS nor of the PEFA process. The Fourth Round of Monitoring of the OECD Istanbul Anti-Corruption Plan in 2018 found that although the Kyrgyz Republic has enacted appropriate legal instruments, responsibility for action is fragmented, and enforcement inadequate. There is little confidence in the judicial system in the protection of investors against expropriation. Appointments to the judiciary are not independent of political processes, and not all civil service posts are subject to competition. The country still scores very low on the perception of corruption – 130th out of 140 countries in the World Economic Forum's 2018 Global Competitiveness Index n the use of irregular payments and bribes. Additionally, Transparency International's Survey of Corruption and Anti-Corruption in Central Asia<sup>51</sup> found that there is still a widespread perception of corruption, with 38 per cent of citizens reporting the payment of a bribe in the last 12 months. The transfer of all public procurement to the single electronic platform zakupki.okmot.kg is an important step in reducing the scope for corruption, the latest liquidation<sup>52</sup> of the Anti-Corruption Service of the State Committee for National Security of Kyrgyzstan (SCNS) in June 2021 can question political will of GoK on this important issue.

#### **4.6 EQ4A: EQ4A Policy formulation and implementation (induced outputs of budget support)**

**To what extent and through which mechanisms (funds, dialogue and TA) has budget support contributed to improvements in policy formulation and implementation and related accountability mechanisms? (Social Protection, Education and Electoral Reform)**



**Overall Answer to the Evaluation Question**

<sup>51</sup> Transparency International (2016): People and Corruption: Europe and Central Asia.

<sup>52</sup> Link: [https://24.kg/english/198621\\_\\_Anti-Corruption\\_Service\\_of\\_SCNS\\_of\\_Kyrgyzstan\\_to\\_be\\_liquidated/](https://24.kg/english/198621__Anti-Corruption_Service_of_SCNS_of_Kyrgyzstan_to_be_liquidated/).

BS funds, policy dialogue and related TA have resulted *in positive trends* in the strategic policy and legal frameworks in the sectors of social protection and education and helped the development of a *comprehensive strategy* for electoral reform (although the latter was not adopted as Law). The exception is the lack of legislation for the de-institutionalisation of persons now cared for in residential institutions. Evidence exists of strengthened policy consultation processes (incl. with CSOs) leading to more gender-sensitive and inclusive policies and legislation across all the BS programmes.

BS policy dialogue and TA have contributed to a *better targeted resource allocation* in education sector and social assistance. However, strict eligibility criteria, particularly for the Monthly Benefit for Poor Families with Children (MBPF), limit the programmes' anti-poverty effect. GoK has given priority to SP and education budgets. In the 2009-2019 period, allocations grew both for SP (from 2.8% to 6.5% of GDP, even continuing to increase after the end of SPSP) and education (from 5.4% to 6.1%). While the *link between planning and medium-term forecasting* has formally improved, a lot remains to be done for these tools to be institutionalized and concerns over financial sustainability in both sectors remain.

BS have supported, mostly through *complementary support (TA)*, the strengthening of capacities across the public sector, although with notable differences among stakeholders and between the Central and Local (district) levels. Data gathering and analysis, statistics and M&E remain some of the biggest weaknesses of GoK, limiting effective accountability. The KIHS still lacks disaggregated and updated information. In the education sector, EMIS is only recently operational and in electoral reform, sources are mostly external.

There has been an increase in the *quantity of service delivery* in all targeted areas, although this is hampered by various factors that could potentially put into question the commitment and sustainability of the reform process: *Unstable government, frequent staff turnovers, lack of policy integrity and consistency* (e.g. resistance to de-institutionalisation in the SP sector), poor coordination between legal and executive powers and the recent political turmoil and changes in constitutional system and government have adverse effects on GoK capacity and outputs. External factors such as COVID-19 and economic and commercial instability are negative influences to the effectiveness of reforms.

#### **JC4A.1 The policy and legal frameworks of the sectors have been improved and sector policies free of discrimination (i.e. gender-sensitive and inclusive policies) have been developed**

##### **Social Protection**

The overall direction of reform in SP, particularly during the first half of the period under review, has been towards improved targeting, which does not necessarily imply that inclusion and exclusion errors have been adequately addressed (See EQ7). However, the *targeting of social assistance*, including gender sensitivity, has been somewhat improved through additional eligibility criteria and monitoring supported by EU TA. A structural exclusion problem, discussed further under EQ 7, is that the Monthly Benefit for Poor Families with Children (MBPF) social assistance programme eligibility criterion was designed to fight extreme poverty, which has declined dramatically over the years, and it is not meant to address the needs of very large portions of the population still live in poverty or near-poverty. Eligibility criteria for MBPF for are far too low to achieve significant anti-poverty results (and there is no fiscal space to raise them to levels where they would do so). The GoK priority remains maintaining the formal social insurance system, reducing fiscal space for social assistance.

There have been *steady improvements in GoK policy regarding persons with disabilities* (PWD), and particularly children. In September 2019, the Government approved the "Plan for the Reform of the Residential Child Care Institutions for 2019-2021." Government has instituted benefits and measures to develop community social services, to which the EU contributed by using BS to promote the Law on Social Services and to create better conditions for education and training of people with disabilities (as mentioned in JC1A.3). Starting from January 2019, there has been a new type of social service made available – the provision of a "personal assistant" to take care of children with disabilities who need constant care and supervision. However, while there has been improvement

in the policy in the key area of de-institutionalisation, to which EU BS contributed, concrete improvements have been slow. Contributing to this has been the remaining lack of legislation clarifying the state's obligations in the area; in addition to which, there has been some institutional inertia in implementing new policies. In general, EU support has helped to strengthen the role of the civil society in SP. The EU has promoted national social dialogue through joint work on the social protection sector strategy with CSOs, involvement of civil society in monitoring implementation of the SP sector strategy and the promotion of contracting-out for the provision of social services.

## **Education**

The Education Development Programme/Strategy 2021-2040 (EDS 2040) is based on the Government's acknowledgement that the country needs a more *holistic development approach* to achieve the sustainable and resilient school education system necessary to accelerate the improvement of students' learning outcomes. EDS 2040 is based on objectives (aligned with the SDGs) of the National Development Strategy for 2018-2040 (NDS 2040) and other strategic and policy documents.

Despite *gender and inclusion* not appearing as priorities in the sector strategies, during implementation there has been steady progress towards improving the policies and legal frameworks for gender equality. While the NDS 2040 includes a general commitment to gender equality, strategies towards increasing gender equality are not further elaborated and aspects related to inclusion are not mentioned at all. However, the EU-funded Gender Study for Kyrgyzstan (2017) produced a number of recommendations, some of which have been reflected in the Education Development Action Plan (APED) 2018-2020. Examples include a number of measures to address gender issues and a rights-based approach, including data collection and targets disaggregated by sex. Overall, MoES has made progress in advancing gender-aware policy planning and budgeting. In 2017 Kyrgyzstan adopted a new law "On Safeguarding and Protection Against Domestic Violence", as the result of three years of joint advocacy by women's CSOs of the country. In November 2019, the Government approved a regulation and related methodology on anti-discrimination and gender expertise. A "gender strategy 2030" is currently under consultation and considered by interlocutors as "a big milestone".

The *inclusion of children with disabilities* into education has been one of the considerable challenges due to the lack of inclusive education opportunities. Kyrgyzstan joined the UN Convention on the Rights of Persons with Disabilities (PWDs) in early 2011. However, ratification took place only in 2019 as the result of public pressure. Subsequently, MoES elaborated and adopted the Concept of inclusive education development and associated Action Plan 2019-2020 addressing issues of the children with disabilities. This can be considered as an important (preliminary) step towards achieving objectives under SDG 4. According to a government interlocutor, "*the infrastructure of children with disabilities in education has already markedly improved*".

CSOs have been adequately involved in EU education interventions since the beginning of EU BS, as confirmed by several interviewees from NGOs in the education sector. The representatives of CSOs (14 members of the Public Advisory Council: eight females and six males) have continued to be members of the Steering Committee of the EU education TA project and EU Education BS. They have been actively involved in the policy dialogue related to the Education Sector Reform Contract and in preparation of the Education SRPC. On GoK's side, MoES organised annual public hearing events, i.e. conferences and round tables, with the participation of the civil society organisations focussing mainly on the implementation of the Annual Action Plans and forthcoming budget periods. However, according to the interlocutors, the ministry's approach during these meetings was mainly to inform CSO representatives about planned initiatives rather than seeking their active involvement in discussing these plans.

Efforts have also been undertaken at the local level to ensure a more open education policy and to strengthen the participation of the public, especially parents, in the management of educational organisations. For this purpose, the concept of *School Boards of Trustees* (BoT) was established in 2014. BoT play an important role in planning and development of schools as well as play a key role in funding aspects and often fill the gap between budget subventions provided by the central Government and funding from Local Self Government. However, in interviews BoT members also

mentioned problems and challenges in the work of the Boards such as limited oversight power and external interference.

### **Electoral Reform**

EU assistance has substantially contributed to strategic and legal frameworks for electoral reform, both with direct support to GoK and through CSOs.

As mentioned in JC 2A.3, a key objective supported by the *Venice Commission* was developing a comprehensive strategy for electoral reform. The foreseen Strategy was approved by the National Council on Sustainable Development and promulgated in August 2018 and, although not all of the recommendations of the Commission were adopted, it was possible to identify gaps in the legislation adopted and flag these for future action. The original target was for the Strategy to be adopted in 2017, but this proved difficult in the politically charged atmosphere of a presidential election year. It is to be stressed that the Strategy has never been formalized in law. Despite this, the OSCE / ODIHR observation mission following the October 2020 election judged that the legislative framework in place provided a solid basis for democratic elections.

In another TA financed by the EU, the legal NGO Adilet provided support to drafting laws and bylaws related to electoral procedures. A coalition of CSOs conducted a *nationwide voter education campaign* in support of transparent, inclusive and effective electoral process in the run-up to presidential elections, with delivery of voter awareness materials in broadcast, digital and print channels as well as public discussion forums. Civil society support to electoral reform process was enhanced through specialized research and publications, public polls, policy discussions and CSO coordination, working mostly through the Committee for Civic Control, the civil society platform formed after the violent political transition of 2010. Particular attention was paid to migrants abroad and minorities, with attention, as well as to gender issues such as “family voting”.

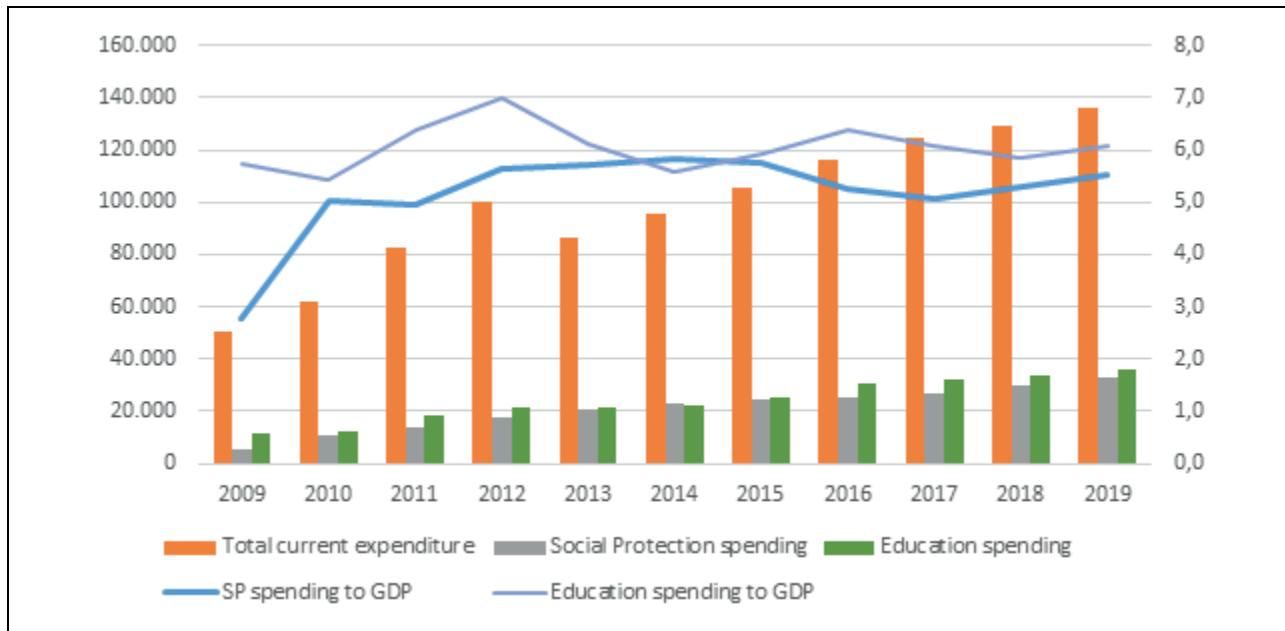
### ***JC4A.2 The budgetary formulation and management at sector level have been improved***

It must be recalled that in the budget support modality it is assumed that EU disbursements do not directly reach the institutions of the sector, due to the fungibility principle of untargeted BS<sup>53</sup>. What can be expected from BS is that it promotes that the *overall management of funds at the sector level* is improved, and that the Government identifies and prioritises strategic spending in the strategies of the supported areas (for both SP and education ratio to GDP in 2019 was around 10% better than in 2010). Figure 6 provides an overview of the figures during the evaluated period.

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<sup>53</sup> “Untargeted budget support involves the transfer of EC resources to the national treasury of the partner country, where they are “mixed” with domestic revenues and other sources of finance and used to finance activities of the government’s budget. There is no tracking by the EC of the use of the resources so transferred; rather any follow-up takes place in the context of the overall system of public financial management of the partner country.” EC Budget Support Guidelines, 2018.

Figure 6 Evolution of expenditure in SP and education (Total Som and ratio vs GDP)



Source: Particip

## Social Protection

The share of social protection spending as proportion of total current expenditures has rapidly grown from 10.8% in 2009 to 26.8% in 2019. This growth was mainly related to an increase in social benefits. In nominal terms, the expenditure on social protection constantly increased from KGS 5.6 billion in 2009 to 30.2 billion in 2019 and, as a proportion of GDP from 2.8% to 5.5%. In the structure of current spending, transfers accounted on average for 95% of the current expenditures<sup>54</sup>.

The budget executions of social protection sector in 2017-2018 were at 99% (in 2016 –95%) of the planned amounts that indicates the social protection was a high priority sector. Since 2014, the MoLSD prepared Medium-Term Strategy of Budget Expenditures including the Medium-Term Expenditure Framework for three years ahead and Program Based Budgeting, although it is still more a formality than a tool that is actually used for decision-making (Please also see JC. 3.3).

There were *four BS programmes for social protection sector*. BS payments were small relative to social protection expenditure as a whole and to the MoLSD budget. Disbursement of BS funds to GoK equalled to between a low of 1.42% of total social protection spending in 2016 to a high of 5.29% in 2011. Nevertheless, BS was strategic as, before the social protection BS operations were started, the funds provided to the social protection sector from the MoF through the national budget, were below KGS 6 billion. After the social protection BS operations started, the funds available increased substantially. This sector received about KGS 21.5 billion per year on average over the 2010-2018 period. Since the budget support ended, from 2019 to 2021 the average annual budget allocated was around KGS 33.7 billion.

The financial sustainability of the current SP system is, on all evidence to date been judged to be poor<sup>55</sup>. The Social Fund receives only about 60% of its revenue from contributions (i.e., payroll taxes on formal-sector workers and employers), with the remaining 40% coming from the Republican Budget. In this way, social insurance benefits are crowding out social assistance ones. This represents a strategic choice on the part of GoK to maintain the formal sector social insurance system despite an extremely unfavourable actuarial outlook. Advice from the World Bank and EU has consistently urged better targeting – means-testing – of limited available resources for social assistance, but this may be difficult to achieve given the political pressure for benefits to be widely available.

<sup>54</sup> Figure 5, 6, 7 of JC4A.2 in Volume 2.

<sup>55</sup> Sources: The OECD-MoFA Finland SP Assessment done in 2018, the Final Evaluation of the social protection budget support programmes done in 2020, and interviews See also EQ7 and Vol. 2 Indicator 4A2.4.

## Education

The share of education sector expenditure as percentage to current expenditures grew from 19.5% in 2010 to 26.4% in 2019. In absolute values, spending on education has grown from KGS 11.5 billion in 2009 to KGS 35.9 billion in 2019, as a ratio to GDP fluctuated between 5% and 7%. As far as the composition of current spending is concerned, wages (including social contributions) absorb most of the funds, accounting for 82% in 2019. The budget executions of the education sector in 2012-2018<sup>56</sup> were on average 95% of the planned amounts that is acceptable taking into account the volatility of revenues in the transition economy.

There were *three BS programmes for education sector*. The importance of the funds disbursed to the budget for the sector was modest in overall terms although those funds created fiscal space for the education sector spending. The proportion accounted for by the disbursements fluctuated between 1.4% and 2.2% of the total amount handled by education sector year to year.

The average annual budget allocated was around KGS 18.4 billion during 2010-2012, then after the BS started it was about KGS 33 billion. This indicates that education sector support programmes have become consolidated in the national budget. After the last education support program ends, the level of forecasted budget expenditure for this sector in 2022 will be slightly below than the approved annual budget in 2021. There could be some issues on financial sustainability and there is a need for increasing of education sector expenditure for 2022 onwards.

According to the 2019 Evaluation of the Education Sector Reform “the budget support has broken the status quo by allowing MoF and MoES to direct funding to long-awaited areas of development for which normally no development budget provisions were made available (e.g. inclusive education, PFM reform, sector audit, EMIS, school development, strategic planning, etc.).<sup>57</sup> Perhaps the most important achievement realised through the SPSP and SRC is related to the establishment of the sector budget process, and its linkage with strategic development planning for education. The Medium-Term Budget Framework including the medium-term expenditure planning for subsequent years (from 2014-2016 to 2019-2021) and program-based budgeting were developed by the MoES. This has allowed to insert a more forward-looking perspective on education sector management and planning<sup>58</sup>. However, despite some progress, the links between policy, planned objectives, implementation of policy (and reform) actions and regular sector operations, resource allocation, prioritisation (by sub-sector), and monitoring and evaluation of performance do not appear to be strong.

## Electoral Reform

The analysis made for SP and education budgets cannot be applied to electoral reform, as it is not a sector or an area of GoK and does not have the same multi-year expenditure dynamics<sup>59</sup>. The budgetary needs the Central Elections Commission (CEC) and State Registration Service (SRS) are sufficiently modest that a project approach could well have been as effective as a budget support one. However, stakeholders interviewed stated that the *relatively modest EU budget support* had resulted in a marked improvement in the capacity and efficiency of both institutions. EU budget support contributed significantly to the needs of GoK; for example, the financing of the new biometric registration system (SRS) and the regularisation of staff contracts at provincial offices of the CEC.

**JC4A.3 The institutional capacity of public sector institutions and service providers has been strengthened, including enhanced monitoring, reporting and accountability mechanisms**

## Social Protection

The EU BS interventions in Social Protection played crucial roles in *enhancing the capacity of public entities both at central and decentralised level*. Particularly in the early years of the evaluation period, EU TA supported the MoLSD to better use clear evaluation and assessment indicators related to eligibility for MBPF and MSB benefits, and to estimate inclusion and exclusion rates for various vulnerable population groups. TAs have also supported the line Ministry with improved capacity for creating relevant social services and appropriate decision-making mechanisms for children and

<sup>56</sup> The quarterly executions are available only for 2012-2018.

<sup>57</sup> Conclusion 7 of the Evaluation of the Education Sector Reform Contract.

<sup>58</sup> EU Eval 2019.

<sup>59</sup> Please refer to Vol. 3, Annex 2 on Methodology for more details.

families and establishing monitoring and accreditation systems. Social protection functions at District and Central levels under the responsibility of the MoLSD demonstrated improvements. At Central level, the SBSPs supported capacities in services quality monitoring and accreditation, the formation and maintenance of collaborations with CSOs to design and deliver social services for families and children. A particularly important contribution of EU BS 2015-2019 was the development of a highly interactive IT system to monitor the inflows and outflows of children in all residential institutions. As mentioned under JC2A.3, the SP SRC (2014-19) also provided substantial support to the establishment and development of a new MoLSD function for monitoring and inspection of residential care institutions and services delivered by other providers. At District level, the SBSPs advanced Local and District-level interagency cooperation in child protection area and rendered social assistance targeting more accurate. Social service monitoring for children and families has proven invaluable in building capacity of key staff and social workers at both central and district levels. However, despite the large amount of trainings by the EU and other donors, frequent staff turnovers have limited ministries' ability to building and retaining staff with accumulated skills. The focus of TA under SP budget support was also focused on MoLSD and, to lesser extent, MoF (for internal audit). In the MoES, a key partner for children in residential institutions, education, at the central level statistical capacity is limited, and periodic publication of education statistics including an analysis and interpretation of the data is not done on a consistent basis<sup>60</sup>. Despite EU TA to build statistical capacity both in social assistance and institutionalisation / deinstitutionalisation of children, obtaining credible data from relevant ministries has been difficult in this evaluation (See also EQ7).

## **Education**

EU BS TA and conditionality has *moderately contributed to reinforcing the capacities of the education sector*, more specifically MoES in planning, internal audit and monitoring.

As recently as 2016, the capacity of the Ministry of Education and Science (MoES) suffered from limited staff and a very broad mandate. This resulted in ad-hoc, on-demand activities based on availability of funds and absence of systemic data collection and informed decision-making. Due to such capacity limitations and high turnover, educational institutions were unable to effectively own, sustain, continue and make use of the outputs (initiatives, policies, software, studies) supplied under donor-supported projects. Since then, however, the policy development cycle and strategic planning cycle have been improved, and they are progressing towards a medium-term forward-looking perspective, rather than on ad-hoc responses and incremental planning.

MoES has strengthened its ability to conduct audits, through the institutionalisation of an Internal Audit Department, which conducts audits on a regular basis with follow-up on audit findings (e.g. see whether the audited entity has implemented audit recommendations). This, in turn, has improved the quality of sector governance and transparency. In addition, the introduction of an online registration system for enrolment in kindergartens and secondary schools has reduced risk for corruption in allocating children to education institutions based on bribes. An interlocutor with long-standing knowledge of the MoES did not link the ministry's "very active approach" entirely to BS but acknowledged that BS was a key contributing factor.

EU BS (SPSP and SRC) has particularly contributed to the development of the Education Management Information System (EMIS), which is very likely to enhance the quality of future policy development and planning processes. However, EMIS is not fully operational yet and only hosts very recent data. At the time of the evaluation additional work was required to develop EMIS into a real policy and planning support tool, including strengthening of the EMIS staff working on sector statistics and analysis.

## **Electoral Reform**

EU support has *raised the capacities of both GoK entities and CSOs involved in electoral reform*. Through Venice Commission (VC) TA, capacities of the CEC and the SRS were increased by trainings on electoral legislation, analytical skills, and study trips to exchange experience with the relevant state agencies of other Council of Europe member states. The VC developed and published

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<sup>60</sup> As explained under Section 2.3: Limitations to the Analysis, this lack of reliable and updated statistical data has conditioned the quantitative part of this evaluation.

a review of judicial practice in the field of electoral dispute resolution in close cooperation with the Supreme Court.

The new biometric registration system has been successfully implemented, albeit with the unexpected and unwelcome consequence that a number of people holding old registration cards were barred from voting in recent elections. Responding to data protection issues following the introduction of biometric identification, the project organised a series of awareness-raising activities for national authorities and NGOs on the importance of creation of an independent data protection supervisory authority and on the benefits of using the European standards in the field of data protection. Capacity building of electoral stakeholders included members and staff of the CEC, the SRS, parliamentarians, journalists, judges and representatives of NGOs. The project assisted the Central Election Commission with the development of a complaint procedure mechanism, which was publicly accessible online for the 2017 Presidential elections. Opinion survey evidence indicated, however, that most voters were unaware of its existence and, of those who were, a negligible number had availed themselves of it.

***JC4A.4 The quantity, quality and sustainability of goods and services produced in the education and social protection sectors and electoral reform have been improved***

### **Social Protection**

In the area of *social assistance targeting*, over the 2011-2014, the SBSP focused on improving the means-testing system. After adoption by the MoLSD, TA recommendations made social assistance policy more flexible and tightened targeting, resulting in improved effectiveness of social transfers to poor households.

There has been more progress, albeit slow, on *de-institutionalisation and provision of social services* to vulnerable populations than on social assistance (i.e., income support). Strategic aspirations regarding de-institutionalisation of children and reform of social services provision have produced documentable results. Certain norms and social service methodologies up to international standards are being tested in pilot Districts Units responsible for the delivery of social services to Difficult Life Situation families and children. The availability of trained personnel to support families in a Difficult Life Situation, to support foster families, and to provide social services to the disabled and elderly living alone has expanded. By the end of the most recent SRC, over 50 NGOs had been contracted by MoLSD to provide services. District Offices of MoLSD are, to some extent, improved and refocusing their activities to the social services. This has led to some noticeable changes in social service for children and vulnerable families (e.g. families with disabled children), such as provision of home care support by local NGOs. The Belovodsk and Jalalabad Residential Institutions for severely disabled have been renovated and trained staff have been put in place to provide better qualitative and professional services. However, there have been delays in their becoming fully operational despite the fact that SPSP BS KPIs regarding completion of works were met.

### **Education**

According to the 2019 EU Evaluation, the overall level of achievement of the budget support showed “*a highly positive picture. The actions linked to the reforms linked to performance indicators of both budget support programmes were implemented successfully, considering that the level of fulfilment of the variable tranches in the SPSP and SRC is close to 100% (disbursement compliance corresponding to 98% of SPSP budget, and disbursement compliance corresponding to 98% of SRC budget respectively).*”

Crucial progress was achieved in providing *access to education at pre-primary level* in response to the recommendations of PISA 2009 and the EU budget support, which indicated that students who had received more than one year of pre-primary education performed better than those who had not. In addition to the government-funded preschool services –kindergartens, the most important innovation in provision of early care was the Nariste 480-hour school-readiness programme, which has been instrumental in expanding access to and the benefits of preschool (see EQ 6A).

Generally, new education standards have been developed which are based on *competence-based approach and result-oriented learning*. This includes a substantive new approach to the basic curriculum for schools. The changes affected the increase in the number of hours in foreign

languages, the introduction of the subject "Informatics" from Grade 5, changes in the teaching methods of the state language, and increased attention to the subjects of the natural science cycle. In addition, standards were developed for the profile level in Grades 10 and Grade 11 in mathematics, physics, chemistry and biology. However, while an increase in salaries has at least partly addressed the problem of teacher shortages, the quality of both pre-service and in-service teacher training remains poor. Only about 10.000 or about 10% of the country's schoolteachers undergo re-training (Continuous Professional Development, CPD) every year. As of 2020, the trainings lacked standardisation, had not been properly revised in many years and did not include an approach on how to teach the competencies of the new curriculum. Although interlocutors reported recent improvements regarding the development and delivery of new training courses in line with the requirements of the new curriculum, it is not possible to quantify how many teachers have already benefitted from these new programmes particularly as the framework conditions were shaped by the COVID-19 crisis. For example, at least until May 2021, MoES could not provide training on new textbooks due to the pandemic.

Despite this kind of achievements showing undeniable progress in the implementation of the education reform agenda, the number of underperforming students is still high as outlined in EQ 6A.

### **Electoral Reform**

During the reporting period progress was made in all four policy areas targeted: i) *credibility*, by introducing amendments to the legislation to fight vote-buying and corruption, to promote fair competition, forbid the (mis)use of administrative resources, etc.; ii) *inclusiveness*, by continuing the inclusion of citizens on the voters' list, addressing the problem of those temporarily living abroad, improving access of persons with disabilities and taking measures to increase participation of women; iii) *transparency* by improving the functioning of the online complaint mechanism; iv) *implementing the new strategy*, by adopting the Action Plan of legislative measures.

The voter complaint mechanism put in place to report voting irregularities was a significant step forward, but its effectiveness was eroded by the fact that few voters were aware of it and a negligible number actually used it. Summary data on voting irregularities were published on the CEC website. However, certain questionable decisions of the CEC during the political crisis that unfolded following the annulment of the October 2020 parliamentary elections showed weaknesses in electoral legislation and vulnerability to political pressure.

As stated in JC4A.3, the capacity of both the CEC and SRS was demonstrably strengthened, and the fundamental problem underlying the violent protests following the October 2020 parliamentary election was the deep popular distrust of the Kyrgyz political system, a risk that was underestimated by the EU.

## 4.7 EQ4B: Policy formulation and implementation (project and induced outputs of blending)

To what extent have blending operations contributed to improvements in policy and/or investment project formulation and implementation (including production of goods and services) and related accountability mechanisms? (Water and Energy)



### Overall Answer to the Evaluation Question

Blending operations continue to *improve project formulation and implementation* (by way of Technical Assistance support to utility companies in the water and energy sectors and support to financial institutions and sub-borrowers in the energy sector). Infrastructure has been and is being delivered to enable water and energy sector utility companies to *better meet the needs* of their respective mandates. Projects also provide institutional support and capacity building to build financial, operational, technical and strategic capability with the intention of contributing to longer term sustainability.

The *institutional and operational capacities* of utility companies in the water and energy sectors have been strengthened as regards service delivery and utility management. In all water sector blending operations the approach is to support utility companies, while in the energy sector support, only one project (Oshelectro Rehabilitation) follows this model. Where support was provided, improvements are observed in project planning, design and implementation, procurement, PCM, monitoring and reporting. More rehabilitated/new infrastructure has been enabled. Utilities have more robust financial standings, greater commercialisation and better prospects of sustainability.

*Private sector capacity* in both sectors has increased as a result of contract implementation to international standards of good practise. Capacity was mostly enhanced by “learning by doing” and advice from PIU (and TA) than because of specific capacity-building activities for private sector entities. This included increasing involvement of suppliers and technicians in more innovative technology products in the energy sector support under KyrSEFF, although some utility companies still struggle to comply with international norms of procurement and quality.

Actual (or potential) improvements in *goods and services* in sectors supported by blending have been (or expect to be) achieved, although in the water sector many of the relevant targets are not properly assessed. Monitoring is better developed in the energy sector operations, where targets have been reached for KyrSEFF I, with the other operations still ongoing.

Analysis has confirmed the *limitations of the blending modality to transcend* the scope of the projects and promote wider policy reforms. TA has been supportive of policy dialogue in water and energy, mostly focused on utilities, financing and infrastructure, but with limited evidence that blending has acted as a catalyst for dialogue and broader policy change in the complex political process in Kyrgyzstan.

#### JC4B.1 The policy and legal frameworks for water and energy policy have been improved

Policy and legal frameworks for both energy and water sectors have been improved to some extent and there is *better compliance with international norms* plus increasing reference to climate change, although there is no compelling narrative of sector blending programmes having directly contributed to wider policy reforms. That being said national policy changes have been progressing (one step forward, one step back) for a very considerable period. Ideally, the use of blending should provide added value<sup>61</sup> by way of leveraging policy reform through large scale infrastructure investment, the theory being that such investments, when coordinated with a policy reform agenda, would demonstrate viability and benefit of advocated policy reforms. However, the blending projects did not directly respond to, or support, a wider sector reform agenda. Whilst EU and EBRD have been active in policy dialogue and energy and water sector blending projects are coherent with emerging policy and sector legal framework reform, no specific influence of blending operations could be

<sup>61</sup> It is asserted that blending can add value to development cooperation and, by way of the grant component, bring added value over purely loan financed projects. Please refer to Vol. 2 I-4B.1.1 for details.

identified (other than KyrSEFF policy dialogue activities having enhanced awareness of the possibilities of sustainable economic development through resource efficiency investments).

## **Energy Sector**

The Kyrgyzstan power sector was restructured at the beginning of 2000s, when the sector was unbundled into generation, transmission and distribution segments – distribution company tariffs are regulated by the independent regulator with over-sight by Ministry of Energy. The sector in Kyrgyzstan remains majority owned by the State and has been more-or-less *stagnant for the last 15 years*. Energy reform has stalled, and tariffs have remained little changed in recent years. whilst the sector suffered from a lack of maintenance and poor operating performance. Nevertheless, energy efficiency and energy security are among the most important policy orientations for the government and the National Energy Programme (NEP) which was originally developed for 2008-2010 and is currently being updated. Energy Efficiency and Energy Security are of high priority and included into the National Strategy of Sustainable Development (NSDS) of the Kyrgyz Republic 2013-2017.

The GoK has recently adopted programmes aimed at increasing energy efficiency and energy saving, as well as changes in tariff policy and institutional and regulatory framework. One of the recently adopted programs is the Development Program for the period 2018-2022 «Unity Trust Creation»<sup>62</sup>. Two important milestones of this programme are the establishment of an independent regulator and approval of a mid-term tariff strategy. Both milestones were achieved. The new tariff methodology envisaged introduction of a social norm of electricity consumption as part of a residential tariff. The social norm was determined at 700 kWh/month for which a lower tariff should be applied. That tariff was indexed by 20% annually over subsequent years with higher consumption to be charged at a higher tariff that will also cover cost of imported electricity.

The evaluation did not have any knowledge of GoK consultation processes for policy and regulatory development in the energy sector, but a series of energy consumer surveys carried out in 2014, 2015, and 2016 document increasingly positive public opinion to reforms, and public opinion of the sector overall has improved in recent years (See JC9.3 for details on increased awareness and trust).

At the level of international cooperation including compliance with international norms and practises, Kyrgyzstan is involved in the following:

- Programme for Formation of Common Electricity Market of EAEU – creation of supranational electricity market will allow free trading of electricity on centralised trading platform.
- CASA-1000: Commercial electricity supplies from 2021/2022 to Kyrgyzstan guaranteed for 15 years while water resources in electricity production will be sent downstream.
- Inter-Connector (500kv) Darka – Torugat – Kashgar (China).

Contributions of EU support have been notable, for instance, using TA in support of policy dialogue has continued advocacy and support to government in implementing laws on '*Energy Performance of Buildings – LEPB*' and amending the outdated '*Law on Energy Savings*'. LES has also adopted the Energy Efficiency Directive 2012/27/EU (EED).

## **Water sector**

GoK has approved a series of strategic documents for the water sector, although several implementation issues persist. The main documents include the National Water Strategy in the Kyrgyz Republic 2019-2040 and Water Code (2005): Water Code Implementation Roadmap (2013) and Roadmap for implementation of the Water Code of the Kyrgyz Republic (May 2019)<sup>63</sup>. These

<sup>62</sup> Aimed at 'sustainable development of the energy sector and ensuring energy security of the country, providing the economy and population with reliable and modern energy supply and developing the country's export potential. Please refer to Vol. 2 I-4B.1.1 for details.

<sup>63</sup> The 2013 Roadmap set out targets for sector reform over the medium and long term (5 - >10 years) in implementation of the 2005 Kyrgyz Water Code. However, there were multiple obstacles – no sector corroborating body, fragmented institutional framework, little political ownership and no regulatory framework. Also the National Sustainability Strategy of the Kyrgyz Republic 2013-2017 made no

documents form the basis for sector policy and legal structure for modernisation in line with *Integrated Water Resource Management* (IWRM) principles. Particular attention is given to cost recovery, establishment of management institutions (e.g. National Water Council, River Basin Councils), establishment of Water Users Associations, introduction of hydrographic basin management and expanded public participation. Additionally, a number of additional strategic documents relevant to the water sector were approved in the period relevant to the evaluation<sup>64</sup> but overall, sector legislation does not adequately take into account various aspects of climate change and environmental issues<sup>65</sup>.

Public participation in utility service provision has improved; these interventions have contributed to raising awareness amongst the population about water usage, including on water conservation. Some projects also include a component of media information aimed at visibility<sup>66</sup> of EU IFCA financing.

**JC4B.2 The institutional and operational capacity of utilities in the water and energy sectors has been strengthened, including operational and commercial efficiency, monitoring, reporting and accountability mechanisms have been enhanced**

The *capacities of utility companies in the water and energy sectors* have been strengthened i.e.

- By means of TA assistance to designated PIUs project planning, design and implementation including procurement, project cycle management, monitoring and reporting
- Rehabilitated/new infrastructure has enabled better reliability and/or quality of service delivery and in some cases has widened coverage of service provision
- By way of TA support CDPs/BDPs (including preparation of a prioritised long-term investment programme) which have been developed aiming at better utility management including more robust financial standing, greater commercialisation and better prospects of sustainability. These capacity development efforts have covered such practical issues as O&M, reduction of technical and financial losses, metering and revenue collection.
- TA support to policy dialogue has covered ‘higher level’ issues such as tariff methodologies and implementation of more energy efficient legislation in both sectors and climate change adaptation. At lower levels this dialogue has aimed at increased awareness of energy efficiency and water conservation, reduction of waste/losses, environmental issues and tariff/affordability of service.

The degree and coverage of these issues varies geographically and across the sub-project ‘catchment areas’ with more immediate effectiveness in the larger conurbations rather than rural utility companies (which have more limited resources and capacities) managing widely scattered (smaller) systems serving lower density populations.

Overall *blending operations have delivered quality projects* in both the water and energy sectors. Projects have been compliant with national and international regulations and legislation and international best practices and whilst detailed designs and specifications were prepared in accordance with international norms, compliance with such standards has been something of an

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reference to the Roadmap. The 2019 Roadmap draws upon lessons learned from the previous roadmap, whilst addressing the seven strategic elements identified in the previous roadmap including provision for public consultations (including CSOs).

<sup>64</sup> Including: State Programme Strategy for development of Drinking Water Supply and Sanitation Systems of the Kyrgyz Republic (2016-2026) – WSS Strategy; State Programme for Irrigation Development of the Kyrgyz Republic (2017-2026); State Programme for Construction of Water Facilities and Development of New Irrigated Lands in the Kyrgyz Republic (2011-2015); and Priorities for Adaptation to Climate Change in the Kyrgyz Republic to 2017 (updated 2020). Concerning the latter, increasing pressure of climate change and environmental issues is being acknowledged by government in the water sector.

<sup>65</sup> E.g. increasing problems with availability of water, development plans do not consider long-term climate-proofing and potential impacts of climate change , ineffective transfer of knowledge about climate change adaptation, lack of coverage of gender and women’s involvement, and no IWRM nor comprehensive state sector investment plan.

<sup>66</sup> Visibility requirements for blending operations became more demanding and structured as a result of changes in the blending guidance framework in 2014.

issue for local contractors and suppliers to master. TA supervision has aimed at ensuring adequate quality during the course of project implementation and thus better efficiency and effectiveness of implementation (including operation of project outputs). Most utility support projects have prepared operations and business plans which contribute towards O&M plans but in some cases the plans are based on assumptions that may be overly optimistic (e.g. increases in tariffs) and thus effectiveness of such plans (and sustainability) is not guaranteed.

All water sector blending projects specify what are essentially the same M&E frameworks<sup>67</sup> although monitoring indicators (for outputs and outcomes) are not explicitly identified as such in all project documentation (but can be identified from specified results). All such indicators refer to infrastructure delivered by the project (outputs) and the use (and users) of this infrastructure (outcomes). No impact indicators have been identified, although there are undoubtedly impacts which may be expected from these investments. For the energy sector it differs between projects: For the Oshelectro project, TA to PIU includes assistance with monitoring and supervision of contracts and implementation of ESAP. For KyrSEFF I the most important success factors were identified as highly motivated PFIIs making utilisation of the Facility and support to sub-borrowers, part of their internal performance monitoring and bonus system. In KyrSEFF II Project Consultant (PC) activities included monitoring markets for eligible energy efficiency and renewable technologies for investment; building monitoring and control measures.

#### ***JC4B.3 The private sector capacity in the water and energy sectors has been boosted***

IMF<sup>68</sup> reports *constraints to private investment and growth* in the Kyrgyz Republic, noting that 'private investment has been relatively low and growth performance subpar, resulting in lower improvement in living standards than in poor countries' the report goes on to identify private sector growth constraints including:

- *Human capital and labour movement* (with room to improve quality and cost/efficiency of education spending, and market efficiency (labour costs, although relatively low, have exceeded productivity growth)
- *Infrastructure* – despite major investments, the infrastructure gap remains large and the country ranks low on infrastructure quality'
- Governance – *micro risks* (ie weak governance undermines growth through various channels: investment, human, capital and productivity; respect for rule of law is a concern raised by business and, tax rates are low, but tax regulations and administration are onerous)
- Governance – *macro risks* (public debt is high, and spending is tilted towards current expenditure)
- *Cost of finance* – high cost of credit is a key constraint to private investment.

Private sector capacity has increased as a result of blending operations in the energy and water sectors with the role of consultancy support to PIUs undoubtedly playing a role in technology transfer to service providers. The private sector plays an important role as service provider in the implementation of blending operations and projects have addressed to some extent the non-governance issues noted above. Contractors and suppliers, predominantly national firms, have been involved with construction/rehabilitation of infrastructure and equipment under contracts (certified payments being directly disbursed to the contractor by EBRD) which were designed, procured and implemented in accordance with international norms. These procedures were a novelty to some contractors (and utility companies) but there is reported uptake of these requirements by contractors and suppliers who, as 'business people', can see potential market advantage in such capacity and foresee the continued longer term application of these skills after project completion due to increased market demand. This capacity enhancement has come about predominantly given the need for

<sup>67</sup> EBRD is responsible for the monitoring of the implementation of the Action (to be monitored and evaluated in accordance with Article 10 of the General Conditions (Annex II)). Information meetings between the EBRD and the Commission shall be organized in principle annually or when needed in order to review the progress of the project. The Action's M&E to be based on periodic assessment of progress on delivery of specified project results towards achievement of project objectives as set out in the Special Conditions and General Conditions. EBRD has Programme Monitors in place in Bishkek and Osh engaged in monitoring of projects. Formal annual monitoring of projects is to be carried out covering the financial standing of the utility, project implementation, environmental/social/gender issues and improvements, implementation of TA, as well as progress in corporate development and policy dialogue. The Action is also subject to a formal evaluation process upon completion.

<sup>68</sup> IMF Country Report N° 191209 Kyrgyz Republic. July 2019

compliance with specifications and contract conditions and from ‘learning by doing’ rather than specific training, except in the case of KyrSEFF which introduced some examples of new technology, procedures and legislative compliance.

### **Energy sector**

The Oshelectro Rehabilitation project provides opportunities for contractors and equipment suppliers although there is little or no reference in project documentation to boosting private sector capacity as such. KyrSEFF I financed works that were undertaken by contractors and suppliers with involvement of engineers and architects who gained skills and knowledge through dedicated capacity building activities and involvement in the energy efficiency infrastructure investments; KyrSEFF II, whilst continuing the energy efficiency investments in buildings, has also financed >15 projects in water efficiency in the agriculture and hospitality sectors which are serving as demonstrations for the private sector<sup>69</sup>. The PC is continuing to transfer technology to local personnel and market actors to improve knowledge of specialised technologies and contribute to possible continuation of energy efficiency investment activities.<sup>70</sup> Support to SMEs and business projects under KyrSEFF II is expected to contribute to creation of around 300 jobs.

### **Water sector**

All blending interventions provide opportunities for contractors and suppliers in the water sector but there is little or no reference in project documents to specific efforts to increase capacity of these contractors, although enhancement of capacity and experience is confirmed from implementation of works designed and supervised in compliance with international norms. TA has been appointed to support utility company PIUs and there has been technology transfer and capacity building of utility company and utility personnel, although capacity building and technology transfer achievements have not been systematically monitored or quantified. Central to EBRD’s municipal focus (including water and wastewater) is the mobilisation of TA grant funds to promote project preparation, implementation, capacity building and institutional development. IFCA-funded TA support focusses on procurement, contracting and supervision to ensure effective implementation of investments thus contributing to environmental, energy, operational and financial efficiency and potential sustainability. TA to support PIUs in procurement, design, contract management, supervision and certification of works for payment not only contributes to effective implementation but also acts as a training facility for local stakeholders.

#### ***JC4B.4 The targets in quantity, quality, coverage and/or availability of project outputs for the water and wastewater services have been achieved***

There is no reason to doubt that improvements in terms of project outputs will be achieved given the *comprehensive range* of support to the utilities, but it is difficult to quantify these potential gains, as most change brought about by the support is not monitored beyond some basic figures as, for example, length of pipes laid or numbers of persons in receipt of better services. Blending support projects target quantity, quality, coverage and availability of project outputs for water supply and wastewater services but many projects remain as works-in-progress so that it is not possible to assess the extent to which many of these targets will be achieved. However, although projects describe expected results such as increased connectivity (to water supply or wastewater services), better water and wastewater quality standards, better reliability of service and sustainability (strategic, financial and technical) most of these targets are not identified in monitoring indicators.

The *effective monitoring of project targets* is far from sufficient. Not all projects make specific reference to connections to the public water supply although there are references to metering of supply (which includes installing meters on existing connections<sup>71</sup>). There is reference to increased

<sup>69</sup> Although not specifically addressed in these ‘demonstrator projects’ the water/food nexus is indirectly approached in that >90% of available freshwater in Kyrgyzstan is used for irrigation (source: FAO) despite the poor hydrological conditions noted in JC4.B.1 above. There is thus potential for consideration of energy and water efficient pumped and distribution systems in rural areas for irrigation (and potable water supply).

<sup>70</sup> It is noted that there is an increasing involvement of local expertise in KyrSEFF implementation (and corresponding reduction in international personnel) as a result of technology transfer activities including the national Deputy Project Manager becoming the Project Manager.

<sup>71</sup> Beyond installation of meters, there is little or no reference in project documentation to other (smart) management, control and monitoring technologies, such as smart metering, flow and quality in-situ connected sensors, data-driven planning and management, open data, remote sensing-enabled monitoring and forecasting etc.

connectivity but there is no monitoring of numbers of connections. There is also reference to improved access, in some cases with target numbers of the population but such improvement appears to be assumed to accrue from rehabilitation of the network as a whole or in a specific area. There is more general reference to water quality in sector blending projects but little or no monitoring of actual water quality parameters or impacts (such as reduced incidence of water borne disease). Although there are multiple references to improved wastewater characteristics and effluent quality there are no monitoring indicators or targets that actually measure wastewater or sludge parameters or comparisons with international or national norms. Finally, better reliability of water supply and wastewater services (including reduction of service interruptions and rationing of supply/services) is the aim of all water sector blending interventions although not usually articulated in these specific terms nor monitored for these characteristics.

There is also little doubt that *operational sustainability prospects* of utility companies and of the sector as whole will be improved albeit that financial sustainability may remain elusive. The intention of sector blending support is to improve sustainability prospects of the utility companies by simultaneously improving capacity, including physical infrastructure capacity to meet demand for safe, reliable, affordable service; management and technical capacity to efficiently operate the system; financial capacity by increasing cost recovery; strategically by adoption of the corporate development and investment programme; and environmentally and socially by reduction of losses, better quality standards (of potable water and wastewater management) leading to reduction in water borne disease, lower energy consumption, better conservation measures and potential climate change resilience. However, monitoring of institutional support activities (including CDP targets) has been limited.

#### *JC4B.5 The targets in quantity, quality, coverage and/or availability of project outputs for the energy sector have been achieved*

The different approaches of energy sector blending interventions aim at the same over-riding objective (i.e. better energy effectiveness, reduced consumption/losses, greater resilience of supply network, better sustainability prospects, carbon emissions reduction and potential mitigation of climate change effects). However, the interventions adopt strategies that approach the objectives from different directions:

- *Oshelectro Rehabilitation* aims to achieve those objectives by way of introduction of metering, rehabilitation of dilapidated investiture, more commercial business practises and restructuring of the utility.
- *KyrSEFF* aims to achieve these objectives by way of improving energy efficiency in terms of facilitating EE infrastructure improvements for residential and business properties (such as insulation, more efficient divide control, solar panels) together with building national engineering and financial capacity to prepare and undertake such interventions.

Targets of sector blending interventions have been largely achieved for KyrSEFF I whilst Oshelectro Rehabilitation and KyrSEFF II are under implementation. Specific mention should be made that KyrSEFF I, while not achieving all specified outputs (e.g. n° of building level sub-projects and value of residential sub-projects) has exceeded outcome targets (e.g. expected annual energy savings and reduction in annual CO<sub>2</sub> emissions).

More specifically, by way of reduced distribution losses and improved operational management, Oshelectro Rehabilitation is expected to improve the sustainability of utility company operations and thereby contribute to increased resilience and security of the national energy sector as a whole. There is no reference to policy dialogue in specified results and monitoring indicators.

KyrSEFF I underachieved regarding allocation/disbursement funds to the residential sector (~50%) but exceeded the target figure for the business sector (two to seven x targets) such that overall (both sectors) allocation/disbursement exceeded targets by 23%. For KyrSEFF II a facility target has only been specified for Residential disbursement and this 'indicative' target had been exceeded by ~9% by end 2019 – other output results appear to have no targets specified (e.g. n° residential or

commercial sub-projects or commercial disbursement)<sup>72</sup>. KyrSEFF II has continued engagement with policy dialogue<sup>73</sup> by way of call-off consultancy assignments.

Both Oshelectro and KyrSEFF aim at continuation of flow of benefits after the project period albeit in different ways. Oshelectro aims to better capacitate the utility company to more effectively manage the distribution network and thus a better quality of service delivery going forward. On the other hand, KyrSEFF has aimed at ensuring continuation of the approach (i.e. loans for energy efficient investments) by way of capacity building of PFIs and awareness raising for the benefits of such energy efficiency (among the public, PFIs and government). In parallel, the project has endeavoured to ensure that the individual sub-project investments are sustainable in themselves, thus ensuring the flow of benefits. There is limited reference to policy dialogue in project documentation or reporting with focus upon introduction or application of operational policies into utility company operations (e.g. environmental and social issues, HR, tariff methodology) rather than at national levels.

## **Levels 4 and 5: Effects on public policies' sector outcomes, progress in project outcomes and trends in impact indicators**

### **4.8 EQ5: Outcomes – Democratic processes (policy outcomes of budget support)**

**1.1 To what extent, in electoral reform, have the development outcomes pursued through the national policy and related strategies and programmes of work supported by BS been (or are being) achieved?**



#### **Overall Answer to the Evaluation Question**

The results of efforts to *promote democratic governance* in Kyrgyzstan through EU electoral reform support have been mixed, at best. According to surveys conducted by a leading international democracy-promoting institution, the proportion of citizens who regard the election process as free and fair steadily increased over the evaluation period. *Voter registration has increased* but, disappointingly, *voter turnout has dropped* as many citizens have decided not to exercise their right to vote. Some of this is admittedly because of the internationally well-documented effect that newly-registered voters are less likely to vote than those who have long been on the rolls, but the trends in Kyrgyzstan are too pronounced for this to be the entire explanation. Despite Kyrgyzstan's reputation as the Central Asian country most committed to democratization, voter turnout remains lower than in Uzbekistan, Turkmenistan, Tajikistan, and Kazakhstan. Trends in one of the broadest indicators – faith in democracy – are worrisome. In December 2020, when asked “Do you believe that democracy is the best possible form of government for [Kyrgyzstan] or not?” only 47% give a positive answer. These *unfavourable trends in public opinion* lend credence to the most recent *Economist Intelligence Unit Democracy Index* for Kyrgyzstan, which showed the steepest 2019-2020 decline for any country in Eastern Europe or the former Soviet Union.

OSCE/ODIHR assessments of recent elections have found that, while the *legal basis for free and fair elections* is in place and elections have been reasonably well administered, consistent with *fundamental rights and freedoms* overall, there remain fundamental flaws that undermine public confidence and voters' ability to make and exercise considered choices. As noted in the electoral reform budget support Final Report, the October 2020 parliamentary elections represented a “test case” for the actual outcomes of the budget support after an interval sufficient to consolidate its contributions at the output level. Unfortunately, it cannot be said, in view of the violence that followed, that this test went well.

<sup>72</sup> KyrSEFF comprised two windows: i) Residential window – RRE and ii) Commercial window – CRE (industrial and SME resource efficiency) and RE (standalone renewable energy investments including commercial building sector and loans to manufacturers/suppliers/installers of EE/RE equipment).

<sup>73</sup> Specifically on implementation of legislation - LEPB (Energy Performance of Buildings), amending LES (the old ‘Law on Energy Savings’) and harmonizing both.

**JC5.1 The objectives of NSDS and the Presidential decree No. 109. of 22 May 2013 to develop measures to improve the electoral system related to the citizens' exercise of their right to vote have been achieved.**

There was progress in terms of voter registration over the evaluation period up to 2019, but *voter turnout remained lower* than in comparator countries and issues in terms of inclusiveness of the electoral process persisted. Registered voter turnout in the 2017 presidential election was 2.7 percentage points lower than in the 2015 parliamentary elections, although that can in part be ascribed to a significant increase in the number of newly registered voters, whose turnout rate is typically lower than that of the already registered. The twinned trends of rising voter registration and declining turnout persisted in the October 4, 2020 parliamentary elections. In the January 10, 2021 presidential election, voter turnout dropped to 16.2%, which is the lowest turnout since independence in 1991. The same negative trends are seen when the data are disaggregated according to type of election. Note, in particular, the especially steep decline in the turnout rate for the presidential election of January 2021. These trends reflect a combination of distrust of and disinterest in the electoral process. Many citizens simply decided not to exercise their right to vote. Voter turnout in Kyrgyzstan (59% in the 2015 parliamentary election), remains lower than in comparator countries such as Uzbekistan, Turkmenistan, Tajikistan, and Kazakhstan.

An encouraging trend is that the number of Kyrgyz citizens voting abroad has increased; however, it still remains very low. This suggests that registration requirements and procedures for citizens abroad continue to constitute a barrier. Moreover, an unintended consequence of electoral reform was that the introduction of the biometric ID system led to voters still holding old forms of identification were barred from voting. This disenfranchised a significant number of persons. While electoral data disaggregated by gender, by age, and by rural-urban residence have been examined, no striking trends emerge.

Between 2015 (Parliamentary) and 2017 (Presidential) elections, an *online complaints mechanism* to register, trace, provide response to and report on complaints was set up on the (revamped) website of the Central Electoral Commission (CEC). However, few persons surveyed were aware of it and, among those who were, a trivial number had used it. The OSCE / ODIHR October 2020 parliamentary election observation mission found that persons interviewed had no confidence in remedies for elections violations.

The 2017 presidential election took place without major incidents, was judged to have been competitive and well administered by international observers and resulted in an orderly transfer of power. However, as noted in the electoral reform budget support Final Report, the October 2020 parliamentary elections represented a "test case" for the actual outcomes of the budget support after an interval sufficient to consolidate its contributions at the output level. Unfortunately, it cannot be said that this test went well either in the case of inclusiveness or transparency. The consequences of the election are well known. Following the publication of preliminary results, of the 16 contesting parties, only 4 appeared to have gained representation in Parliament (i.e. passed the statutory 7% hurdle). Three of them were allegedly closely allied with President Sooronbay Jeenbekov. Violent protests unfolded on 5 October 2020, leading on 6 October to the resignation of the prime minister and speaker of Parliament, the invalidation of election results by the CEC, and the scheduling of new parliamentary elections for mid- 2021. OSCE / ODIHR elections monitoring mission findings (see also JC5.2) have found that, while the legal basis for free and fair elections is in place, serious concerns remain regarding, among other things, a level playing field, media coverage adequate enough for voters to make an intelligent choice, vote buying, and other issues.

**JC5.2 The objectives of NSDS and the Presidential decree No. 109. of 22 May 2013 to develop measures to improve the electoral system related to the transparency of the electoral system have been achieved**

Opinion polls carried out by the International Republic Institute, a US-based non-governmental institute, suggest that at least until 2017 there was an *increased credibility in the election process*. The proportion of voters who do believe that elections are "free and fair" in Kyrgyzstan was estimated to have increased from 35% in October 2014 to 55% in October 2015, (i.e., just after the parliamentary elections had taken place) to 62% in 2017 (i.e., just after the presidential election),

showing an increase by 7 percentage points, suggesting progress. In addition, survey data show some progress regarding citizens' view of democracy in the country. When asked "*How satisfied are you with the way democracy is developing in Kyrgyzstan?*", 59% responded they were "very satisfied" or "somewhat satisfied" in November 2017, as opposed to 53% in February 2015 and 40% in August 2012.

More recent evidence confirms this. The Statement of Preliminary Findings and Conclusions issued by the ODIHR elections monitoring system on 5 October 2020 concluded that the elections "took place under improved legislation and fundamental rights and freedoms were overall respected." However, it also found credible allegations and questioned the impartiality and transparency of the CEC, its capacity to provide oversight of campaign finance (and hence transparency) and the adequacy of legal remedies for election violations. The CEC has been accused by some of exhibiting bias while dealing with complaints and other alleged violations of the electoral legislation. To summarize, the ODIHR mission stated "*Priority recommendations focus on addressing the issues of vote-buying and pressure on voters, including via expedited and mandatory investigation by law enforcement bodies of these irregularities, ensuring full respect for freedom of media, enhancing media coverage to the benefit of voters, strengthening transparency of political and campaign finance, consistent application of sanctions for electoral violations and guaranteeing the secrecy of the vote.*"

Specific findings were that the biometric voter identification system to whose development EU budget support contributed was found to enjoy wide public confidence, but nearly half a million citizens (particularly abroad) were not registered in time to vote. The ease for voters to file a temporary change of address (avoiding the need to return home to vote) appears to have been a double-edged sword, as this gave rise to "serious" and "credible" vote-buying concerns on the part of candidates and political parties interviewed. Doubts were also expressed on the adequacy of legal remedies for election violations.

The election was held in a *fraught atmosphere*. In its preliminary election observation report on the snap presidential election of 10 January 2021, won by Mr. Zhaparov with 79.84% of cast ballots, OSCE / ODIHR found that the legal framework allows for a competitive election, and fundamental freedoms were generally respected. However, it also found that Mr. Zhaparov's disproportionate access to finance and misuse of administrative resources made for an uneven playing field. An overall lack of critical media reporting, partially due to a restrictive legal media framework, limited the voter's ability to make an informed choice.

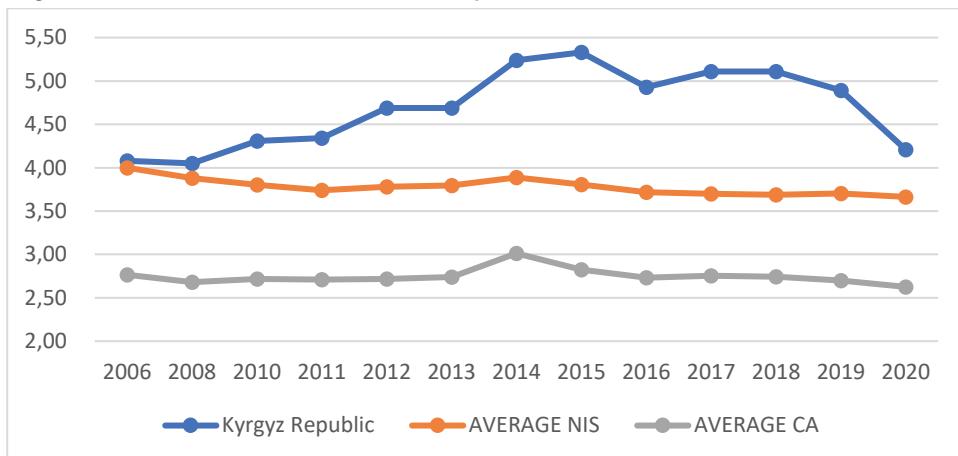
Moving from technical indices such as voter turnout to a higher-level perspective, trends in what must be considered one of the general indicators – *faith in democracy* – are worrisome. According to the most recent International Republican Institute opinion survey (December 2020), when asked "Do you believe that democracy is the best possible form of government for [Kyrgyzstan] or not?"? only 47% give a positive answer.

These unfavourable trends in public opinion lend credence to the most recent *Economist Intelligence Unit Democracy Index* for Kyrgyzstan<sup>74</sup>, which showed that the country achieved remarkable process between 2014 and 2018 and remains the sole non-authoritarian regime in Central Asia and one of five "Hybrid Regimes" among the former Soviet Republics. Nevertheless, it suffered the steepest 2019-2020 decline for any country in the former Soviet Union.

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<sup>74</sup> Please refer to JC5.2 in Volume 2 for details.

Figure 7: Trends in Democracy Index 2006-2020



#### 4.9 EQ6: Outcomes – Education (policy outcomes of budget support)

To what extent, in the education sector, have the development outcomes pursued through the national policy and related strategies and programmes of work supported by BS been (or are being) achieved? And which have been the key factors of their achievement?



##### Overall Answer to the Evaluation Question

The objectives of the EDS – and related action plans – have been achieved as far as nearly *universal access to primary and lower secondary education* is concerned. However, despite some improvements, access to non-compulsory upper secondary education (grades 10-11) has remained low. The partial focus of the EDS, which neglected this area, explains the little progress observed at this level.

GoK efforts to improve the quality of education have *positively affected student learning outcomes* in line with EDS, although only to a limited extent. Action to improve the quality of school curricula and textbooks contributed to the slight advancements observed. While, according to 2017 results, student performance improved compared to previous surveys, it still remained poor with the majority of both boys and girls performing below basic level in key subject areas.

Teacher training as an essential part of *improving the quality of education and learning outcomes* has been expanded and strengthened (e.g. through the introduction of new methodologies) but cannot yet cater for the demand created by the reform process. For example, the introduction of multi-lingual learning is not matched with a sufficient number of qualified teachers.

Although there is no evidence for *notable gender imbalances* and despite recent progress for example in the field of multi-lingual education, challenges still exist for children with disabilities and from disadvantaged socio-economic and linguistic minority backgrounds in enrolling in – and completing – education programmes.

While the Technical Vocational Education and Training (TVET) sector has grown, the *linkages between education and the labour market* still lack strong synergies. Despite a growing importance of TVET during – and at least partially as a result of – EDS implementation, and an increase in the number of students in vocational education, a notable positive effect for the employment situation in the country is yet to be seen. This, however, is also affected by the COVID-19 situation which has put strain on employment (See also JC 10.1 on employment trends). Among most visible achievements to-date are the increase of people with higher professional degrees among the labour force, and the standardisation of qualifications.

*EU support contributed importantly* to achievements of EDS and actions linked to the reforms included under both BS programmes were implemented successfully and funds almost fully disbursed (98%). Nevertheless, the serious absence and inconsistency of sector data has not allowed the evaluation to assess in detail the determining factors of the evolution of outcomes in education.

**JC6.1 The objectives of the strategies (in particular, EDS 2020) related to access to quality education have been achieved**

There has been substantial progress in *universal access to primary and lower secondary education*. At the time of drafting the national Education Development Strategy 2012-2020 (henceforth EDS), only 13,4% of the 3-6-year-olds in the country were covered by pre-school education. Since then, Kyrgyzstan has made substantial progress in providing access to education at pre-primary level. According to national statistics, in 2018-2019, 40.9% of children aged 3 to 7 years were covered by various forms of pre-school education. The total coverage of pre-school and early childhood development programmes among children entering Grade 1 increased from 55.6% in 2015/16 to 78.9% in 2017/18.

EDS target figures for 2020 regarding the overall enrolment for 1-9 grades were 100% (baseline 2011: 94%), and 95% for net enrolment 1-4 grades (baseline 88,4%) and 5-9 grades (baseline 84,8%) in both cases. In the 2018-2019 school year Kyrgyzstan was on track of achieving these targets with an overall cross enrolment rate of 98.8% for all cohorts (99% for grades 1-4 and 98% for grades 5-9), which was an increase of 0.4% compared to the previous school year. The total number of children enrolled in general education amounted to 1,2 million in 2.262 schools.

However, while the country has maintained high access to primary and basic secondary education for many years, the *net attendance* is lower for upper secondary education (grades 10-11) and currently stands at 59% for boys and 56% for girls. EDS 2020 does not include target enrolment figures for grades 10-11.

While there is no evidence for *gender imbalances*, the education system still presents inclusiveness issues, especially for children with disabilities and from disadvantaged socio-economic and linguistic minority backgrounds. About 6% of school age children are out of school and most of them are late entrants, children with disabilities and children of labour migrant families, pointing to socio-economic imbalances in access to education. Pockets of exclusion from compulsory education also exist in rural areas, as well as new settlements around Bishkek.

Access to upper secondary school, which is not compulsory, is lower than for basic education, and reveals *gender, wealth, and location disparities* – as well as by speakers of Uzbek and other minority languages. According to government and CSO interlocutors progress has been achieved through the strengthening of multilanguage education as the result of BS. In September 2019, MoES approved a new methodology for multilingual education, which is a further step towards the inclusion and better education attainment for children whose mother tongue is Tajik or Uzbek. The main goal of the multilingual education programme, which already started in 2012 and has been expanded since then, is to provide an opportunity for all children to receive education in their native language and at the same time master Kyrgyz, Russian and another foreign language. A weak point of the programme from the beginning was the shortage of staff with degree in pedagogy and sufficient language skills in teaching subjects in two or more languages. This challenge has been addressed particularly since 2019 but still presents a main hurdle in the implementation of multilingual education.

**Box 3      BS effects on multilingual education in KGZ**

*“Multilingual education is one of the key problems and challenges in education. Thanks to budget support we could achieve a lot in this area. 80 schools and 45 kindergartens are involved. 5 universities contribute to the development of the programme. Multilanguage education was also implemented in pre-schools. In Bishkek the majority of students do not know Kyrgyz well. In the regions their level of Russian is low as they have no chance to practise. Integration of training and development of language is one of the most important aspects of Budget support. Thanks to BS a modular course for teachers was developed and completed by hundreds of teachers.”*

*Source: Interview with a leading education expert and former government official*

Overall, the number of children and students successfully completing an education has slightly increased by approximately 8% in absolute terms – from 229.800 completions in 2003, to 248.400 completions in 2017. The net increase was 3% as, according to the 2019 national SDG report, the

school population is growing at about 5% annually. The overall dropout rate (2013-2018 average) stands at 2.4% of the primary school cohort, which is a higher figure than for other Central Asian countries but substantially lower by global comparison (see the table under I-6A.1.3). Early marriages, religious beliefs, and work are among the main reasons why children leave school – causes that are still insufficiently addressed, according to interviews.

**JC6.2 The objectives of the strategies (in particular, EDS 2020, EDS 2040) related to learning outcomes have been achieved.**

Following EDS, it was planned to introduce standardised testing for pupils to assess their learning achievements at primary and secondary school. However, currently there is still *no nationally representative learning assessment conducted at any grade in the country*. Yet, MoES has regularly supported large-scale assessments including the Early Development Instrument (EDI) (2015/16), Early Grade Reading Assessment (EGRA) (2017), and the National Assessment of Students' Learning Attainment or The National Sample-Based Assessment (NSBA) (2007, 2009, 2014, 2017), which have evaluated learning in three subjects at Grades 4 and 8 and provides valuable system-diagnostic information. No assessments and surveys have been conducted since 2017. At an international level, the MoES participated in PISA (2006 and 2009) and an OECD survey (2019).

Student learning outcomes have steadily, but slowly, improved, in line with EDS objectives. However, generally student performance remains poor with the majority of both boys and girls performing below basic level in the sciences and mathematics. Overall, there is widespread agreement in reports, studies and among interviewees that in spite of the still mounting challenges the direction of change is encouraging and that the policy reform and implementation have been moving along the right track.

**Box 4 Overview of most recent education assessments**

*NSBA 2017* showed that the percentage of Grade 4 students performing below basic level in reading and comprehension, mathematics, and primary-level natural sciences, decreased by 5.5%, 3.5%, and 8.6% respectively, within three years (compared to NSBA 2014) and thus during the implementation of the EDS. The share of 8th graders performing below basic levels ("non-performers") in mathematics decreased from 84.3% in 2007 to 64.9% in 2017. Reading comprehension improved from 73.5% non-performers in 2007 to 51.5% in 2017. Science improved slightly to 76.6% non-performers in 2017 against 81.8% in 2007. Yet, about 44% of girls and 59% of boys still scored below basic level in reading, and only 16% of girls and 11% of boys scored at the highest reading level in 2017. More than 75% of both boys and girls scored below basic in the sciences and very few of both genders scored at the highest level. As one indication of disparate performance, the percentage of students scoring below basic level in 2014 ranged widely from 43 percent in Bishkek to 60 percent in regional centres and small towns to 70 percent in rural schools.

*EGRA 2017* revealed that only 44% and 47% of sampled students in Grades 2 and 4, respectively, attained grade-level oral reading fluency. These represented gains of 10/13 percentage points over the EGRA 2014 results. (WB 2020: 7).

*EDI 2015/16* found that children enrolled in community-based kindergartens (CbKs) demonstrated improved scores, with the greatest gains in the language and cognitive development domain. However, one-quarter of children were still vulnerable in one or more domains even at the end of the programme.

*Post-2017 data* on student learning outcomes are not yet available. Planning and organisation of the next NSBA have been affected by the COVID-19 pandemic but is still scheduled to take place in 2021.

As for *gender discrepancies*, EGRA, NSBA, and PISA all exposed that, on average, girls performed better than boys in all subjects. The gaps are particularly pronounced in reading and comprehension and mathematics. For example, according to NSBA at Grades 4 and 8, girls' mastery of the basic level in reading and comprehension is 10–15 percentage points higher than for boys, while in mathematics, it is 4–5 percentage points higher.

At the same time, *a large gap in education attainment* remains in relation to regional and international averages. Kyrgyzstan's results in PISA 2009 indicated that students age 15 years lag approximately 4.5 grade levels behind the OECD average and that there are large geographic variations in performance, with southern and Talas oblasts scoring poorly. The country was ranked at the bottom of both PISA 2006 and 2009, causing a political scandal in the country. The government subsequently decided to no longer participate in the testing. However, Kyrgyzstan will again take part in 2024 and preparations started in 2019. A 2019 OECD adult skills survey found that adults in Kyrgyzstan scored approximately 20 points lower than the OECD average in terms of functional literacy and numeracy (247 and 243 versus 268 and 263, respectively); it also found the highest variability in performance across respondents that it had recorded in any country to date.

**JC6.3 The synergies between the education sector and the labour market have been strengthened**  
*Synergies between the two fields* have been strengthened, but still remain weak overall.

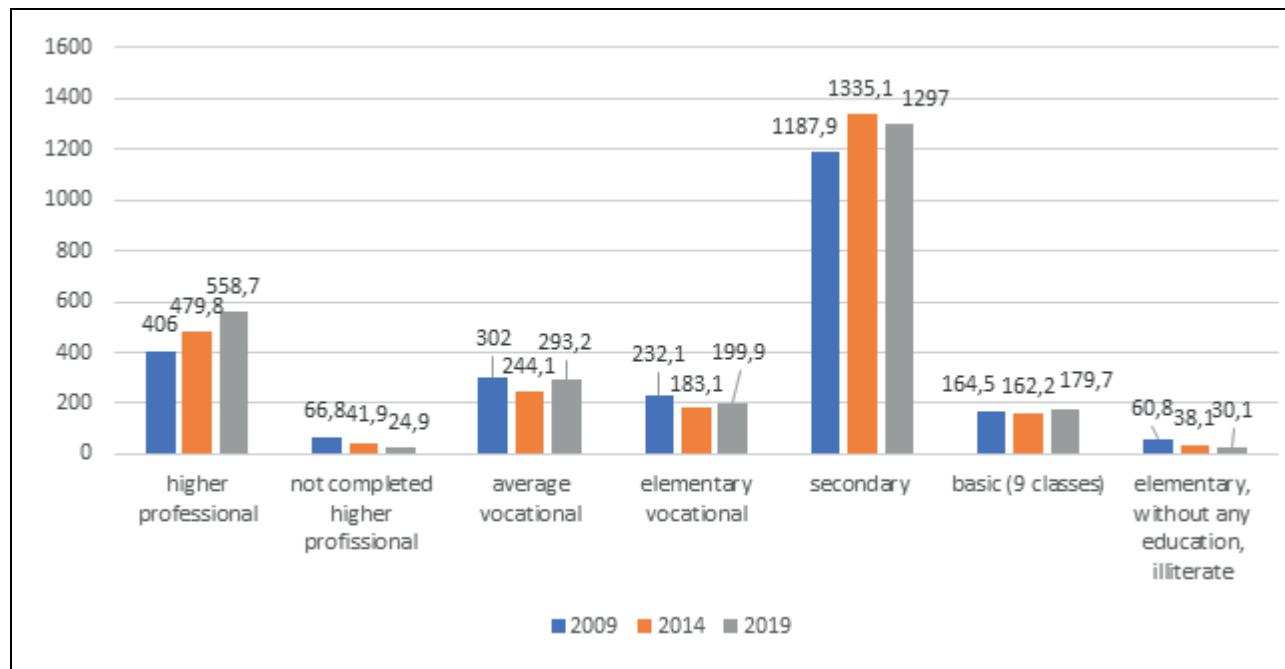
According to the most recent national SDG progress report, about one third of 15-24-year-old youth are not in education, employment or training nationally, especially outside Bishkek. “*Effective linkage of the education system and the labour market remains a challenge, due to the weak connection of vocational education standards with the qualification requirements put forward by the domestic, regional and global labour markets.*”

Several Interlocutors stressed that *cooperation and coordination* between the Ministry of Labour and Social Development and the Ministry of Education and Science – which was previously seen as weak – has improved and resulted in collaborative approaches to, *inter alia*, the development of standards as well as training courses for unemployed people. At the same time triangular relations between vocational schools, employers and civil society have been developed and strengthened for the benefit of curriculum development, the introduction of new approaches such as dual education involving apprenticeships, and monitoring.

Following some reorganisation in recent years, the *public vocational education sector training* consists of 99 primary VE institutions and 26 secondary VE institutions which provide career guidance to graduates and offer training course. There are also 31 career centres in higher education institutions and 66 labour offices, which provide counselling services for career guidance to graduates and jobseekers. TVET in the county's educational system is already embedded at the secondary level. Professional lyceums and vocational technical colleges provide initial professional education.

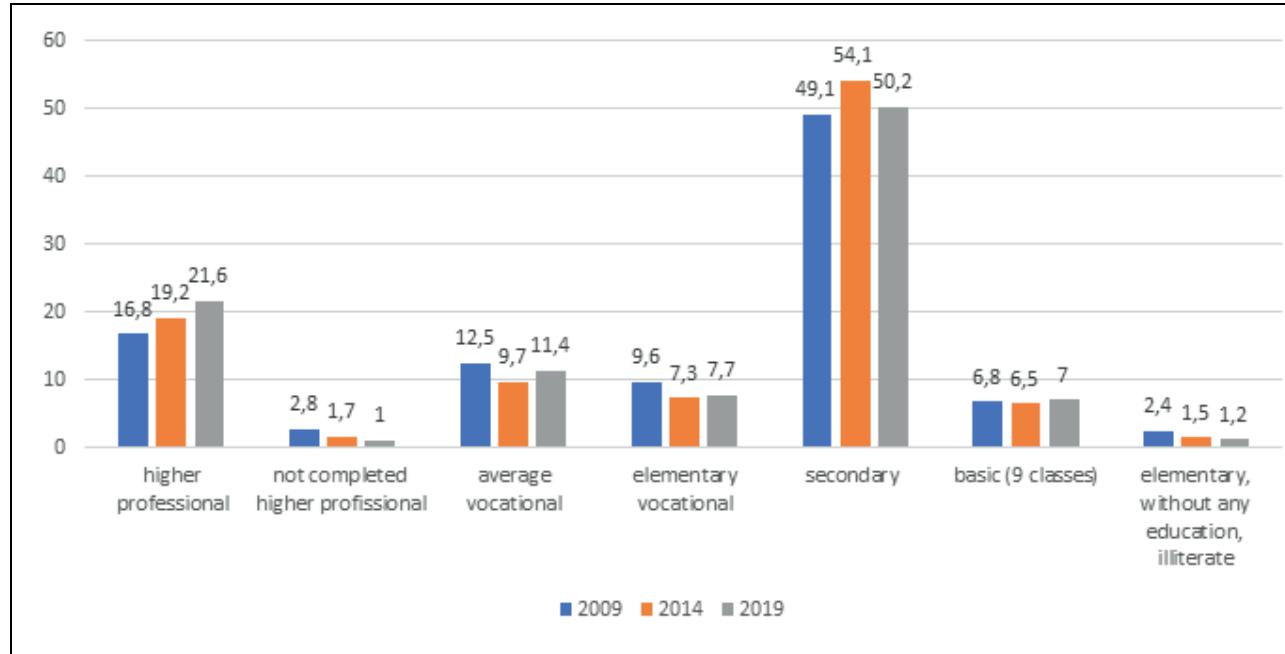
Over the past decade progress has been achieved in the post-secondary education level. Between 2009 and 2019 the number of people with a “higher professional degree” increased from 406,000 to 558,700 (from 16.8% to 21.6% of the workforce). In 2019, 50.2% of the working population had completed secondary school as their highest level of education. While this figure was higher than ten years early it had dropped from 2014 (Figure 8 Workforce disaggregated by highest level of education, 2009-2019 (total number in thousand persons)). The statistics thus also show that about half of the workforce still lacks job-specific qualifications beyond general secondary education.

**Figure 8** Workforce disaggregated by highest level of education, 2009-2019 (total number in thousand persons)



Source: Ministry of Labour and Social Development.

**Figure 9** Workforce disaggregated by highest level of education, 2009-2019 (percentage)



Source: Ministry of Labour and Social Development

There is both a gender gap and rural-urban divide. More women than man (26.9% versus 18.3%) and substantially more urban than rural (33.4% versus 14.9%) working adults possessed a higher professional qualification in 2019. All figures increased since 2009 but the urban-rural gap even slightly increased (for full tables see I-6A.3.1 in vol. 2). Despite the fact that more women have higher qualifying degrees than men, they are underrepresented particularly in science, technology, engineering, and mathematics (STEM) fields in the labour market.

**Table 5 Workforce disaggregated by gender, 2009-2019**

	2009			2014			2019				
	Male		Female	Male		Female	Male		Female		
	Total (,000)	%	Total	%	Total (,000)	%	Total (,000)	%	Total (,000)	%	
Higher professional	195.5	14.0	210.5	20.5	236.6	16.1	243.2	23.4	289.4	18.3	269.3
Secondary	714.3	51.2	473.6	46.2	835.8	57.0	519.3	51.1	852.2	53.8	444.8
											44.5

Source: Ministry of Labour and Social Development

**Table 6 Workforce disaggregated by urban and rural regions, 2009-2019**

	2009			2014			2019				
	Urban		Rural	Urban		Rural	Urban		Urban		
	Total ('000)	%	Total (,000)	%	Total (,000)	%	Total (,000)	%	Total (,000)	%	
Higher professional	241.4	28.2	164.6	10.5	266.8	31.0	213.0	13.0	314.1	33.4	244.6
Secondary	298.3	34.9	889.6	56.9	344.2	39.9	1010.9	61.5	351.3	37.4	945.7
											57.5

Source: Ministry of Labour and Social Development

Higher Education Institutions and VET schools conducted surveys of graduates 2016 in 2017. According to the surveys, 74% of HEI graduates (graduates funded by budget places) were employed; 58.4% of VET graduates (graduates funded by budget places) found a job or enrolled in upper level of education. According to the Ministry of Health and Social Development, 70% of unemployed people who underwent – the growing number of – short-term courses for vocational education offered by the employment promotion agencies in all regions, 70% of the people found employment afterwards. However, the demand for such courses is markedly higher than the supply. As one interlocutor put it, “funding is limited and the budget has even been reduced due to COVID-19. The Ministry of Finance allocated less funds than what the Ministry of Health and Social Development had applied for. Furthermore, around 100,000 migrants returned due to COVID-19 and many also want to get additional training. At the same time, many SMEs went bankrupt.”

**JC6.4 The determining factors of sector outcomes (validated results of statistical/econometric analysis from level 4 to Level 3 and other factors) have been identified and can be related to the GoK policy actions supported by BS operations.**

A statistical or even *econometric analysis* for the education sector could not be conducted due to *lack of sufficient consistent data*. The Education Management Information System (EMIS) data covers only the academic year 2019/2020 and is extremely fragmented due to the fact that the system was recently established and faces early-stage adoption and implementation issues. Despite various requests and attempts, beyond EMIS no data was shared by MoES. The assessment of this JC is therefore mostly qualitative and relies on reports and interviews.

The 2019 Final Report on budget support finds that the *Education Sector Reform Contract* had been satisfactory during the implementation period. More specifically, only 1 out of 13 indicators of the last variable tranche was not met during the last year of the programme. Indicator 2.3, which aimed to introduce per-capita funding in public schools of Bishkek, was not fulfilled by the Kyrgyz Government, notably the Bishkek City Municipality and Ministry of Finance keeping “oversized urban schools underfinanced and puts at risk the quality of education and its cost-effectiveness.”

The Final Evaluation of the Education Sector Reform Contracts (SPSP and SRC) equally concludes that the actions linked to the reforms included under both BS programmes were implemented successfully. The level of fulfilment of the performance related components in the SPSP and SRC was close to 100% – disbursement compliance corresponding to 98% of SPSP budget, and disbursement compliance corresponding to 98% of SRC budget respectively.

Between them, the Final Report and Evaluation as well as interviews identify the following *main determining factors of the positive sector outcomes*<sup>75</sup>:

- Overall, BS provided a stable environment and entry point in facilitating political prioritisation of national development, as well as policy-led dialogue as regards education sector governance and systemic reform. In addition, BS has been a driving factor in related areas of development, such as PFM reform, improvements in fiscal framework and macro-economic policy measures
- Sectoral Planning improved significantly compared to planning approaches applied before 2012, on various levels, including programme-based budgeting, and medium-term planning. With the development of the new EDS 2040, APED 2021-2023, and corresponding M&E mechanisms, the process of sector planning has gradually been institutionalised in the MoES and subordinate institutions. Equally important, between 2016 and 2019, more than 2000 school principals and all districts underwent training in programme-based budgeting, planning, financial management. All school principals interviewed for this evaluation noted that as a result the quality of school management improved strongly.
- Since 2014 decentralised management and decision-making has strengthened with the establishment of the Board of Trustees (BoT) at school level. BoT play an important role in planning and the development of schools. BoT have been trained in planning and financial management. In interviews, members of BoT stated that joint planning and decision-making with school principals generally worked well and school budgets were distributed transparently. However, they also noted that many schools did not even have enough resources for routine expenditures such as supplies. The problem had previously been solved by contributions from parents – before the prohibition of direct collection of money from parents by schools was introduced. This policy is seen as a double-edged sword. On the one hand, interlocutors agreed that it was necessary to establish public control over the collection and distribution of “extra-budgetary funds”. On the other hand, such funds are seen as essential for the development of schools which would – according to interviews – not be able to survive otherwise. In reality the collection of parents’ contributions continues but this process is now organised informally by the BoT, something members do not seem to feel comfortable with.
- In terms of sector governance and transparency, the MoES strengthened its ability to conduct audits, through the institutionalisation of an Internal Audit Department, which conducts audits on a regular basis with follow-up on audit findings.
- In general, the Government was committed to gender mainstreaming in national development planning. The MoES has made progress in promotion of gender-aware policy planning and budgeting. For example, since 2018 the Ministry has been undertaking a gender expertise of textbooks and recommendations of this assessment shall be applied in new textbooks in line with the new education standards. New textbooks in science subjects have already been introduced. Thanks to the recommendations of the EU-funded Gender Study in 2017, MoES introduced a number of measures to address gender issues and rights-based approach in its Action Plan for Education Development (APED) 2018-2020, including data collection and targets disaggregated by sex.
- Since 2016 efforts to promote inclusive education have been increasing general awareness on special needs education and inclusive education at schools. In addition, normative funding/per capita funding formula was introduced in the same year for school financing from the state budget includes a provision for children with learning disabilities. Overall, at the policy level, budget support allowed the Government to promote certain reforms, which received relatively little attention (e.g. inclusive education), or to take on more system level (and thus more costly) type of reforms.
- New education standards were developed and based on competence-based approach and result-oriented learning, geared towards the application of knowledge and skills in life. A

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<sup>75</sup> As mentioned, these factors have not been extracted from a quantitative study but have been identified using interviews and secondary sources such as the evaluation of education BS.

fundamentally new approach has been developed for the basic curriculum for schools. Graduate requirements are now formed through a package of basic subjects.

- Teacher training, which forms an essential part of improving the quality of education and learning outcomes and has been improved and strengthened. An operational system for continuous professional development (CPD) is in existence, which is an essential, but it is not working effectively (e.g. the capacity for teacher training is still limited in terms of the places available) and has not been substantially leveraged for impact with quality improvements.

#### **4.10 EQ7: Outcomes – Social Protection (policy outcomes budget support)**

**To what extent, in the social protection sector, have the development outcomes pursued through the national policy and related strategies and programmes of work supported by BS been (or are being) achieved? And which have been the key factors of their achievement?**



##### **Overall Answer to the Evaluation Question**

Progress on *meaningful access* to social protection in Kyrgyzstan, the main objective of EU budget support, has been limited. The main social assistance programme, the Monthly Benefit for Poor Families (MBPF; formerly known as the Monthly Benefit for Limited Income Families or MBLIF) remains difficult to access and the benefit level is inadequate. Expenditure on contributory, formal-sector social insurance in 2018 was approximately five times higher than spending on the two main targeted social assistance programmes, MBPF and the Monthly Social Benefit (MSB), the latter a targeted programme directed mostly towards the adult disabled. *Unemployment insurance and Active Labour Market* policy services remain ineffective. The disproportionate emphasis on formal social insurance represents a strategic policy choice on the part of GoK. Little of progress on poverty reduction can be attributed to the social assistance reforms that the EU focused.

Nonetheless, *social insurance pensions*, reserved for those with a history of formal employment, have a significant anti-poverty impact, although benefits are hardly generous, because recipients are almost all elderly (or adult disabled).

Although by definition BS supports SP policy as a whole, the EU has aimed, in particular, at the de-institutionalisation of children and the disabled. While data on *institutionalisation of children* have been found by the evaluation team to be inconsistent, progress towards the goal of de-institutionalisation appears to have been slow. Reliance on institutionalisation also continues to predominate among the adult disabled.

There have been some *modest improvements* in community care at the local level through the purchase of services from local CSOs through the state social procurement plan, a move strongly supported by EU. However, in practice, only a small proportion of vulnerable individuals or households have access to community and home-based social services. Despite EU support to training and workforce skills development, community-based services are not up to a high standard. Despite these trends, there is some evidence of increased public trust in MoLSD and MoES, the public institutions most identified with social protection.

Several structural factors have limited the impact of SP reform effects. Some are demographic. More important, however, is the GoK's commitment to maintaining the formal pension system, thus depriving social assistance of the fiscal oxygen it requires to have an effective anti-poverty impact. There is a vicious circle, because the formal social insurance system contributions required to maintain benefits are so high as to strongly encourage informality, which shrinks the contribution base and drives them higher. The Social Fund (the institution responsible for social insurance) is increasingly reliant on transfers from the Republican Budget to meet its obligations. This naturally reduces funds available for social assistance and ultimately the effective delivery of services to the population.

### **JC7.1 The objectives to improve **access to social protection schemes** (incl. social assistance) have been achieved**

EU budget support is reported by experts to have contributed to *modest improvements in social assistance targeting* in 2010-2014. This consisted largely of the introduction of proxy means testing to reduce the bias introduced by sizeable rural (as opposed to urban) in-kind income. However, during the evaluation period, the proportion of the poor population receiving a social assistance benefit (the means-tested Monthly Benefit for Poor Families with Children under 16 or MBPF) remained low. Low coverage of the poor reflects the fact that the MBPF was established to eradicate extreme poverty, which today affects a very small proportion of those who are poor. What is left of extreme poverty is almost entirely rural, meaning that the urban population is almost completely excluded from the MBPF. In addition to the urban poor, the major groups excluded from coverage are unemployed youth, women and returned migrant workers. Access to the MBPF is challenging. Registering often requires multiple documents and travel to rayon (district) centres to collect them. There are, as well, reports of petty graft, “application fees” and the like in the responsible local MoLSD offices. The average monthly MBPF benefit in 2019 is estimated to have been KGS 877, a derisory sum. A significant increase in benefit levels, increasing the cost of the programme, would be required to make the MBPF adequate. As has been historically the case, the monthly social benefit (MSB), a targeted programme aimed at fourteen specific groups (mostly disabled adults) was far higher, at KGS 3,009 per month. For comparison, the average formal social insurance pension was KGS 5,116 in 2019 and the minimum subsistence level for retirees (MSLR) was KGS 4,283.

Unemployment insurance is limited to formal sector workers, and it is estimated that only 25% of the eligible unemployed register for benefits and, due to strict eligibility criteria, only a handful receive them. Slipping into informality is the preferred option. The poor availability of *Active Labour Market* (ALM) policy services has particularly serious consequences for the young, the unskilled, the unemployed and returned migrants.

Throughout the evaluation period, the proportion of the elderly population receiving a wage-indexed social insurance pension from formal-sector employment, which serves an important anti-elderly poverty function, was roughly three-quarters. In addition, significant numbers of adult persons received disability benefits. Social assistance coverage, poverty-targeted or aimed at especially vulnerable groups, lags far behind and the allocation of resources across the social protection sector is unbalanced. Expenditure on contributory, formal-sector social insurance in 2018 was approximately five times higher than spending on the two main social assistance programmes MBPF and MSB.

### **JC7.2 Economic and social **vulnerabilities** have been reduced through the empowerment and social inclusion of marginalized groups, particularly for children and persons with disabilities.**

#### **Income vulnerability**

Government statistical sources report significant declines in *multi-dimensional poverty*, covering five dimensions (monetary poverty, health, housing, food security and education). Extreme poverty (effectively, food poverty) has been virtually eliminated, amounting to only 0.5% in 2019, with the overwhelming majority of the extremely poor residing in rural areas (headcount rate 0.8% vs 0.1% in urban areas). At the same time, targeted social assistance has little effect in reducing poverty. Exclusion (as well as inclusion) errors remain a problem and benefit levels are too low. The area of social protection where there has, by contrast, been a significant poverty impact is social insurance pensions, which affect predominantly elderly poverty. This underscores that Kyrgyz policy makers have strategically chosen to maintain the formal social insurance system as best they can, severely limiting the fiscal space available for social assistance. If vulnerability was defined as twice the extreme poverty line, upwards of three-quarters of the population would be considered poor and thus vulnerable. In other words, a large portion of the population can be classified as vulnerable.

#### **Vulnerable groups: de-institutionalisation of children and the disabled**

While data on institutionalisation of children have been found by the evaluation team to be inconsistent, progress towards the goal of *de-institutionalisation* appears to have been slow. Key to understanding this is that over half of institutionalised children are in state “privileged” boarding schools managed by the MoES. Children are very often placed in these institutions at the request of

their parents. Based on admittedly inconsistent data, there may have been some drop in the number of children in MoES-run facilities, while the number in MoLSD facilities has remained essentially unchanged. With EU support, GoK has made advances in improving oversight of residential care facilities. The EU supported construction and provision of equipment for rehabilitation centres in Jalal Abad and Belovodsk institutions for children with severe disabilities, as well as workforce development. The SRC Final report states that targets were met in both institutions, but other sources state that, at the end of budget support, much remained to be accomplished. Reliance on institutionalisation also continues to predominate among the adult disabled.

There have been some improvements in community care at the local level through the purchase of services from local CSOs through the state social procurement plan, a move strongly supported by EU. However, in practice, only a small proportion of vulnerable individuals or households have access to community and home-based social services. Despite EU support to training and workforce development, community-based services are not up to a high standard. There are concerns about outsourcing of social services that are traditionally considered a state responsibility. There are also concerns about continuity and sustainability, as MoLSD contracts with local CSOs are short-term and have the potential to crowd out public responsibility. However, most beneficiaries, including parents of children, were satisfied with the quality of services delivered by CSOs contracted by MoLSD to work at local level.

#### ***JC7.3 Improved trust in institutions and systems of social protection (esp. MoLSD, MoES)***

According to a credible recent (end-2019) survey conducted by a respected institute, 16% of respondents identified health care as a major problem within Kyrgyzstan, 14% of respondents saw pensions as a major problem, and 12% saw social services / benefits as a major problem. By far the most commonly identified problems were “economy-unemployment” (67%) and corruption (54%). 44% had a negative view of the health system, presumably a reflection of the persistence of under-the-table payments for health services. Medical institutions and social assistance ranked quite high in the five top priority issues for local election candidates, although roads were at the top of the list. However, there is evidence in the other direction. Based on opinion survey data (the “Public Confidence Index”) regularly published by the National Statistics Committee, the rate of population confidence in MoLSD and MoES, the two services most closely implicated in SP, rose significantly between 2012 and 2019.

#### ***JC7.4 The determining factors of sector outcomes (validated results of statistical/econometric analysis from level 4 to Level 3 and other factors) have been identified and can be related to the GoK policy actions supported by BS operations***

A statistical or even econometric analysis for the social sector could not be conducted due to lack of sufficient consistent data. Despite various requests and attempts, the evaluation team did not receive data on any of the focal areas of EU support that was of good enough quality. The assessment of this JC is therefore mostly qualitative and relies on reports and interviews.

Several *structural factors* have limited the impact of SP reform effects. Some, demographic in nature, are virtually beyond policy control in the near- or medium terms. These are a youth bulge at the bottom (half the population is younger than 24 years with around 60% of these representing children and adolescents), a depressed share in the middle working ages (particularly due to male emigration), and a rapidly growing elderly population at the top. In addition, a large share of the population resides in remote and disadvantaged locations. However, a significant part of reason for the meagre results lies with policy choices. Amid the economic and fiscal crises and fiscal constraints and surging demand for benefits, GoK managed to maintain pensions. Thus, those qualifying for formal social protection, especially Soviet-era pensions, have fared better than others (although they have hardly fared well given the low benefit level). The sustainability of the formal pension system is being eroded as the number of beneficiaries outpace growth in the contributor base increases, which is worsened by informality. There is a vicious circle because the formal social insurance system contributions required to maintain benefits are so high as to strongly encourage informality, which drives them higher. The Social Fund (the institution responsible for social insurance) is increasingly

reliant on transfers from the Republican Budget to meet its obligations. This naturally reduces funds available for social assistance.

Attempts to bring social assistance and services to bear on poverty, vulnerability, and exclusion have, therefore, borne only limited fruit. According to the National Statistics Committee, social protection has actually been on a downward trend as a share of GDP (5.6% in 2012 to 5.2% in 2019. This, despite the fact that the share of SP in general government expenditure has increased from 18.6% in 2015 to 21.4% in 2019 (in the national or Republican budget) and from 16.3% to 19.5% in the state budget. The balancing factor is a decline in general government expenditure as a share of GDP. There is, again, a *vicious cycle*: government spending is contracting due to fiscal constraints, while policy makers try to shore up social protection, and in particular the formal pension system. In turn, this accounts for the imbalance between the share of budget that must be devoted to formal social insurance (with reasonable coverage, if mediocre adequacy) while simultaneously squeezing anti-poverty social assistance, with both poor coverage and poor adequacy.

In the area of de-institutionalisation of children and the disabled several structural factors have impeded progress. One is incentives: institutions receive budget allocation for every person under their care. A second is that community care is a new concept; progress is being made with EU support, but it is slow. A third, relevant particularly for children, is that many children are committed to institutions because their parents cannot care for them due to a combination of poverty and lack of community services.

## 4.11 EQ8: Outcomes – Water (project outcomes of blending)

1.1 To what extent have the development outcomes pursued through the investment supported by EU blending operations in the water sector been (or are being) achieved in the targeted geographical areas



### Overall Answer to the Evaluation Question

*Project results* of water sector blending interventions are being achieved (in terms of service levels of water supply and wastewater disposal and environmental sustainability) but the evidence of linkage between *project deliverables and development outcomes* is weakly presented and not consistently reported. For example, rehabilitation or replacement of lengths of water supply pipeline is expected to reduce leaks and avoid infiltration of contaminants such that water quality is improved for a recipient 'catchment area' of beneficiaries, in which area meters are installed. There are thus prospects for credible outcomes of reduced losses, reduced water borne disease and infections. Also expected are more accurate *monitoring of usage leading to greater cost recovery* together with better and more financially and institutionally robust utility management which translate into overall environmental sustainability and quality of life. In reality, little monitoring of such development outcome indicators or presentation/reporting of such potential results is done. Financial, operational and managerial sustainability is possible but has not yet been demonstrated either.

*Improved potable water supply* and *better wastewater and sanitation services* are expected to have a significant effect upon public health, wellbeing, women's workload, social benefits and contribution to poverty alleviation, but none of this is confirmed. Potentially significant results (that, from international experience, can be expected from such interventions) remain largely unquantified and unreported. Many of these benefits could be identified by *appropriately expanding the range of monitoring indicators* and baseline data collection (and subsequent monitoring). No reference to WASH activities is made (water, sanitation and hygiene promotion which has proven to be highly effective worldwide) and there is only limited reference to 'quality of life' indicators for households resulting from better water and sanitation services. None are monitored for sector blending projects (monitoring largely consists of measurement of some outputs, as described in EQ4B).

There is virtually *no reference to gender dimension* of outcomes in water blending projects particularly with reference to indicators that most directly impact on women (the few references to gender being mainly related to equal employment opportunities). The 'Gender Assessment of the Water Sector in Kyrgyzstan - 2019' defined the sector as "gender blind". The environmental sustainability of water and wastewater services at local levels is being improved although it is not clear exactly how the delivered outputs are expected to translate into higher level environmental and/or climate change mitigation quantified outcomes and impacts.

### JC8.1 Service levels of water supply and wastewater disposal have improved.

Service levels of water supply and wastewater disposal have improved; supported interventions have substantially contributed<sup>76</sup> to this evolution but it is *difficult to identify actual outcome progress*. The difficulty lies in that blending projects that target potable water supply and wastewater services do not identify outcomes as a percentage of population having domestic connections to the public water service. Outcomes are defined rather as population benefitting from the results of infrastructure works on service provision. It is not clear whether this 'population' is actual (existing and new consumers with household connections or direct access to supply) or whether this is the population of a geographical area served by the investment (i.e. the assumption being that everyone in that area will be a beneficiary). Additionally, the total figure of beneficiaries does not necessarily show the relative increase in coverage. It is assumed but not evidenced (by the project or another source) that improved potable water supply and better wastewater and sanitation services can have a significant effect upon public health, wellbeing, women's workload, social benefits and contribution to poverty alleviation.

<sup>76</sup> Please refer to EQ4B for details on outputs of blending operations

As for *citizen's perception*, the evaluation is not aware of any opinion polls having been conducted among the beneficiaries of the projects. However, most blending projects aim at 'enhancing public awareness and ownership' encouraging water conservation, increasing public participation in provision of water/solid waste services and raising public awareness of issues related to project implementation by way of SPPs (Stakeholder Participation Programmes). SPPs also integrate poverty, gender and social issues and thus assist utility companies to improve corporate governance and transparency. Expected results include 'increased awareness of water and wastewater issues at city level among the population leading to reduction of water consumption levels (water conservation) although progress reports do not always monitor progress towards these results<sup>77</sup>. Some projects also arrange for press briefings and visits to ensure local media is aware of EU IFCA financing (visibility) either as part of SPP or independently.

#### **JC8.2 Improved quality of life indicators for households resulting from better WATSAN services.**

Although it is expected that 'quality of life' indicators will potentially be improved for beneficiary households, project documentation<sup>78</sup> gives only limited reference to such indicators and, given the limited available evidence, this finding can but speculate upon the effectiveness of the improved infrastructure and resulting service delivery.

There is very limited reference to 'WASH', 'hygiene' or 'sanitation' in water sector blending project documentation – in fact there is no reference to 'WASH' and 'hygiene'. Some projects make a few references to 'sanitation' but most such references are limited and general.

Statistical data in the water sector is limited and there is a *lack of human dimension* although some information is provided on gender focus in access to potable water, sanitation and hygiene (e.g. use of hygiene, incidence of water borne disease). The 2019 Gender Assessment goes on to suggest deeper study of gender issues in the water sector in Kyrgyz Republic, sanitation and hygiene areas for establishment of baseline data for use in monitoring of BS implementation (and, it is assumed, blending project implementation).

The '*Draft Action Document for Sector Reform Performance Contract to IWRM in the Republic of Kyrgyzstan*' noted that '*Available statistical data in the water sector is not comprehensive and most indicators collected do not have human dimension with exception of some indicators on access to drinking water, sanitation and hygiene (e.g. sources of water supply and distance to water sources, use of hygiene and others)*' and that IWRM should directly contribute to achievement of SDG6<sup>79</sup>. This, noting that water sector policies in Kyrgyzstan do not yet include reference to inclusion of national gender machinery and women's organisations, NGOs working on water, sanitation and hygiene and other relevant actors to policy dialogue on EU budget support.

Another consequence of the *lack of systematization of outcomes* is the manifestation of the sector 'gender blindness' identified in the '*Gender Assessment of the Water Sector in Kyrgyzstan - 2019*', given that a number of Quality of Life indicators are inextricably linked to women's' involvement and gender issues. These findings also suggest that even if such links were foreseen in programme design, they were not factored into the monitoring system. The *Gender Assessment of the Water Sector in Kyrgyzstan 2019*, whilst making no reference to WASH activities makes multiple references to hygiene noting that the *Strategy for Development of Drinking Water Supply and Settlements of the KR until 2026* includes indicators of achievement that include:

- provision of sanitation services to 70% of population of district centres with status of villages
- provision of sanitation and hygiene in schools and pre-school institutions

This assessment also notes that women make up 90% of the membership of rural health committees which deal, inter alia, with raising of sanitation and hygiene awareness among populations. This is important because it is reported that more than half of the population do not have an opportunity to regularly practice hygiene (no bath, shower facilities in the households).

<sup>77</sup> However, there is some reporting of this issue e.g. Balykchy Water Rehabilitatio Project: Rehabilitation of water supply system: Corporate development, city support and stakeholder participation programme Q4 2020

<sup>78</sup> Please refer to Vol. 2 for further details

<sup>79</sup> SDG6 - Ensure availability and sustainable management of water and sanitation for all – 6.2 Achieving access to adequate and equitable sanitation and hygiene for all.

There is no reference to time spent by women and children collecting water in any blending project documentation. On the contrary there are references in the *Draft Action Document for Sector Reform Performance Contract to IWRM in the Republic of Kyrgyzstan*. Responsibility for *collection of water* and care after sick family members caused by poor quality of water and lack of adequate sanitation facilities increases unpaid domestic labour of women (which is three times higher compared to men's) and hinders their access to productive employment). In nearly all developing countries, women and girls are the main individuals responsible for collecting, transporting and managing water for domestic use (drinking, cleaning, etc). This responsibility may contribute to the situation of 'time poverty' for women and girls, whereby their schedules are inflexible and diverted away from other productive pursuits such as attending school, engaging in income-generating activities and producing crops.

There is no monitoring of incidence rates of *water borne disease*, although the incidence of infections and parasitic disease resulting from poor quality drinking water has been monitored nationally between 2013 and 2017<sup>80</sup> such that there is potential baseline data for monitoring of this outcome. The incidence of water-borne diseases is a particular serious issue in rural areas, as 42% of rural water is infected, thus presumably causing high risk of illness and morbidity. Reference is made to public health issues due to unreliable supply of water causing outbreaks of water borne disease in 'Descriptions of the Action' for various blending projects<sup>81</sup> and there is similar reference in some Project Reports.

There is reference to *environmental, economic and social benefit* accruing from sector blending projects although there are no indicators related to such wider economic benefits arising from sector blending project. On a wider level it has been stated in multiple sector studies that although the country has (for the time being) adequate water availability, poor quality and dilapidated infrastructure dating back to the Soviet era combined with poor management has resulted in inefficient water use which adversely affects economic sectors such as agriculture and processing. Despite major external support to sector infrastructure investment (e.g. EU, EBRD, ADB, WB, GIZ, SDC) there remains a major investment deficit whilst cost recovery remains deficient. The *National Water Strategy of the Kyrgyz Republic 2019-2040* and the *Water Code* both recognise the economic value of water resources whilst the *Strategy of Development of Drinking Water Supply and Sanitation 2016-2026* identifies a priority in the area of financial and economic sustainability of water supply and sanitation services (improve tariff policies, mobilise investment, develop PPP and/or other sustainable business models).

#### *JC8.3 The environmental sustainability of water and wastewater services has improved.*

The *environmental sustainability* of water and wastewater services at local levels is being improved although it is not clear exactly how the delivered outputs are expected to directly translate into higher level environmental and/or climate change mitigation outcomes and impacts and explanatory justification of how such outcomes/impacts are quantified.

There is consistent reference to environmental issues in sector blending project documentation and most sector blending projects documentation make at least passing reference to climate change<sup>82</sup>. Otherwise, there are myriad references to climate change in wider sector documentation mainly in connection with resultant risks (e.g. risks to water supply, energy, food security, health problems, sustainable development, drought, desertification, floods, landslides, livelihoods and so on) and similar attention is also given to potential mitigation, adaptation and 'climate proofing'<sup>83</sup>. Also,

<sup>80</sup> Source: Level of living of population of Kyrgyzstan 2013-2017, National Statistics Committee) i.e. 2013 – 119.9; 2014 – 118.2; 2015 – 114; 2016- 69.9; 2017 – 88.4 (thousand cases).

<sup>81</sup> eg projects 378430, 380145, 354161, 333285

<sup>82</sup> Please refer to Vol. 2, JC8.3 for further details on specific references in blending projects.

<sup>83</sup>eg OECD 'Financing Climate Action in Kyrgyzstan, Country Study 2016, Priority Directions for Adaptation to Climate Change in the Kyrgyz Republic 2013).

regional programmes aim to tackle climate change<sup>84</sup>.and finally, national strategies address climate change (to a greater or lesser degree)<sup>85</sup>.

Most sector blending projects include an indicator for ‘Relative net Greenhouse gas emissions impact’ ie expected reduction in Greenhouse gas emissions (GHG, expressed as CO2 tons eq/year) although the methodology for estimation of such reductions is not presented and these indicators are not consistently expressed in the ‘Descriptions of the Action’ or progress reports. There are also multiple references to environmental issues in implementation progress reports (e.g. ESAP, training in EBRD ESP and EBRD requirements for project implementation, E&S monitoring).

As for *awareness*, the ‘Communication and Visibility Plan’ annexed to the ‘Description of the Action’ for sector blending projects sets out the potential visibility and awareness issues related to projects which are expected to have a direct impact on the environment of target area. One of the main purposes of the communication and visibility plans is to “...demonstrate how the partnership between EU and EBRD and other IFIs and international donors helps to improve people’s lives and their immediate environment”. Main target groups/audiences include local beneficiaries, general public, community groups, policy makers and other key stakeholders and such communication activities are recorded in progress reports (which also note a curtailment of such activities due to COVID-19 restrictions due to limited access to computers and internet connectivity issues).

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<sup>84</sup> E.g. EU-CA Enhanced Regional Cooperation of Environment, Climate Change and Water (WECOOP) in addition to other world-wide EU policies such as *2030 Agenda for Sustainable Development (European Consensus on Development)*.

<sup>85</sup>National Water Strategy of the Kyrgyz Republic 2019-2040, Water Code (and Roadmap [as validated by the NWC in 2019], State Programme Strategy for Development of Drinking Water Supply and Sanitation Systems, State Programme for Irrigation Development and State Programme on Construction of Water facilities and Development of New Irrigated Lands

## 4.12 EQ9 Outcomes – Energy (project outcomes of blending)

To what extent have the development outcomes pursued through the investment supported by EU blending operations, in the energy sector been (or are being) achieved in the targeted geographical areas?



### Overall Answer to the Evaluation Question

*GoK Macroeconomic policy* has had to adapt to *unstable external and domestic* influences while complying with the conditions of IMF programmes. Growing differences between projected and effective expenditure and revenue existed but were due to the external circumstances. *PFM reform in the 2009-2019* period has been successful although some tools (i.e. PBB, MTBF) encouraged and supported by the EU are still more formal than substantial. Internal and external audit have been largely developed. Budget transparency has improved but corruption remains a critical issue in the Kyrgyz Republic.

*EU support has contributed to PFM reform*, especially on budgetary, control and transparency issues and to a lesser extent on macroeconomic and fiscal policy. The contribution of EU support towards reducing corruption is less evident as, among the tools used to formulate and monitor interventions there is not a specific one that systematically refers to corruption.

*Dialogue and the conditionality* attached to budget support have encouraged the Government to improve different aspects of PFM such as performance reporting, presentation of detailed medium-term expenditure plans, greater efficiency and transparency in procurement, expansion and quality management of internal audit, development of public external audit. Substantial policy dialogue in PFM took place within the DPCC and several Development Partners (DPs) applied simultaneous pressure for broadly the same PFM reforms. As well as the EU, the most active DPs were SECO, WB, IMF, USAID and DFID, mostly well-coordinated with each other, with IMF having the heaviest leverage on GoK.

*Technical Assistance* was delivered mostly through the contributions to two rather inefficient successive phases of the Capacity Building PFM (CBPFM) project financed the Multi Donor Trust Fund (MDTF), financed by EU and SECO and managed by WB (see also JC 1A3). According to the WB's own assessment, CBPFM-1 was relevant and well designed, but showed modest results and efficiency. It is still early to assess any contribution of CBPFM-2 as this phase suffered several delays and actual implementation only began in 2020. Additionally, an EUD-financed TA in 2015 supported the Accounts Chamber's application of international auditing standards. Finally, two EU interventions financed outside of (but complementary to) the CSP and RSP can be highlighted: A EUR 30 million operation (half grant and half soft loan) in Macro-Financial Assistance originally planned in 2011 but paid in 2015, and 2016 and a study on Gender-Responsive-Budgeting published in 2015 as part of a global EU-UN partnership.

### JC9.1 Energy efficiency levels for domestic consumers and commercial operators have improved.

Energy efficiency levels for domestic consumers and commercial operators have improved where the blending projects have targeted them as beneficiaries (i.e. the consumer/clients of Oshelectro Electricity Distribution Company and the sub-borrowers under KyrSEFF I and II).

In the case of KyrSEFF there has been significantly *improved energy efficiency* of buildings financed by the facility which has led to better quality of life (by way of reduced pollution, better comfort levels, less manual maintenance) of residents and workers of commercial sub-borrowers whilst also allowing reduced energy costs and at the same time facilitating increased productivity. The energy savings (and reduced losses in the case of Oshelectro) are expected to contribute to greater resilience of the network as a whole and better energy security.

KyrSEFF I and II have directly targeted energy effectiveness and economic activity has been enhanced.<sup>86</sup> KyrSEFF aims to reduce energy consumption in operation of residential buildings and commercial operations thus contributing to decreasing the load upon energy generation and distribution infrastructure and, to some extent, allow current power supply capacity to better cope with increasing demand, especially in the winter. KyrSEFF identified PFI loan officers as 'Energy Efficiency Champions'<sup>87</sup> in arranging sub-loans ranging from USD 290 (for residential dwelling level energy efficiency measures) to USD 1 million (for solutions in low carbon buildings and/or production machinery replacement).

Improved energy efficiency of buildings can enable sub-borrowers to avoid long term costs and conditions arising from high energy-intensive building operations (e.g. reduced heat loss by better insulation, doors and windows). Modern heating systems and boilers, especially when combined with better insulation, consume much less fuel and energy whilst providing the same levels of service. Given fuel shortages (coal) such efficiency means that such shortages are mitigated and there is less use of alternative highly polluting fuels, such as tyres. KyrSEFF activities have included replacement of coal burning stoves with automated thermostat-controlled systems. Thus, families have to spend less time and effort in maintaining thermal comfort. Also, indoor air quality is improved thus contributing to family health. The use of modern systems for heating, insulation, ventilation, heat recovery and good lighting can also result in improved workers health and safety in commercial operations.<sup>88</sup> Also, the increased use of solar panel water heaters has a significant impact on household and business energy consumption.

KyrSEFF II reports cumulative energy savings of >55000 MWh/year (compared with a total facility target of 90000 MWh/year). Similar reporting for KyrSEFF I notes actual annual energy savings of 109880 MWh/Year (thus significantly outperforming the target of 36000 MWh/year).

On the other hand, blending support to Oshelectro Rehabilitation addresses the issue of adequacy of power supply and service delivery aiming at improving the Osh distribution network, reducing distribution network losses (target to reduce non-technical losses from 18% to 12%), increasing energy efficiency, improving supply service delivery and improving cost recovery (e.g. installation of meters).<sup>89</sup>

### ***JC9.2 Increased uptake of investment in the energy sector***

KyrSEFF has created a successful 'brand' since 2013 when the facility concept was introduced for the first time in Kyrgyzstan with considerable up-take by PFIs and sub-borrowers (households, industry, and services). It is significant that 'word of mouth' recommendation of sub-borrowers has been a major contribution to both awareness raising and increased uptake and investment in terms of numbers of projects successfully implemented.

Despite a *greater uptake of investment* in the energy sector as a result of KyrSEFF, no evidence has been found of these blending projects having directly 'seeded' or facilitated other similar investments in the sector by other IFIs or private sector<sup>90</sup>. The demand for energy-efficient appliances is increasing, which suggests that the population is investing in more modern equipment.

All KyrSEFF projects represent an increased investment by the financial sector in the energy sector. Overall loan utilization in KyrSEFF I exceeded EBRD financing (driven by KICB and DKIB activities)

<sup>86</sup> E.g. KyrSEFF II has lent USD 400.000 to greenhouses across the country for energy efficiency projects thus allowing savings of 30000 MWh/annum (with CO2 emission savings of > 10000t/year)

<sup>87</sup> Under KyrSEFF II 57 champions have been identified since 2019.

<sup>88</sup> E.g. KyrSEFF II 4<sup>th</sup> Annual Donor Report 2019 noted that the Facility has improved working conditions for >120 workers in the textile industry (mainly women) and ~40 operators on polygraph technologies in the medical industry.

<sup>89</sup> Source: IFC A Progress Report N°4 Aug2019 – Aug 2020.

<sup>90</sup> KyrSEFF was not co-financed with other IFIs although it is acknowledged that KySEFF has provided an example for other sector IFIs. However, there is some anecdotal evidence of additional in-country investment associated with the KyrSEFF investments but national partner financial institutions do not currently have the resources for tracking or reporting of such evidence.

with a total of 759 projects having received financing<sup>91</sup>. KyrSEFF I was the first mechanism for finance of energy efficiency and renewable energy through financial intermediaries in Kyrgyzstan (i.e. PFIs and MFIs). KyrSEFF II continues the precepts of KyrSEFF I. KyrSEFF I was launched in 2013 with two PFIs: Kyrgyz Investment and Credit Bank (KICB) and Demir Kyrgyz International Bank (DKIB). A further two PFIs joined in 2017: Bai Tushum Bank (BT) and FINCA Bank (FINCA). In the transition period before the launch of KyrSEFF II EBRD agreed for on-lending to continue from repayments received from existing sub-loan proceeds (and these re-financed sub-loans were eligible for investment incentives). On the other hand, grant utilisation was lower (as some sub-borrowers could not produce the required financial documentation for verification) although it was confirmed by the supervision consultant that the energy efficiency investment was actually implemented. KyrSEFF II, launched in 2016, has signed Loan Agreements with six PFIs (KICB, DKIB, BT, First Micro Credit Company – FMCC, Kompanion Bank – KB and Optima Bank – OB)<sup>92</sup>. Strong performance of the PFIs is reported which has contributed to increased investment across Kyrgyzstan – KICB, BT, FMCC and KB have concentrated on residential energy efficiency (REE) investments whilst OB and DKIB have focussed on CRE investments.

KyrSEFF directly supports sustainable energy investments, for which performance is as follows:

- Households – the most popular investments in the residential sector are wall insulation, boilers and windows thus allowing a family to use the whole living space in winter whilst maintaining or reducing heating costs and energy consumption by between 20% and 70% (average household size in Kyrgyzstan (2018) is 4.6 persons).
- Industry – KyrSEFF II uptake has included agriculture, agribusiness, hospitality, manufacturing, commercial, food, construction, textile and medical sectors.

Finally, *jobs and productivity* increased in SMEs targeted by KyrSEFF. In those targeted by OB and DKIB for larger value sub-loans, an estimated 282 jobs have been created with SMEs business projects under KyrSEFF II due to increased SME productivity. It is reported that productivity of sub-borrowers has more than doubled due to new production lines expanding production whilst reducing energy consumption by between 20% and 80%. A reported collateral benefit arising from better working conditions is increased worker efficiency and reduced absenteeism.

#### *JC9.3 The environmental sustainability of the energy network and buildings has improved*

The '*knock on*' effects of greater efficiency include less power consumption thus increasing resilience of the generation and distribution system, reducing the carbon footprint and associated CO2 and other GHG emissions and overall contribution to mitigation of climate change effects. Associated with these results is increased awareness of conservation issues and energy efficiency resulting from intensive public relations and publicity activities (largely but not only KyrSEFF) which has not only facilitated expansion of project activities ('word of mouth' recommendation has been a factor in such expansion) but has also informed policy dialogue having 'caught the attention' of policy makers. A politically significant factor could be the mobilisation of the proven effectiveness of 'bottom up' awareness raising toward other associated sector issues such as tariff, cost recovery and investment strategies. However, although feedback and recommendations on energy efficiency and energy savings have been submitted by KyrSEFF to government,<sup>93</sup> and there were expressed intentions to apply such energy efficiency measures, there are no reports of application of similar measures yet being applied to government buildings. *Improved sustainability* has been supported by EU-contributed blending projects, as follows:

- *Mitigation of environmental Impacts*: The National Sustainable Development Strategy 2018-2022 states 'it is necessary to take into account principles of green growth for the revision of

<sup>91</sup> I.e. 685 dwellings, 11 buildings, 61 businesses and 2 supplier loans disbursed. The 696 REE loans were used for various types of EE measures i.e. insulation – 779 (58% – wall, floor and roof insulation), windows – 511 (26%), boilers – 212 (10%), solar systems – 7 (1%), heat pumps – 51 (2%) and other (3%). The 63 business energy efficiency (BEE) loans were used in various sectors for EE measures i.e. commercial services – 42, construction/industry – 15, food industry – 16, agribusiness – 9 and manufacturing – 2.

<sup>92</sup> Targets to the end of 2021 include disbursement of USD 29 million, energy savings >90 GWh/year and GHG reductions >16000 tCO2/year by way of >2300 projects (>2200 residential, >100 businesses). KyrSEFF II (to the end of 2019) financed a total of 1716 sub-loans (1636 – REE and 80 – BEE).

<sup>93</sup> To Parliament and to authorized bodies on energy efficiency in buildings (including GOSSTROY and the State Committee for Industry, Energy and Subsoil Use).

the structure of the economy and the transition to development with minimal impact on the national environment'. It is reported that EBRD will propose a follow up partnership programme to KyrSEFF based upon EBRD experience in financing energy efficiency with PFIs in Kyrgyzstan and upon policy dialogue on sustainable development and resource efficient investments. The Oshelectro Rehabilitation Project involved the preparation of an ESAP (Environmental and Social Action Policy) including mitigation measures which includes development of an environmental policy and compliance procedures for the utility company (including environmental and social monitoring and reporting).

- *Increased resilience:* KyrSEFF was intended to 'substantially mitigate the impact of climate change on financed buildings as they would reduce the quantity of energy needed to maintain the operation of these buildings'. KyrSEFF I achieved further impact in the housing sector (apartment buildings) by financing new construction of buildings which considerably surpassed existing building standards. KyrSEFF II had a number of climate related objectives, i.e. development of climate finance capabilities and project orientated skills among PFIs; provide support for improving the capacity of financial intermediaries to appraise and finance climate adaptation and small renewable energy investment projects; explore bankable opportunities related to climate adaptation and resource efficiency investments; provide support for project preparation and medium term financing for climate adaptation investments. A 'tracked but not targeted impact' of KyrSEFF II involves investment in 15 sub-projects in water efficiency leading to water savings in rural areas.
- *Achieved emission reduction:* Oshelectro Rehabilitation (376349) does not include reduction of emissions and carbon footprint as an 'Overall Objective' but 'Relative (net) Greenhouse gas emissions impact' – CO<sub>2</sub> tons eq/year is specified as a cross sector result indicator with a target of 10k tons CO<sub>2</sub> annually. No achievement has been reported as of Progress Report No. 4 (to August 2020). Overall, KyrSEFF I reports expected energy savings of 109,888 MWh/Year and CO<sub>2</sub> reductions of 31,860t/year. These results demonstrate out-performance of energy saving and carbon reduction targets. KyrSEFF I (308996) Final Report November 2018 reports REE savings of an estimated 17,322 MWh per year as a result of which CO<sub>2</sub> emissions have been reduced by ~10,157 tons/year in the Residential Sector whilst the Business Sector projects have an estimated 92,558 MWH/year as a result of which CO<sub>2</sub> emissions have been reduced by 21,704 tons/year. KyrSEFF II (373987) 4th Annual Donor Report (to end of 2019) reports that energy savings targeted by the project are expected to reduce greenhouse gas emissions by more than 22,816 tCO<sub>2</sub> eq/year. To put these figures in perspective this reduced annual energy consumption is the equivalent of 7,000 households in Kyrgyzstan (estimated equivalent of a 31 MW solar power plant)<sup>94</sup>.
- *Increased population awareness and trust:* Consumers now have fewer concerns about the quality of energy supply. Trust in the adequate operation of the sector has also improved. Respondents commented that their ratings were influenced by the GoK efforts to avoid power cut-offs in the winter. The public is responding well to reforms although many people are not knowledgeable about sector reforms (with 56 percent claiming to know nothing), those who have heard about the reforms primarily expressed their approval<sup>95</sup>. Oshelectro Rehabilitation (376349) includes an Environmental and Social Action Plan (the ESAP) and a Stakeholder Engagement Plan (SEP), prepared during the project implementation phase, based on mitigation measures and corrective actions identified during due diligence. KyrSEFF I (308996) Final Report November 2018 notes that barriers to engagement of local banks and their clients from engaging in energy efficiency investments include 'low awareness of energy efficiency stakeholders are not aware about benefits of sustainable energy projects'. It is reported that all PFIs have been instrumental in raising awareness of benefits of sustainable energy have improvements in rural areas which has led to high long-term interest. KyrSEFF I arranged workshops, events and media coverage as a deliverable (KPIs) – awareness

<sup>94</sup> Average annual per capita energy consumption (2018) 1.7 MWh. In 2017 there were 9,282,747 households (average 4.6 persons) in Kyrgyzstan. A 31 MW solar power plant @ 0.2% capacity factor = MWh/year 54,312 compared with cumulative annual energy savings to end of 54,895 MWh/year.

<sup>95</sup> Source: Analysis of the Kyrgyz Republic's Energy Sector, Final Report, May 2017, World Bank Energy and Extractives Global Practice - ECA region.

raising and visibility events/actions were considered an important factor in successful implementation (i.e. creating awareness of the KyrSEFF 'brand' and high donor visibility). A total of 14 such events are recorded. Two market surveys were undertaken under KyrSEFF I (2013 and 2016) and increased awareness of the efficiency of windows as a contribution to better insulation was recorded. KyrSEFF II (373987) 4th Annual Donor Report (to end of 2019) makes multiple references to awareness raising (after noting barriers to engagement noted above).

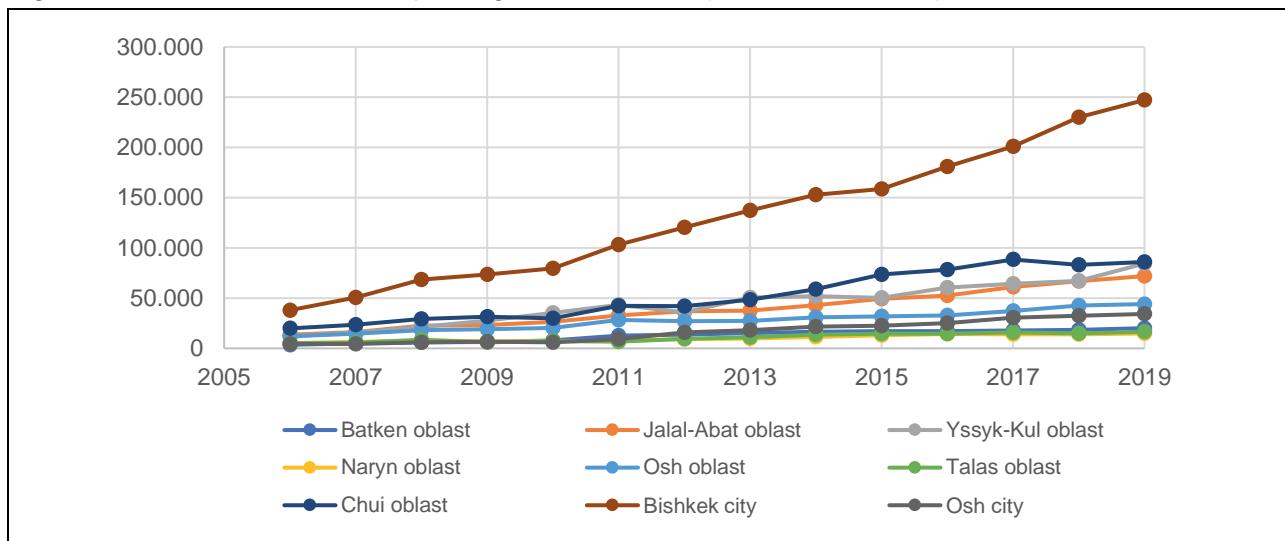
#### **4.13 EQ10: Impacts (budget support and blending)**

<b>To what extent have Overall Objectives of the national policy and of EU cooperation in relation to inclusive growth and poverty reduction been (or are being) achieved?</b>	
<b>Overall Answer to the Evaluation Question</b>	
<p><i>Growth</i> has been very <i>irregular</i> during the decade and the goal of reducing the rural-urban GDP gap has not been achieved. In the decade to 2019, nominal GDP grew by 12% annually in average and real GDP grew by 4.4%, falling short of the Government's ambitions. At relatively similar growth levels, the difference between Bishkek and the rest of the country has rocketed. The economic activity that has boosted growth has remained focused mainly in the cities and the construction and repair of transport infrastructure sectors have driven growth.</p> <p>Overall, <i>formal employment</i> has remained flat and very uneven, concentrated in urban areas and men. The total number of employed persons grew about 1% annually but the employment-to-population ratio actually decreased. Working population grew in Bishkek and Osh City while rural areas stagnated. Growth of formal employment benefitted only men, probably because in the sectors growing the most (mining, construction) men are the main work force.</p> <p>While relative <i>monetary poverty</i> on the national level fell from 38% in 2012 to 20% and extreme poverty dropped from 4.2% in 2012 to 0.8% in 2019, more than half the population remain not far above the poverty level. Non-financial poverty gives a more nuanced picture, there are huge divergences between urban and rural areas in access to basic services.</p> <p>Developments in <i>income inequality</i> and <i>aggregate development indicators</i> point into a positive direction. Indicators for income inequality remained constant over the past decade, while development indicators feature a positive and steady development, although it is comparably slow and the rural-urban divide has not been addressed.</p>	

##### **JC10.1: Growth and economic development have been boosted (especially in rural areas)**

Real GDP growth between 2009 and 2019 averaged 4.4% annually, in line with other countries in Central Asia. Only nominal GDP figures are available with geographic disaggregation, but the *widening gap between Bishkek and the rest of the country* is striking (see Figure 10). While Bishkek is not the only urban area in the country, it is the largest, primate one, and it is clear from the figure below that there has been no progress on reducing rural-urban income disparities, a goal central to inclusive growth and poverty reduction. This represents a policy disappointment.

Figure 10 Trends of GDP per region 2009-2019 (total million Som.)

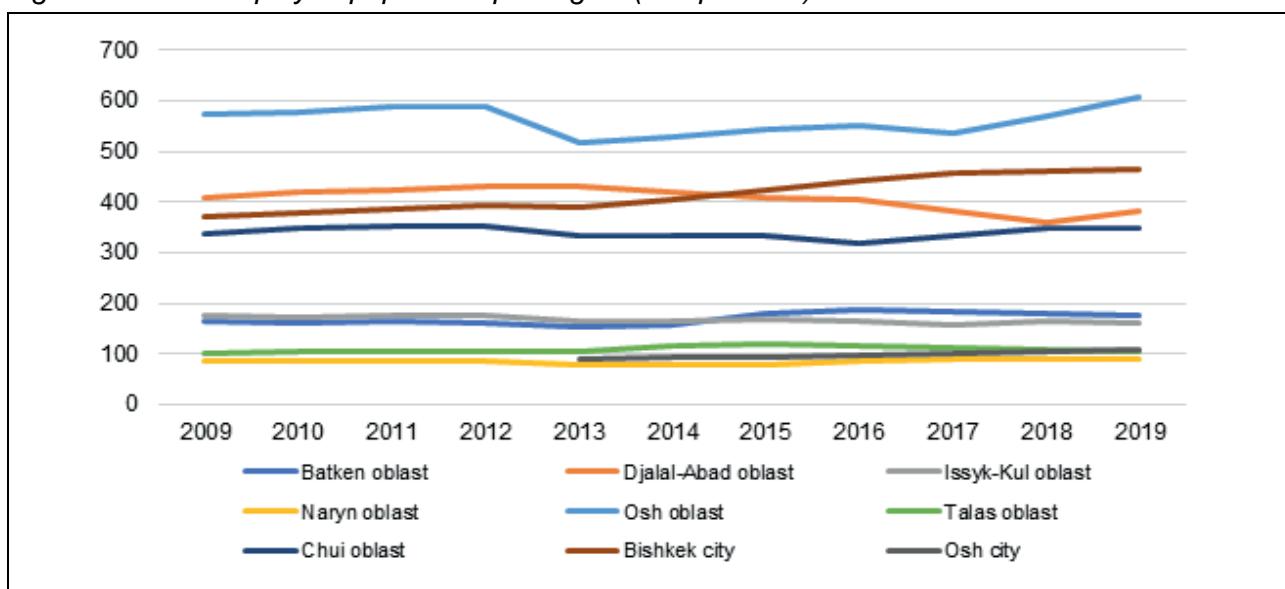


Source: Particip with data from National Statistical Committee of the Kyrgyz Republic.

Still speaking in nominal terms, *construction* was the best growth performer between 2011 and 2019, doubling its share in GDP over 2009-2019, while agriculture and manufacturing lagged behind. Contributing to construction's performance was investment in transport infrastructure. Mining sector output grew spectacularly (+439%), but *mining* formally remains a marginal sector because the production of the Kumtor gold mine is accounted for under the manufacturing sector and not in mining. The treatment of mineral resource extraction is complicated under the UN System of National Accounts (SNA). A conventional estimate is that gold mining accounts for something like 10% of Kyrgyz gross national income (GNI), making the nominal economy and particularly the balance of payments highly sensitive to the price of the metal.

*Labour market and employment* trends have been disappointing, but must be placed in the context of 70% of workers being outside the formal sector (i.e. not covered by a formal labour contract). Formal sector employment has stagnated, with growth averaging only 1% per year. As the accompanying figure illustrates, only Bishkek City experienced consistent growth. the urban-rural gap of working adults with a higher professional qualification has even slightly increased. There has been no growth in rural formal employment, another policy disappointment.

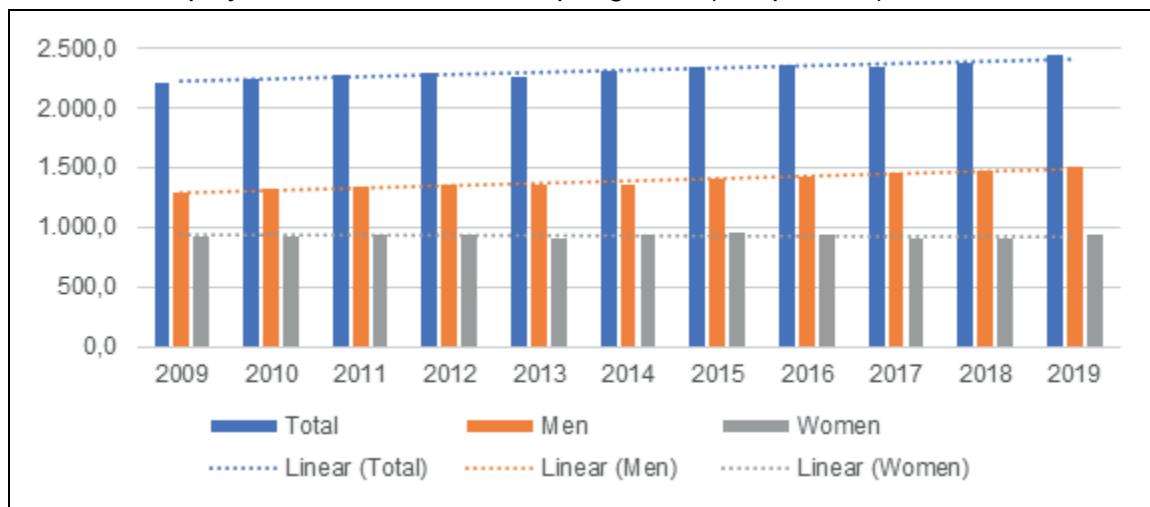
Figure 11 Employed population per region (ths. persons)



Source: Particip with data from National Statistical Committee of the Kyrgyz Republic

Like other Central Asian countries, Kyrgyzstan has a low female labour force participation rate, in both urban and rural areas, for cultural and religious reasons. Formal sector female employment is overwhelmingly urban in nature and, as in many post-Soviet settings, female representation at higher levels (especially in the public sector and in traditionally female-dominated areas such as health and education) is good. In rural areas, labour force participation statistics are an uncertain guide because they underestimate women's contribution to home production and own-account agricultural and pastoral activities. What can be said with some confidence, and is illustrated in the figure, is that while formal-sector employment of men has risen, albeit modestly (+14.2% over 2009-2019) *the number of formally employed women has remained unchanged* (+1.24%). Considering that, during the decade, the working-age population increased by 7%, the conclusion is that an increasing share of males were formally employed, thus a decreasing share of females, despite more working women having a higher professional qualification in 2019. – another policy disappointment.

*Figure 12 Employment trends in total and per gender (ths. persons)*

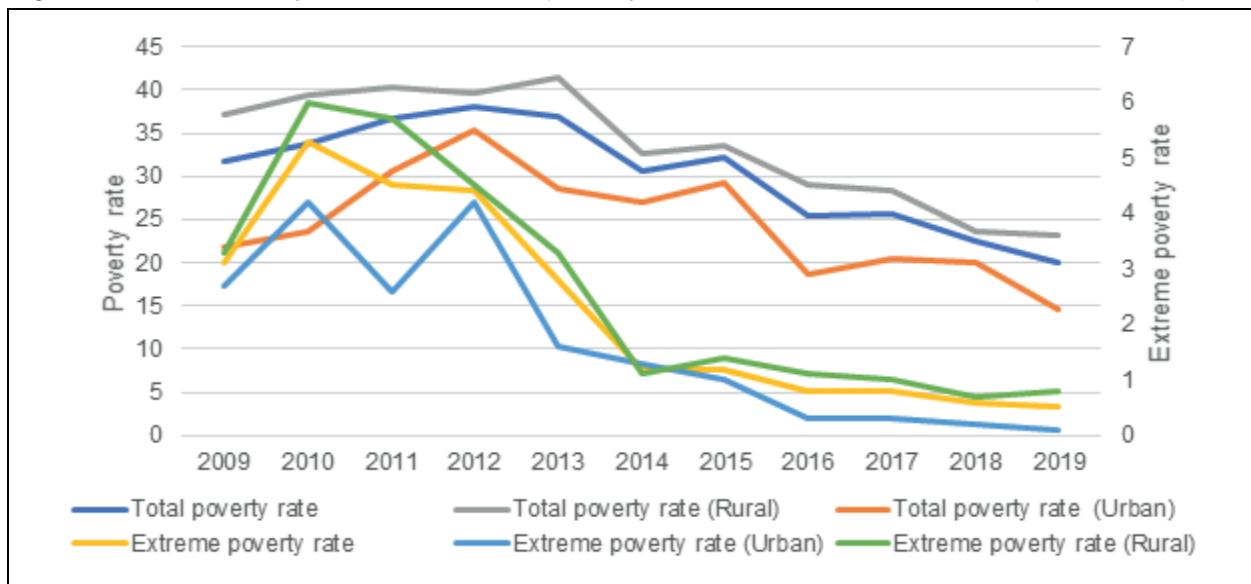


Source: Particip with data from National Statistical Committee of the Kyrgyz Republic

#### *JC10.2: Monetary and non-monetary poverty has been reduced*

According to national statistics, based on World Bank definition, the national headcount *poverty rate has reduced significantly* in Kyrgyzstan, from 32% in 2009 to 20% in 2019. Extreme poverty has been nearly eliminated and is now almost exclusively rural. The urban-rural divide has narrowed substantially both for the poverty rate and the extreme poverty rate, a policy achievement, particularly in the area of rural extreme poverty, which has declined rapidly since its 2010 peak. However, both the poverty rate and extreme poverty rate remain *consistently higher in rural areas* than in urban areas. Gender trends are unclear. In Jalal-Abad, 43.7% of women and 45.8% of men were living below the poverty line in 2010. In 2018, 33.4% of women and 30.9% of men were living below the poverty line – a significant improvement – but indicating a reversal of the gender gap despite overall improvement in that city.

**Figure 13 Poverty rate and extreme poverty rate in urban and rural areas (2009-2019)**



Source: *Particip with data from National Statistical Committee of the Kyrgyz Republic*

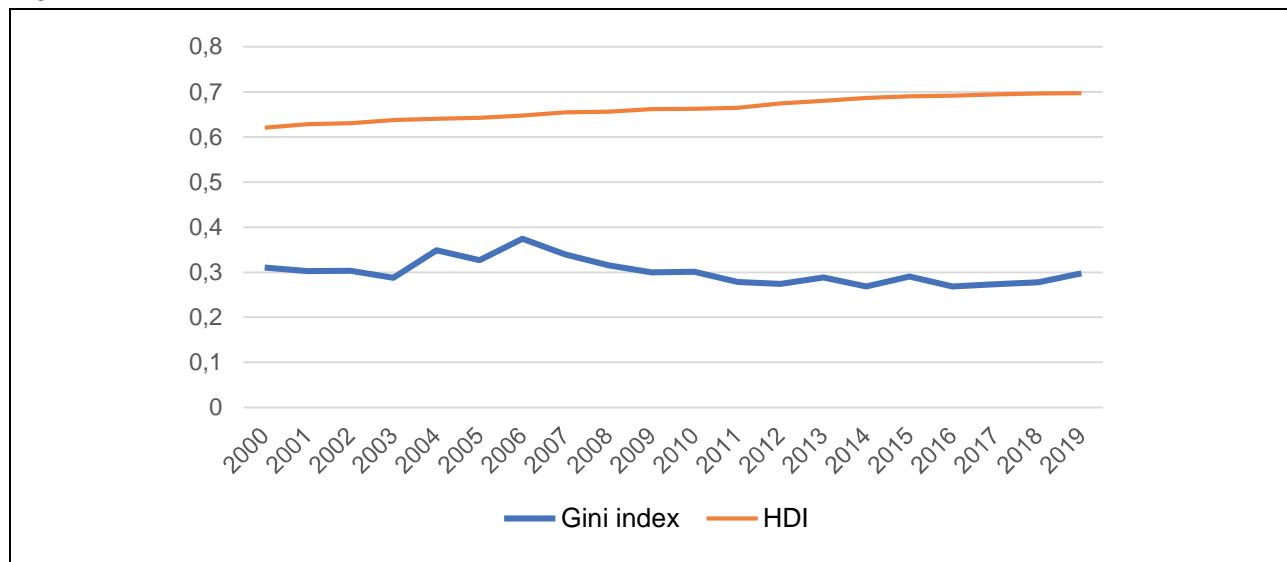
Data on *non-income poverty* are less straightforward, but the rural-urban divide is still obvious. While access to potable water differs widely across oblasts, access for urban populations in the big cities Bishkek and Osh is at or very close to 100%, while in Batken, the share of the population with access to safe sources of drinking water was only 81% in 2019.

It is still too early to assess the impact of COVID-19 on poverty. However, it is likely that these impacts will be largely mediated through migration – the involuntary return of migrants in Russia and Kazakhstan, with few income prospects at home, and the choking-off of the household coping strategy of male head out-migration with resulting remittances.

#### *JC10.3: Social inequalities have been reduced*

The Gini index of income inequality has steadily, albeit modestly decreased (indicating less inequality) – although whether this points to convergence on higher incomes or on lower ones is, as always with the Index, ambiguous. The UN HDI, a weighted average of life expectancy, literacy, and income measures, has slightly improved. Nonetheless, on Oxfam's Commitment to Reducing Inequality (CRI) Index, which measures policy aspirations rather than results, Kyrgyzstan has performed very well over the evaluation period – suggesting *good intentions but modest results*. On the overall ranking for the CRI, KGZ has improved by 52 ranks between 2016 and 2020, now ranking at 37 of 158 countries. This, in addition to commitment to democratic reform, is perhaps not unrelated to the EU's strong partnership with the country.

*Figure 14 Gini index and HDI 2000-2019*



*Source: Particip*

## 5 Lessons learnt

- BS and blending combined can effectively contribute to building a partnership based on mutual confidence between the EU and the partner country, although they are substantially *very different modalities*. BS follows an outcome-oriented programme approach, directly supporting a specific sector through the national budget accompanied by a policy dialogue. Blending operations are output oriented and feature a comparably narrow scope of intervention with a pre-defined, project-style use of funds<sup>96</sup>. BS and blending are likely to converge mostly at impact level because of the differences in approach and in the nature of the sectors normally covered by each modality (service provision for BS and infrastructure for blending) as it is certainly the case in the overall IL of EU-Kyrgyz cooperation.
- *BS is a more developed and fine-tuned tool than blending* to achieve development impacts. BS has higher potential than blending to deliver results, but the risk of underperformance is also higher. BS has been used by the EU for more than 20 years (15 years in the Kyrgyz Republic), being continuously improved and systematised in the successive versions of EU BS Guidelines. While blending is already used for 15 years, EU guidelines on blending were only published in 2015. This illustrates that widespread use and a standardised approach to blending is a comparably “young” phenomenon. BS is better designed to support service-oriented sectors and to focus on beneficiaries’ needs, development outcomes and SDGs. Most of the time in BS implementation, the EU is a direct player in all three inputs of BS (disbursements, Complementary Support, policy dialogue) which is important for value-for-money and accountability purposes. Nevertheless, BS is also more dependent on the political situation and actual results of the supported policy may be sub-optimal. Fiscal space is assumed to be created by BS disbursements and (like in the Kyrgyz case), while it can often be glimpsed, it is often difficult attribute change directly to EU funds.
- *Budget support is not the most appropriate implementation modality to support electoral reform processes*. This is due mainly to the fact that electoral reform is not a sector nor an area of Government with a specific policy but rather a high-level, systemic and political characteristic of a State. It is also difficult to construct an Intervention Logic as there are no clear goods and services produced, nor outcomes generated for beneficiaries. Although the electoral reform BS programme did help GoK to reinforce its capacities, ultimately a traditional project would have probably delivered similar results.
- Government *ownership*, along with *leadership* and broader *contextual factors* (e.g. political, social and economic stability) are more important than the modality used in order to attain the objectives of government strategies and EU MIPs. Policy reforms can be promoted and supported by the EU up to a certain level of the IL (mostly improved capacity and delivery of goods and services), but this does not necessarily lead to effective progress on outcomes and impacts. As happened in the Kyrgyz Republic, despite clear achievements in strengthening capacities and delivery of government entities (BS) as well as utilities (blending), higher-level effects are modest and the main problems persist (e.g. widened rural-urban gap in GDP and employment, ineffective inclusion of women and vulnerable groups, maintained citizen distrust in the political system).
- *Blending and BS have the potential to cross-fertilize*. Blending is effective in mobilising resources, while BS approaches have a lot to offer in terms of design and implementation of GoK sector policies. The EU and partner IFIs benefit from each other when implementing a blending project together. Subject to appropriate MOU and Cooperation Agreements, blending operations implemented under the participation of the EU have the potential to directly address financial shortages and build the capacity of utilities, especially in infrastructure-related sectors and in areas that need capital investment (clearly the case in Kyrgyzstan). Nevertheless, blending could be inspired by BS, *inter alia*, on how to construct and formulate an IL, structure and implement policy dialogue, and ensure proper M&E and reporting. Other key issues such as inclusion (e.g. gender) and links to development outcomes are still weak points of the blending modality.

<sup>96</sup> However, the 2015 EU blending guidelines state that “Blending operations may constitute an opportunity to engage with the government in a dialogue on specific sector policies” as supported sectors usually are of strategic interest for the partner countries.

- *Evaluating BS and blending together* is possible but it has methodological limitations. The joint BS-blending evaluation framework should be based on the BS evaluation guidelines, and adapted accordingly, mainly for two reasons. First, BS and blending inputs are different by nature and design and they are often not comparable: BS payments flow through the national budget, while blending funds are channelled through financial intermediaries; sector-wide policy dialogue is a priority in BS, while in blending it is a second-tier priority and more focused on specific issues (e.g. tariffs); capacity building in BS usually focuses on Government entities (and usually also empowering CSOs) while blending TA is mostly aimed at strengthening utilities, private sector and running PIUs, with occasional support to developing legal and institutional frameworks of sectors. Second, BS adds its resources to the partner government in support of national or sector strategies' objectives, therefore attribution of effects to BS inputs is difficult, especially concerning policy outcomes and impacts. On the contrary, in blending operations it is comparably easy to link project outcomes to project inputs and outputs, as projects normally have a specific geographical and physical (infrastructure) scope where effects can be isolated and evaluated comparably easily; in consequence, outcomes of policies supported by BS are supposed to contribute to impacts at national level, while blending project outcomes may eventually contribute to impacts on a much narrower scale.
- An important challenge of development cooperation interventions is *matching theory (design) with practice (implementation)*, regardless of the modality used. In the EU-Kyrgyz cooperation, some important issues that were included in strategic documents and in the design of EU interventions were not fully addressed during implementation. Examples for this are i) addressing inequalities (particularly in rural areas); ii) fighting corruption; iii) measuring contributions of blending projects towards development outcomes (e.g. improved coverage of water services, quality of life indicators); and iv) prioritizing cross cutting issues (particularly including and monitoring gender and climate change indicators).
- Implementing EU resources through/with other Development Partners requires that *common strategic frameworks* and clear *implementation arrangements* are in place together with clear lines of communication and involvement of sector institutions in decision making. In order to optimise synergies between DPs, it is important that donors bring similar views to policy dialogue and that the implementing partner properly consults the funding donor and is accountable for the implementation of the project.
- No effects of government strategies and DPs programmes and projects can be confirmed without adequate *data* being produced and made available. This affects not only the evaluation of BS and blending operations but also their design and implementation (e.g. problem definition, credible baselines and targets). Countries and DPs need to invest in having solid statistics (e.g. GDP and employment data, elaborate household surveys, sector management information systems), that are comprehensive and allow a minimum breakdown of data (gender, income percentile, geographical) and measure effects on beneficiaries such as public service coverage rates, and not only absolute figures of service users.

## 6 Conclusions

The EU-Kyrgyz relation is a strategic one that *transcends the scope* of the sectors, modalities, programmes and projects analysed in this evaluation. The Kyrgyz Republic is a small but important partner for the EU in Central Asia, particularly as it stands out as the most democratic country in the region. During the last decade, *EU-Kyrgyz relations remained stable and strong*, especially considering the politically and economically challenging international and regional contexts. In this period, the partnership between the EU and GoK has touched upon issues that are very relevant and important for both parties, for the larger development community and, especially, for the citizens of the Kyrgyz Republic: i) Good governance and democratisation, ii) Growth and economic development, iii) Building effective public policies, and iv) Reducing poverty and inequalities.

During most of the period 2009-2019, the Kyrgyz *context has been moderately positive*. The economy was reasonably resilient to the economic crisis, and the democratic principles, while remaining fragile, persevered. In this rather stable scenario, as further detailed below, the EU was a crucial partner for the GoK although only modest results were achieved in economic and social policy areas.

COVID-19 and the events during and after the Presidential elections of October 2020 severely *altered this climate of stability* in the short term. The political situation has, so far, been more stable, but several challenges will certainly affect the manoeuvring capacity of the GoK, the country as a whole and the EU cooperation with the country. These factors include political, institutional, economic and social uncertainties at the level of the Kyrgyz Republic, the unclear evolution of the current pandemic and increasingly prominent geopolitical challenges in the region.

*Table 7 Overview of Conclusions*

No.	Conclusion	Main linkages to the EQs
<b>Effects of EU support delivered through the two modalities</b>		
1	Effects of EU support	EQ3 to EQ10
2	Role of policy dialogue and capacity building	EQ2 to EQ4
<b>Choice of modality</b>		
3	Relevance and Comparative advantages of BS and blending	EQ1 and EQ2
4	Linkages between BS and blending and with other interventions for increased synergies	EQ1 and EQ2
<b>Integration in the broader partnership framework</b>		
5	Orientation to results of accountability and learning	EQ5 to EQ10
6	Cross-cutting issues	All EQs

### 6.1 Conclusions on the effects of EU support delivered through the two modalities

#### C1. Effects of the support

<b>Related Level/s of the IL: Levels 3 (Induced outputs), 4 (outcomes) and 5 (Impacts)</b>	<b>Related Findings: EQ3, EQ4A, EQ4B, EQ5, EQ6, EQ7, EQ8, EQ9, EQ10</b>
<b>EU support through BS and blending has contributed to improving legal, policy and institutional frameworks and helped GoK to deliver more and better-quality goods and services to the Kyrgyz population. Improvements were made concerning some development outcomes, especially in SP and education and, most likely, in water and energy too. Nevertheless, the technical and financial sustainability of service delivery is uncertain. Although poverty reduction has been notable, equality and inclusion issues has seen little progress, and most of the main problems identified by EU and GoK persist.</b>	

*Positive contributions of BS and blending to (induced) outputs and outcomes* were acknowledged in all areas examined:

- EU support, especially support provided through BS, helped *to improve the legal, policy and institutional frameworks*, pushing reforms to move along the right track, although effective policy implementation has been slow in most cases.
- Development of *institutional capacities* has been observed in all sectors supported by BS and both at central and local level. Capacities in the private sector and the utility companies in the water and energy sectors supported through blending also show a positive trajectory. The role of civil society was reinforced through the involvement in policy dialogue, consultation processes and the inclusion of CSOs as TA beneficiaries and even as service providers (SP sector).
- The production of *goods and services*, including the quality of service delivery, increased in SP, education, water and energy. Economically feasible (but not yet commercially viable) projects with high potential environmental and social benefits were made possible.
- Despite severe *limitations on data availability*, it is clear that EU BS was an important contributor to some important sector policy outcomes achieved in the 2009-2019 period in SP and education and, to a lesser extent, in electoral reform. Trust in GoK institutions improved in sectors supported by BS and the percentage of voters satisfied with democracy in Kyrgyzstan raised significantly between 2014 and 2017. In the case of blending, it is expected that projects will have a positive effect on development outcomes in the geographic areas of intervention, although this is currently not possible to assess as outcomes have not been properly monitored and also because several projects are still ongoing.

Despite the positive contributions of BS and blending, in all cases the *improvements remain limited* by intra- and inter-institutional factors (e.g. staff turnover, poor institutional coordination, inconsistency in policies) and the country context (e.g. political unrest and COVID-19). Some of the main development challenges of the country remain unaddressed:

- The main problems in public service delivery remain unaddressed: shortages in financing, strategic planning and implementation capacity of GoK's public institutions do not allow yet to see substantial increases in access and the use of public services by the Kyrgyz population.
- The perspectives of *technical and financial sustainability* of service delivery supported by BS and blending are mixed. Scarce human and financial resources, staff turnover and the political instability has put the sustainability of GoK capacity building efforts in question. Allocations from the Republican Budget to SP and education have been growing but could be compromised by the uncertain fiscal situation. The capacities of utilities and the private sector remain low. In the water and energy sectors, sustainability is uncertain, particularly while GoK continues to subsidize consumption and tariff reforms are not implemented.
- The accountability and learning arrangements of blending projects are designed mainly from a banking perspective and the reporting on actual service delivery and outcomes in the water and energy sectors was insufficient (see Conclusion 5).

The *overall objectives (impacts)* of the partnership between the EU and the Kyrgyz Republic in the period *have been only partially attained*. Monetary poverty reduction has been successful and extreme poverty has been virtually eliminated, but a great part of the Kyrgyz population is still very vulnerable, especially in rural areas. GDP grew moderately but the economic gap between Bishkek and Osh and the rest of the country has widened. Employment remains largely informal and the difference in access to employment between men and women shows a mixed picture throughout the country.

## C2. Role of Policy dialogue and capacity building actions in the effects observed

Related Level/s of the IL: Levels 2 (Direct outputs) and 3 (Induced outputs)	Related Findings: EQ2A, EQ2B, EQ3, EQ4A, EQ4B
<b>Policy dialogue was a key EU input, especially accompanying GoK to formulate more comprehensive and coherent policies in BS-supported sectors and in specific topics such as tariff reform in blending operations. BS complementary support and blending TA were instrumental to improvements observed in the sectors. Both policy dialogue and capacity building were more effective and efficient when the EU had a more direct involvement than when EU depended on other DPs.</b>	

*Policy Dialogue was useful to contribute to progress* in sector policy formulation and implementation:

- Dialogue in BS sectors was strategic, substantive, properly formalized and reported on, effectively promoting and supporting the improvement of policy and legal frameworks and accompanying GoK reform processes. The EU was a key player in discussions on SP, education, PFM and electoral reform. CSOs participated in policy dialogue, particularly in SP and electoral reform.
- Dialogue in blending projects aimed at a limited range of policy and strategic issues in energy and water, bringing some difficult and politically sensitive reforms to the table (e.g. tariff reform), but, as expected for project approaches, the focus on a more holistic sector management and policy change was limited. Dialogue was less structured and formal than in BS and EU and EBRD were not always aligned as, for example, in the water sector reform EBRD is more interested in financial and infrastructure aspects of policy while the EU has a more integrated (IWRM) approach.

*Technical Assistance* provided within EU BS and blending operations was useful to increase the capacity of GoK entities and sector utilities:

- In SP, TA helped MoLSD and districts to improve their *targeting capacities* and their *child protection* and *social assistance services*. In education, improvements were made in policy development and strategic planning, internal audit and the recent development of the Education Management Information System (EMIS). The Venice Commission TA helped to increase the capacities of CEC and SRS, with the new biometric registration system and the complaint procedure mechanism as most remarkable outputs. WB-administered (and MoF-implemented) PFM TA namely focused on budgetary control and transparency issues, mostly within MoF and less in the sectors. Tackling corruption as such was not under the scope of EU BS implementation and remained a concern.
- In water and energy, although TA performance has been mixed, the *extensive use of TA* was designed as a pragmatic (and cost-effective) response to technical, capacity, managerial and control deficits. The TA teams have, in some projects, undertaken a more ‘hands on’ line function rather than the advisory role that was envisaged. TA disseminated information and supported policy dialogue and to some extent justification of difficult and politically sensitive reforms (e.g. tariff reforms). The advice provided to firms by consultants and PIUs did help to build the capacity of local companies. Nonetheless, implementation lacked appropriate in-country technical back-up and oversight and this affected the effectiveness of TA.

*The EU was not sufficiently involved when implementation was done through other DPs*, accountability towards the EU is still not properly developed. In both the water and energy sectors, EU/EBRD collaboration is not yet optimised and consultation with the EUD on oversight and supervision of project activities and TA to utilities is still limited. In particular, this has limited the potential for synergies between the TA provided and EU engagement in policy dialogue at sector level and beyond. The EU is also rather disconnected from the implementation of TA via the WB-implemented Multi-Donor Trust Fund (MDTF), financed by SP and education BS.

## **6.2 Conclusions on the choice of the modalities**

### **C3. Relevance and comparative advantages of BS and blending**

Related Level/s of the IL: Level 1 (Inputs)	Related Findings: EQ1A, 1B to EQ2A, 2B
<p>The modality chosen to channel EU inputs in support of each of the selected sectors was appropriate, except for electoral reform, where project support would have been a better choice than BS. BS has been the most advanced modality in terms of supporting formal policy dialogue, building on a comprehensive underlying ToC and detailed accountability and learning arrangements.</p>	

Budget support proved adequate to support reforms in SP and education, where inputs and key elements of the ILs underpinning the interventions were relevant, mostly clear and *properly aligned to GoK and EU strategies and guidelines*. Using BS to support electoral reform was not justified given the absence of a strategy (which was later developed with EU assistance); in this sector, a project approach would have still allowed to finance part of the reform and support the capacity of SRS, CEC and civil society with transfer of knowledge and experience through grants and TA, while keeping the consolidation of democracy as a key topic of high-level policy dialogue between the EU and GoK.

The *lack of public and private investment* and the fluctuant allocation of capital budget is a major issue for the future of the country, especially in infrastructure-heavy sectors (e.g. basic public services, energy, transport). Blending operations respond to this need by providing much needed funding. ILs underpinning the operations in water and wastewater and in energy responded to the priorities of GoK and to the cooperation frameworks of EBRD and EU and were clear and successful in terms of inputs and outputs; but, in most blending interventions, beneficiaries and the links to expected development outcomes (e.g. quality of life indicators) and impacts (e.g. growth, poverty) were not properly defined. This led to weaknesses in learning and accountability (see Conclusion 5). A move from blending to BS in the water sector could be a good implementation option in the near future (see Recommendation 4), although, in the short term, an Integrated Water Resource Management Strategy has been missing and the institutional framework is unclear. Moreover, blending has the potential to attract the still much needed capital investment in commercially non-viable infrastructure projects, while BS does not have this capacity.

Overall, compared to blending, BS interventions relied on: i) more comprehensive ILs clearly focused on improving the living conditions of the population, ii) clearer mechanisms for structured and strategic policy dialogue, and iii) better procedures for reporting to the EU by implementing agencies. This facilitated the *possibilities for the EU to contribute to enhancing the interventions* during implementation, including to better evidencing links of EU inputs towards outcomes and creating synergies with GoK strategies and other interventions (see Conclusion 4). GoK managed EU funds with BS orthodoxy and it is understood that fiscal space was created, although late in-year disbursements of EU payments (68% were in December) have been a serious issue that has not been fully addressed yet.

Blending had the advantage of generating leverage to mobilise a greater and more traceable amount of funds than BS, and respond more directly to closing the infrastructure spending gap. The origin of funding were mostly loans from IFIs, so there is no evidence that private sector financing was attracted.

### **C4. Linkages between BS and blending and with other interventions for increased synergies**

Related Level/s of the IL: Levels 1 (Inputs) and 2 (Direct and project Outputs)	Related Findings: EQ1A, 1B and EQ2A, 2B
<p>BS and blending were not particularly coherent or complementary with each other, as they covered different sectors and were operationally detached from each other. Nevertheless, they jointly aimed at the higher-level objectives of the EU-Kyrgyz Republic partnership and, overall, were coherent and complementary with other actions of the EU and, surely because of good understanding within the DPCC, also with the rest of donors.</p>	

Budget support and blending have *successfully co-existed* although with *little interaction* between them during the evaluated period. This is not surprising, given that sectors covered by BS and blending in the Kyrgyz Republic are very different and no particular operational synergies were found, except an intended contribution to the same overall objectives. Both BS and blending interventions were coherent and complementary with interventions from other Development Partners, who coordinated well thanks to the work within the (mostly donor-driven) Development Cooperation Council (DPCC). The level of collaboration and understanding among donors is high in Kyrgyzstan and PFM was the best example of coherence and coordination between donors and joint donor collaboration with GoK.

### **6.3 Conclusions on the broader EU-Kyrgyz partnership framework**

#### **C5. Orientation to results and increased accountability and learning**

Related Level/s of the IL: Levels 3 (project and induced outputs), 4 (policy and project outcomes) and 5 (Impacts)	Related Findings: EQ5, EQ6, EQ7, EQ8, EQ9, EQ10
<p>The goals of EU-Kyrgyz partnership can be jeopardized by the difficulty to assess which are the effects of GoK policies and EU BS and blending operations. This is due to the insufficient attention given to producing and analysing comprehensive and disaggregated outcome and impact data, as well as to the existence of important gaps and inconsistencies in official records and statistics, although this is slowly improving. This makes the overall picture of high-level effects of EU-Kyrgyz cooperation rather blurry.</p>	

GoK policy implementation and the support of DPs, including the one provided by the EU through BS and blending, have been severely hindered by *the country's weak capacity to compile and publish reliable data* for monitoring economic and social development and public policy implementation. This refers to a wide range of data, from aggregated indicators (GDP, employment) to socio-economic information (household surveys), sector outputs and outcomes (e.g. EMIS in education will be very useful in the future but is recent and needs fine-tuning), and even project information. This should be very concerning for the EU and other DPs and even more so for the Kyrgyz Government, as they are lacking the necessary evidence to feed decision-making through the whole implementation cycle of policies, programmes and projects. It may be noted that WB/IDA are providing USD 17.5 million to support the improvement of the national statistics over the next four years.

For EU cooperation implemented through BS, the *lack of data on public policies is particularly challenging*, as BS is implemented directly following national strategies and monitoring systems that are too basic (i.e. only aggregated data) and do not always contain trustworthy information. Some BS interventions have made some contributions in this regard (e.g. EMIS by Education BS, EU financing PEFA and other assessments on PFM reform). But, overall, there has been insufficient attention to monitor policy implementation, especially to generate data on outcomes and impact.

In blending operations, the *lack of data is not compensated* by adequate mechanisms to identify needs during design and track the actual effects of project outputs on the population during/after implementation. Development outcomes and impacts are often declared as project objectives but not properly conceptualized, nor followed-up. In some aspects, the KyrSEFF projects were better than the rest at following-up on some outcome indicators.

#### **C6. Cross-cutting issues**

Related Level/s of the IL: All levels	Related Findings: All EQs
<p>The integration of cross-cutting issues into BS and blending operations during the 2009-2019 in the Kyrgyz Republic was not up to EU cooperation standards. Although both strategic and programming documents such as the MIPs required this mainstreaming, the design of individual interventions did not sufficiently incorporate the gender, environmental and inclusion of minorities aspects, with the exception of the electoral reform BS. This was partially corrected during implementation, particularly for education and energy and, overall, some efforts for increased consideration of these issues have been made recently, at least for gender mainstreaming.</p>	

The two modalities had different approaches towards cross-cutting issues. The lack of focus of blending projects on the final beneficiaries implied that little attention was given to the inclusion of women and ethnic minorities in the design and implementation of these interventions. BS design documents (Action Documents) recognised the importance of gender, climate change and the inclusion of minorities, but only BS on electoral reform integrated them into the programme. More specifically:

- BS on electoral reform showed commitment to *gender* mainstreaming in programme design (with a Gender Equality Screening Checklist) and during implementation (through policy dialogue and specific indicators). This was not the case for formulation of BS in SP and education. Water sector policies were described as ‘gender blind’ by a specific assessment and there is little or no evidence of gender mainstreaming or promotion of gender equality in project design in the energy sector or in related policy dialogue. Some reporting on aspects of gender coverage was found under KyrSEFF and, in recent years there appears to have been more coverage of gender issues in both energy and water sectors.
- *Environment and climate change* have been more important considerations for blending operations than for BS. The resource-efficiency focus of water and energy projects facilitated the reference to environment and climate change-related aspects but a systematic approach to the possible incidence is missing, as the concentration of project targets and monitoring is upon infrastructure and financing.
- Although *inclusion* was at the heart of all EU cooperation, and SP and education BS did focus on the inclusion of disabled persons, the attention to ethnic minorities was very limited in both modalities. EU documentation consulted recognises the presence of ethnic inequalities and tensions, but these did not explicitly figure in BS design. In blending operations there has been little to no coverage of the minorities or vulnerable groups that were likely to be disproportionately affected by lack of access to water and power supply.

Additionally, for all sectors, the lack of appropriate data also complicates the mainstreaming exercise, as many indicators are not broken down, especially at the outcome and impact levels (see Conclusion 5).

## 7 Recommendations

### 7.1 Recommendations on the role of the two modalities in the broader partnership framework

#### *Recommendation 1: On the overall objectives of the EU-Kyrgyz partnership*

Recommendation for: EUD, INTPA and GoK	Recommendation mainly linked to C1 and C5
<p><b>EU and GoK should continue to develop and elevate their strategic partnership, building on past experience with BS and blending interventions. Both parties need to persist in consolidating the underlying principles of their collaboration (promoting democracy, fighting corruption) and have more ambitious expectations of achieving the common high-level strategic objectives (development outcomes and impacts). Both BS and blending are useful to continue pushing in the same direction, profiting from their respective advantages as modalities to deliver results.</b></p>	

The EU and the Kyrgyz Republic should *strengthen their strategic partnership* starting from the highest political level. The first task should be to recover the levels of EU and GoK mutual confidence and alignment prior to the October 2020 events. The recent beginning of the 2021-2027 EU programming cycle brings an opportunity to enlarge the political and strategic debate and adjust and fine-tune the overall and specific objectives of EU-Kyrgyz cooperation. Building on the particular aspects that have been slowly improving with EU support up to 2019 (e.g. policy and legal frameworks, GoK capacities, public service delivery, CSO empowerment), the partnership should benefit from intensifying policy dialogue around high-level objectives such as the consolidation of democratisation and core values of EU cooperation, increasing mutual accountability, using tools to

regularly monitor corruption<sup>97</sup>, making growth and employment truly inclusive, and re-assessing how to address gender and geographical inequalities. In order to achieve many of these challenges, GoK will need to increase its level of ownership and monitoring of reform and involvement in implementation, as well as take the leadership of donor coordination. The policy discussion should include a more comprehensive framework of the high-level effects that GoK expects from the *sector reform processes*. This requires to better define which impacts (inclusive growth, reduction of poverty and inequality, plus probably democratisation and environmental sustainability) and which development outcomes in key sectors of NDS and the 2021-2027 MIP (e.g. education, IWRM, private sector development) should be the point of attention of EU support, regardless of the modality used. Both BS and blending have certainly been and will continue to be instrumental to operationalise EU and other DPs' support, but they are only modalities that will go as far as the priorities of GoK are willing to go.

*Recommendation 2: On elevating the importance of inclusion and cross-cutting issues in EU cooperation*

Recommendation for: EUD and GoK	Recommendation mainly Linked to C6
<b>Helping GoK to reduce inequalities and effectively mainstreaming cross-cutting issues into policies, programmes and projects should be a priority of EU support to the Kyrgyz Republic in the 2021-2027 period. EU interventions should particularly improve their contribution to closing the urban-rural gap and promoting the effective inclusion of women and ethnic minorities.</b>	

The EU and GoK must bring gender, inclusion of rural population and ethnic minorities and climate change (see C6) to the front of the discussion and make sure they are present throughout the whole EU programme or project cycle. The MIP 2021-2027 is consistent with this approach (very important is that 85% of MIP actions must have a gender focus), but the challenge is to *transcend the generic references to inclusion and cross-cutting issues* in the design of EU interventions and effectively translate them into the implementation phase. In the case of BS, this can be done, for instance, by elevating the importance of gender and inclusion in policy dialogue and in Complementary Support, selecting cross-cutting focused KPIs and/or develop accountability and learning systems that disaggregate data per gender, ethnic and geographical origin of beneficiaries. In blending operations, more attention must be put on the beneficiaries and on the effects of project outputs on vulnerable persons or areas (e.g. reduced economic vulnerability of women, increased private sector development in rural areas).

*Recommendation 3: On the need to base policies and donor support on updated, reliable data*

Recommendation for: EUD, GoK and IFIs	Recommendation mainly linked to C5
<b>GoK and its cooperation partners urgently need to address the severe shortage and inaccuracy of data at the project, sector and aggregated levels. To respond to the important challenges that the country is facing and is likely to face in the coming years, GoK policy and donor support need to be more evidence-based and count on more, better-quality, publicly available and updated information, especially on outcome and impact indicators.</b>	

GoK and DPs are lacking an important part of the necessary information to be able to properly design, monitor and evaluate public policies and external support, including BS and blending. More *factual information needs to be brought to the policy discussion*, which requires to invest in the development of data management and analysis. Some specific progress has been made in GoK Monitoring, Evaluation and Learning systems (i.e. EMIS is now operative in the education sector, see C5), but the overall capacity is still very weak. EU and GoK should increase their efforts to improve the capacity of entities to produce, analyse and publish, both in the sectors and at the aggregate level. EU could devote part of its funds to supporting the Statistics Office to increase its overall capacity, its links with *sector information systems* and, more specifically, enlarging and improving the Kyrgyzstan Household Integrated Survey. Publishing and disseminating relevant data

<sup>97</sup> E.g. World Governance Indicators (WB), Corruption Perception Index (transparency International), Global Competitiveness Survey.

and involving and supporting CSOs in an overview role would also increase the transparency and accountability of GoK policy and donor support. It will be important to ensure that any assistance provided in this context is aligned with the WB/IDA-supported action to improve the country's statistical capacity.

More specific measures that can be considered as part of BS programmes to boost *Monitoring, Evaluation and Learning* include running studies to help establish baselines, fine-tune sector targets and KPIs and/or identify determining factors of outcome and impact indicators, especially for key issues like growth and poverty reduction in rural areas, gender equality and inclusion. An upgrade of the monitoring and reporting systems of individual interventions is also needed to count on more specific, disaggregated data on project outputs and outcomes, and better link them to the key objectives of the EU-Kyrgyz Republic partnership. An analysis of the possible attribution of blending operations towards high-level indicators could theoretically be done, specifically within the scope of the project (e.g. impact on poverty of a water and energy blending projects in a specific city), but this would require specific data and impact evaluation techniques as well as dedicated resources that currently do not exist.

*Recommendation 4: On selecting the most appropriate implementation modalities to channel EU funds*

Recommendation for: EUD and GoK	Recommendation mainly linked to C3 and C4
<b>The EU and GoK should build on the experience of the last two programming periods when deciding which will be the best the implementation modalities to support the sectors in the 2021-2027 period. The first option to consider should be using the same modality structure (i.e. BS for governance and social sectors and blending for infrastructure-related sectors) and continue improving their design and implementation. A possible simultaneous use of blending and BS in the water sector is an interesting option that, if confirmed, should include a preparatory phase to ensure that the sector meets the conditions to use BS.</b>	

BS has been instrumental for GoK to advance in *reinforcing the capacity of its institutions and improving service delivery* and should therefore continue to be a preferred implementation modality, with some adjustments: Preferably use BS to support sectors or thematic areas linked to service delivery and when a clear intervention logic can be defined at least up to outcome level; always ensure that a well-developed sector policy is adopted before initialising BS; use policy dialogue and MEL to monitor the indicators of the national strategy, even if not linked to disbursement; advance the assessment of indicators to ensure disbursement during the third quarter of the fiscal year; and keep ILs simple and limit the number of KPIs. The clear exception to this continued use of BS would be the future support to electoral reform, which should rather be a project, potentially building on a Twinning arrangement, unless it is included as part of a bigger Rule of Law BS programme.

Although the way blending is used in the Kyrgyz Republic needs some *adjustments* (see Recommendation 5), it must be acknowledged that it has also been *successful in delivering results*. A possible pathway for future support to the water sector is to combine BS and blending approaches. This is an interesting possibility that is also an innovative approach that has never been before implemented in EU cooperation. Previous discussion at INTPA HQ and consultations with EBRD and other donors would be required to establish the general framework for this eventual combination of modalities. Additionally, the water sector does not yet seem ready to move to BS.

## 7.2 Recommendations on specific design and implementation issues

*Recommendation 5: On the way blending operations are designed and implemented*

Recommendation for: EUD, INTPA and IFIs	Recommendation mainly linked to C3 and C4
<b>In order to maximize the clear advantages and the potential that blending has as an implementing modality in the Kyrgyz context, the EU should revisit its approach towards several aspects of blending projects design and implementation, including, especially, the following: i) Intervention Logics need to be more comprehensive and put more weight on expected outcomes and impacts; ii) beneficiaries must be better identified and their needs assessed; iii) in policy dialogue, IFIs and</b>	

**EU should be better aligned and EU must have a bigger role; iv) the IFI-EU accountability and learning arrangements must be improved; and v) sector institutions should be more proactively involved in implementation**

The EU and its cooperation partners need to improve several aspects of blending operations and BS could be inspiring in some ways (see C1). Most importantly, the Intervention Logic of blending projects must be completed by *transcending project outputs*, thus also measuring how the project has supported improved service delivery (e.g. coverage rates of basic services), development outcomes, understood as benefits to the population (e.g. quality of life indicators, WASH indicators) and the possible contributions to impacts (economic growth, poverty reduction, reduced inequalities). Given the restricted scope of blending projects as compared to BS's wider scope, causal relationships and attribution of effects would have to be limited to the geographical area and/or beneficiary population of the project. Other aspects of the blending modality that would need to be improved include: i) Projects must clearly identify and quantify the beneficiaries and their needs; ii) EU and IFIs better align their strategic approaches; and iii) accountability towards the EU and GoK must be increased by establishing more detailed and results-oriented monitoring and reporting arrangements.

***Recommendation 6: On the role of capacity building as a small but key output of EU BS and blending operations***

<b>Recommendation for: EUD and other DPs</b>	<b>Recommendation mainly linked to C2</b>
<b>EUD and its cooperation partners must jointly explore ways of increasing the efficiency, effectiveness and sustainability of capacity building actions implemented within BS and blending operations. Some progress has been made but TA and grants can be better used to continue upgrading the capacities of GoK sector utilities and CSOs, which are still low.</b>	

BS complementary assistance should continue to receive substantial funding, as it has proven a *key element of EU support*. Some adjustments are necessary: More focus should be put on increasing the technical sustainability of policy outputs and outcomes (i.e. more effective capacity building) and ensure that mainstreaming and cross-cutting and inclusion issues are central aspects of implementation (see Recommendation 2). The EU also needs to have a more direct involvement when it relies on other DPs to implement BS complementary support. For ongoing actions, this specifically applies to the WB-managed Multi-Donor Trust Fund's CBPFM-2 project that supports PFM reform, where the EU needs to be better informed and more involved in decision making and oversight.

Blending operations need a more *realistic assessments of capacities* of beneficiary institutions, their absorption capacity and ability to ensure post-project continuation of operations (and flow of benefits). There is an element of over-optimism in project design in that this same capacity fragility is also a threat to implementation efficiency. Response measures could include specification of longer implementation periods, specific conditionalities on staffing and resourcing of PIUs and binding commitments by project implementation partners (including holding companies) regarding staffing and resourcing (to be taken into account as pre-condition for any subsequent blending support).

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