

## United Nations Development Programme in the Kyrgyz Republic

### Reforming Interbudgetary Relations

#### Terms of Reference

##### **Background**

The Kyrgyz Republic is committed to achieving the Millennium Development Goals (MDGs) by 2015. The recent MDG Progress Report indicates that all goals are potentially achievable. Moreover, the Government is well equipped with national strategies, including the Comprehensive Development Framework (CDF) which aims to halve poverty by 2010. Under the CDF, a National Poverty Reduction Strategy (NPRS) 2003-2005 has been implemented in the following major target areas: formation of an effective state; building a fair society; promoting sustainable economic growth; and regional development. As a follow up to the 2003 Rome Declaration on Harmonization, Kyrgyzstan is one of the pilot countries to implement its programme in accordance with the commitment to harmonize donor development assistance.

Success in the areas formation of an effective state and regional development crucially depends on the implementation of a coherent decentralization program. In line with this, in fall 2002, a presidential decree approved Kyrgyzstan's National Strategy on "Decentralization of State Government and Development of Local Self-governance until 2010." Furthermore, several laws strengthening the role of local self-governance bodies were adopted: "On local self-governance and the local state administration"; "On the financial-economic basis of local self-governance"; "On the municipal service"; "On communal property." Concerning fiscal decentralization and interbudgetary relations, amendments to the budget law, will come into effect from January 1, 2006. Therefore, state and local authorities shall start budgeting in accordance with the new law. The parliament is expected to adopt the budget for 2007, the first budget prepared in accordance with the new law, by the end of November 2006.

This context creates the urgent need for an in-depth analysis of interbudgetary relations between state authorities and local self-governance bodies. It requires preparing for a reassignment of revenue powers and expenditure responsibilities between the different levels of the country's budget system. State and local authorities should know which functions they have to carry out and for the provision of which services they are responsible - and from which sources these functions and services will be financed. It is important to clearly assign and delineate the responsibility of each level of government for providing social services to the population; taking into account the separation of power between the different levels. Resulting from these measures should a renewed system of interbudgetary relations with increased autonomy and accountability of the regions as well as the municipalities. Reforming interbudgetary relations would also allow for continued reorganization of the tax system.

The reformation of interbudgetary relations depends on the establishment of an appropriate legal framework constituting a new system of interbudgetary relations, including criteria for and control procedures over budget processes, the introduction of mechanisms holding local and regional authorities accountable for their budget policy, and the creation of an incentive system committing the regions to broadening the tax net.

The World Bank plans to provide such assistance within the framework of the Japan Policy and Human Resources Development Fund (PNHD) grant for the development of a Poverty Reduction Support Credit (PRSC).

**Duration of mission:** 10 Working Days at home office for analysis of transfer system, modeling development, and report writing to be performed during the period of November 20-December 10.

**Duty station:** Home Office

**Duties and responsibilities:**

Working closely with Programme Advisor/Head of PAR-AC Cluster and national experts, the International Expert will perform the following tasks:

- Assess current interbudgetary relations system;
- Assess proposed fiscal equalization formula for its adequacy and relevance to existing local government financial situation
- Develop informational requirements for conducting a diagnostic review of local self-governance finance revenue and expenditure patterns;
- Provide recommendations and define possible alternative equalization models based on best international practice, preferable in Newly Independent States;
- Define problem areas of interbudgetary relations as directions for further in-depth analyses;
- Provide expertise to Ministry of Finance and Ministry of Local Government and Regional Development on interbudgetary relations issues connected with administrative-territorial divisions and size of local governments, functional assignments and matching revenue sources to achieve vertical balance

**Expected results:**

- Prepare report assessing proposed equalization model identifying strengths and weaknesses
- Define additional transfer factors, such as geographical, social, and economic characteristics, that need to be included in equalization formula
- Specify alternative model for fiscal equalization meeting additional transfer factors and international practices
- Identify issues related to the development of functional assignments to the proposed levels of government under new administrative-territorial divisions.