PRELIMINARY RESULTS

Summary Prepared for the Round Table on Financial Decentralization
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Bishkek
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INTRODUCTORY NOTE
This brief note presents some preliminary results after 18 months of the implementation of the pilot initiative on transparency and accountability of local budgets in Kyrgyzstan. The results are based on a baseline assessment conducted at the Project's inception stage in early 2004 and a mid-term evaluation held in May-June 2005. The data obtained from the latest evaluation exercise is still under review and will be available in the final report on Project activities and results.

1.0. BACKGROUND
The Pilot Project on developing the demand side for local governance in Kyrgyzstan was conceived by the World Bank in the fall 2003. It was developed within the framework of the National Decentralization Strategy adopted by the National Government of KR in 2002. There were two overarching objectives pursued by the Project since its inception:

- To build the capacity of Aiył Okmotus, Aiył Keneshes and local communities in the budget process; and
- To facilitate citizen participation and voice in local self government budgetary decisions.

Pilots were launched in 31 AOs in Issyk Ata (Chui Oblast) and Suzak (Jalalabad Oblast) rayons in early 2004. Project's target groups were identified as AO financial and other staff, AO heads and AK deputies, civil society representatives, village leaders/activists, and citizens. Currently, the pilot is being implemented by a network of 31 regional capacity building specialists (one CBS in each AO) who are managed by a national program coordinator located in Bishkek.

The Project's main counterparts are the KR National Government (Ministry of Finance and Ministry of Local Self-Governance, President’s Management Academy), ARIS and S-VIP, Urban Institute, KAMP, UNDP, Chemonics, and other.

2.0. CORE PROJECT ACTIVITIES
This Project focuses on providing training and organizing public budget hearings involving all key stakeholders in the pilot AOs. Initially, in the winter and spring 2004 when the pilot had just started, a MOBILIZATION AND INFORMATION INITIATIVE was conducted to promote the project activities and raise awareness on public access to information, the legal framework of local governments and citizen participation in decision-making. It helped identify the capacity building specialists (CBSs) who could act as facilitators and interlocutors between the LG and community during the pilot.

After the CBSs network had been firmly established, the pilot started its TRAINING ACTIVITIES in all 31 AOs in order to deepen civic education and improve legal and budgetary literacy of all project target groups. As of now, five cycles of trainings have been completed – more than 1,000 people have been trained in the 31 pilot AOs since early 2004 including not only the target groups, but also CPSs and professional trainers.

PUBLIC HEARINGS ON BUDGET were launched early in 2004 and introduced in cycles adjusted to the existing budget cycles (first, discussion of the next year budget proposal and second, budget execution). Two rounds of hearings were conducted in 2004-2005 with the total number of participants well exceeding 2,500 people. Budget hearings became a particularly successful mechanism for information sharing within AOs, building better trust and understanding between local administrations, AK deputies and citizens. A number of pilot AOs even undertook their own initiatives to conduct budget hearings, outside of the scope of the Project activities in 2005.

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3.0. Preliminary Results:

The results of Project activities can be categorized under four main headings:

1. Overall increase in budget literacy
2. Empowerment of Aïyl Kenesh
3. Increased citizens’ participation in local self-governance
4. Improved transparency of AO decision making

3.1. Overall Increase in Budget Literacy

Aïyl Okmotu staff and Aïyl Kenesh deputies have effectively improved their budgetary and legal knowledge. Citizens in pilots AOs became more aware of local budget-related issues. Improved knowledge and understanding of the ongoing financial decentralization reforms is expected to increase local self-governments’ preparedness to take up the reforms.

Generally, it is regarded to be a difficult task to assess an immediate impact and successfulness of capacity building activities due to its long-term nature. Nonetheless, several major lessons were identified during the Project's implementation.

First of all, the success of the decentralization program will be dependant on the capacity of local self governments to carry out their new mandates. Feedback from the pilot AOs indicates a high degree of satisfaction with participatory budgetary trainings as well as trainings on financial, economic and legal basics of local self-governance. Reportedly, such training activities have significantly broadened AO staff and AK deputies’ awareness of their rights and mandates. The new knowledge on how to execute such rights and enforce the given mandates was almost immediately applied in selected pilot AOs (see also case study 1).

Second, budget capacity trainings have to be of direct applicability and respond to the needs of varied target groups. In this case, trainings cannot be limited to purely AO staff and financial experts - they need to cover AK deputies and broader groups of citizens as well. Targeting multiple groups ensures that budgetary process becomes participatory and inclusive. To pursue this principle, the Project systematically involved all types of local self government representatives in its trainings. Based on available feedback, trainings were found to be directly applicable to the needs of AO staff and AK deputies:

"The last training that was held here was focused on transparency and accountability of local budgets. After the workshops, we met with constituencies and started consultations on some financial procedures. We are trying to be more open and transparent".

(a financial specialist, Suzak AO, Jalal-Abad)

Trainees generally emphasize their on-going needs in knowledge and awareness building activities:

"We still feel a need for new legal skills and knowledge, since the legislation changes so quickly and we usually fail to catch up with it and but we need to have adequate information on time".

(AK deputy, Ivanovka AO, Chui)

Importantly, trainings have been crucial in building awareness of decentralization and participatory budgeting issues among the newly elected deputies of 2004. They were able to acquire basic knowledge of their rights and ability to independently participate in local budgetary processes. Trainings raised their awareness of the importance of local community participation in decision making process and budget formulation as well as explained the basics of intergovernmental fiscal relations and supervision in the budget process.
3.2. Empowerment of Ayl Kenesh

Ayl Keneshes became more empowered by the newly found knowledge of their rights and responsibilities. AK deputies have been able to assert greater independence in decision making.

Since the project’s inception in 2004, the most visible and pronounced change that occurred in a significant number of pilot AOs has been the development of a more pro-active, responsible, accountable, and responsive body of AK deputies. During the project’s implementation and especially on its later stages (first six months of 2005) it became apparent that the deputies started to take advantage of its new knowledge and better access to information to question the status quo. Major shifts can be characterized as follows:

- AK deputies have developed a critical awareness of their new mandate. Their knowledge of rights and responsibilities and the actual powers that their position entails has been increased as a result of training. AK deputies in pilots became more sensitive to local budgeting issues and taxation. One of the deputies in a northern pilot AO opines:

  “We have to think how to increase revenues. We have an asphalt production facility in our AO. It turned out that it pays taxes to the city of Bishkek. But it pollutes our territory, and the roads are so bad here. We need to find legal mechanisms to make the plant pay taxes to our budget.”

- Deputies started to exercise their given mandate and force local AO leaders to turn a more receptive ear to the concerns and grievances expressed by AK deputies and the population.

- Deputies started to mobilize and take a more active stand on the most pressing local issues by instituting or revitalizing the practices of having regular meetings within the newly established or re-instituted Kenesh committees (such as an instrumental committee on budget and strategic planning) (see also case study 2).

- AK deputies became a new grassroots driving force of local decentralization efforts, striving to make a difference and bridge the communication gap between AO leadership, citizens and AK body. Many deputies became agents of change within their corresponding communities by initiating new AK sessions and re-vitalizing AK committees’ activities. There are at least five AOs both in Issyk-Ata and Suzak rayons\(^2\), where AKs completely re-considered their mode of operation.

  One of the Project trainers describes the change in Luxemburg AO (Issyk-Ata Rayon):

  “This ayl okmotu was never noted as an active one. Before the training, the deputies were not even introduced to each other; they did not know each other in the face. The training became a meeting place for all AO deputies – they met and exchanged contacts. They had no idea about any permanently functioning committees. During the training the decision was made to convene a full session of the local AK and develop a plan of actions. It was very rewarding for us to see such thing happening.”

3.3. Increased Citizens’ Participation in Local Self-Governance

Citizens became more exposed to local self-governance issues. They became more involved in AO activities, asked more difficult questions, and became more understanding and cooperative towards the AO administration.

During the first phase of the Project it became apparent that citizen-government dialogue can only be meaningful if the broader AO population understood their civic rights (such as influencing government

\(^2\) Novopokrovka, Uzun-Kyr, and Tuz in the north; and Atabekov, Suzak, and Barpy in the south.
decisions, holding government accountable, understanding of legislation). The pilot villagers initially had limited access to information and were often unaware of their civic rights, and therefore were not able to exercise any influence on local public decisions. The organization of public hearings and civic education activities helped to change the dynamics of citizen-AO relations and resulted in more common understanding. Citizens were able to see the constraints that AOs faced, particularly in providing social services in an environment of extreme resource constraints. AOs were able to explain to the population the importance of tax compliance and revenue generation.

In order to simplify the process and make the budget hearing information more accessible to the general public, the Project started drafting easy to read budget summaries and preparing user friendly materials on the basic laws on financial and economic decentralization. AO staff were able to reveal the budget information to the population and explain how expenditures were allocated. Budget hearings provided citizens with an opportunity to learn about the AO budget for the first time and drew great interest among the population. According to one citizen, it was the first time that an AO finance staff came to speak to them directly about the budget. Citizens were also able to understand how they could have an impact on the budget and where citizen voice can be effective. Public hearings proved to be a successful tool to galvanize public attention on local issues. For the first time, citizens were encouraged to voice their opinions. An encouraging sign of the popularity of the public budget hearing is the fact that six of the pilot AOs have started to initiate this activity without Project support.

3.4. Improved Transparency of AO Decision Making

| AO leaders and Ayl Keneshes are provided with better incentives to improve the transparency of local budgets. Local administrations are pushed to conduct consultations with their communities to serve them better. |

During the initial mobilization phase there was very little understanding about the way budget decisions were made in the pilot AOs. Local communities had very little ownership on the public budget. A sense of frustration with the local administration is captured in this quote below:

“Our budget consists of the taxes that we pay. We pay and pay, but the life still gets harder and harder. No water, poor roads. Where does our money go?” (villager, International AO)

Project related activities triggered deeper enquiries into the procedures practiced by the AO administration when drafting and implementing local budgets. Communities started to ask difficult questions about taxes and fees and their use for the benefit of ayl okmotus. One of the most sensitive topics on the AO’s current fiscal agenda is how to generate more local revenues. During the training activities and budget hearings many AOs administrators were forced for the first time to disclose their main sources of revenue in the local budget. In some pilot AOs, it was the first time that villagers heard about the availability of special funds (the so-called AO “special means account”). Public access to information about the special means account is critical since this currently is the only resource which local AO administrations have full control of. The bulk of revenues to the special account come from activities generated by the lease of public lands. Other sources are municipal property, local administrative service and certification activities, and cash contributions from citizens to rehabilitate or renew village facilities.

Importantly, those AO leaders who stepped out and disclosed information about AO budgets during budget hearings and trainings gained significant support from the population. Such leaders showed that under very constrained financial resources they still managed to produce development results and solve some social issues. It helped to win greater trust among the population and garner support for the future.
**CASE STUDY 1**

**LOCAL SELF GOVERNMENTS BETTER EQUIPPED TO MANAGE THE BUDGET IN ATABEKOV AO, SUZAK RAYON, JALAL-ABAD OBLAST**

Atabekov AO deputies and accountant report:

“After trainings were held in January this year, we found out that we could actually influence the budget process in our aïyl okmotu. These were the trainings on financial and economic basics for deputies. What happened was we learned that, for example, there was a possibility to manage AO lands more effectively. Since we did not know before that AK deputies had a legal right to be members of the AO land distribution committee, we decided to re-visit existing land allocation. As a result, it was decided to conduct an open bidding for arable lands. This time deputies were included into the land allocation committee. It turned out that we could actually get a better price per hectare. The result is that more revenues came to our budget.

In general, though, it was possible to increase the 2005 budget by about 17%. Apart from new revenues coming from land lease, we made some cuts on local celebrations and festivities, which saved us some money as well. All these revenues were committed to rehabilitate two primary schools in our AO. In one of the aïyls, little children had to cover 4 kms every day in order to get to school in a different village. Now, they have a school of their own. We also opened a new health unit in one of the schools and hired a nurse. Apart from that, we managed to give more financial assistance to the needy families and fix 6 water pumps out of existing 12”.

In response to the question on what additional assistance is needed: “We need more training on budget process, on how to use and apply for grants; we are interested in getting some fundraising skills as well. We need to know more about how to prepare investment projects.”

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**CASE STUDY 2**

**VOICING CONCERNS AND FINDING AN ENTRY POINT FOR ACTION IN UZUN-KYR AO, ISSYK-ATA RAYON, CHUI OBLAST**

The Uzun-Kyr case provides an interesting example of how local Aïyl Kenesh deputies were triggered to play a more active role in local decision-making. Uzun-Kyr is a comparatively small AO incorporating three villages and having about 3 thousand inhabitants.

In January 2005, the Project organized fully fledged trainings for AK deputies in all pilot AOs, including Uzun-Kyr. The training was targeted at building the AK deputies’ capacity on the budget process. During the training, the deputies made a decision to immediately convene an AK session. The training itself was turned into such session. The fire of an open discussion was ignited by an inquiry made by one of the farmers participating in the training related to the unexplained increase in the fee to obtain cattle certificate. It turned out that the deputies were not aware of such a decision and did not authorize it in any manner. In the end, the discussion became very heated and grew into a more fundamental discourse about the deputies’ real mandates and the powers executed by the AO head. By the end of the training, it was agreed by all participating deputies that the deputy commissions have to be re-established with their scope of work carefully re-defined and a new session of the local parliament to be held.

One month later, the deputies made an independent decision to hold public hearings on the budget - the decision was also supported by the kurultai general meeting. The first budget hearing organized under the Project in this AO took place in June 2004 and brought together about 30 participants. In the second round, hearings assembled about 65-70 people. Besides, AK deputies initiated an independent audit of the AO budget allocation for the previous year. The audit found a widespread misuse and abuse of funds. Such disclosures later triggered the dismissal of the AO head and Chief Accountant in Uzun-Kyr.

The most important outcomes of the hearings were: first, establishing an information board covering the resolutions made in the villages and important events; second, setting up a deputies’ room in the AO administration premises; third, instituting a permanent acting budget committee to hold all budget-related deliberations. It was also agreed that all local decisions should be made with direct participation of AK deputies. It is expected that these decisions will improve the accountability of the local AO staff, incentivize AK deputies for further actions, and lead to a greater transparency in the decision making process in Uzun-Kyr AO.

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**CASE STUDY 3.**

**IMPROVED TAX ADMINISTRATION AND COLLECTION IN YRYS AO, SUZAK RAYON, JALAL-ABAD OBLAST**

Trainings in Yrys AO allowed AO administration and deputies to find creative means to increase local tax revenues. For example, after budget hearings deputies decided to have a closer look at local tax rates and their collection. They initiated inquiries into tax revenues from the local gas stations and bazaar.

In the case of the gas station, a committee was formed to monitor gas station sales during a particular tax cycle. It was discovered that the gas sales did not correspond with the amount of sales-tax revenues paid to the local budget. It was clear that gas station businesses were underreporting their sales. In order to provide an incentive to the gas station owners to pay their taxes in full the committee proposed a decrease in the sales tax rate from 4% to 1% for one year. As a result, there was an increase from the previous year in the total sales tax revenue from gas stations.

A similar approach was also adopted in the case of the local bazaar. The deputies decided to use the discretion given to them by their mandate in defining local tax rates. All bazaar tax payers were initially levied a maximum 4% retail sales tax, but, as it was later discovered, not all of them were able to pay it. Deputies introduced different rates varying from 1 to 4% applicable to different tax payers, and increased tax revenue generation as a result of that.
SELECTED STATISTICS FROM PROJECT EVALUATION EXERCISE

AO Staff & AK Deputies Score Their Skills in Budget Literacy

- Fully Satisfactory: 23%
- Satisfactory, but Slight Improvement Needed: 46%
- Strong Improvement Needed: 16%
- Unsatisfactory, Radical Improvement Needed: 6%
- Don’t Know: 8%

AO leaders and AK deputies

The Most Useful Trainings as Identified by AO Leaders and AK deputies

- Accounting and reporting
- Budget planning
- Project design
- Legal aspects of LSG

Leaders of Pilot AOs

- # of respondents
- 10
- 15
- 12
- 11

Percentage of AK Deputies Having Access to Audit Findings

- Yes: 38%
- No: 62%