

# ANNUAL REPORT

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2022

# CORRUPTION PERCEPTIONS INDEX 2022

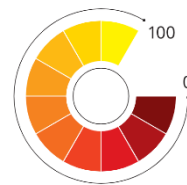


The COVID-19 pandemic and threats to global security, including the Russian invasion of Ukraine, have created an increasingly uncertain world. In such an unstable world, unchecked corruption exacerbates these challenges, hastens democratic decline, and empowers autocratic regimes. In 2022, the Corruption Perceptions Index, which assessed 180 countries worldwide, demonstrated stagnation in 124 countries, with many showing further declines into corruption. Consequences are not only dire; global peace is being eroded, where corruption both feeds into and is fed by conflict.

Kyrgyzstan is very vulnerable to spillover consequences resulting from the invasion of Ukraine by Russian Federation. Being in the sphere of influence of Russian Federation and having heavy economic dependence, the country has suffered through inflation and ripple consequences of sanctions imposed on Russia. Weakened oversight, coupled with economic strain, often opens the door for corrupt practices to take root and flourish.

**180** Countries scored

The CPI scores 180 countries and territories by their perceived levels of public sector corruption, according to experts and businesspeople.



THE CPI USES A SCALE FROM 0 TO 100

100 is very clean and 0 is highly corrupt

100 is very clean and 0 is highly corrupt

According to the 2022 Corruption Perception Index, Kyrgyzstan was ranked 140th out of 180 countries, maintaining a score of 27 out of 100 for the second consecutive year. This rating remained unchanged from 2021, which had already seen a 4-point drop following the October Revolution in 2020.

**Score**  
**27/100**

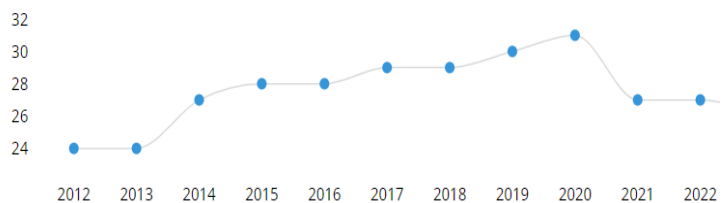


Figure 1 Score changes 2012-2022



## FIRST COMPONENT

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**Transparency International Kyrgyzstan, sponsored by the World Bank**, implemented a project aimed at reforming and strengthening the system of issuing licenses for sub-soil use in the Kyrgyz Republic. The key goal was to provide analysis of the existing mechanisms of sub-soil licensing, to develop actionable recommendations on how to make that process more transparent and accountable, hence improving general governance and closer compliance with the 2019 EITI Standard.

**Sponsored by the World Bank**



# THE WORLD BANK

### Background

The mining industry remains one of the cornerstones of the Kyrgyz economy, bringing in a substantial share of the nation's income. However, this sector has long been plagued with issues of poor governance and pervasive corruption, especially in the system responsible for granting sub-soil use rights. Although electronic databases and interactive maps were introduced in recent years, together with other reforms, significant legislative

loopholes allowed for opacity and inconsistency in applying standards of transparency and accountability. Overall, public distrust in state institutions is high, further compounded by allegations of corruption; hence, there is an urgent need for strong government reforms in this sector.

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### Methodology

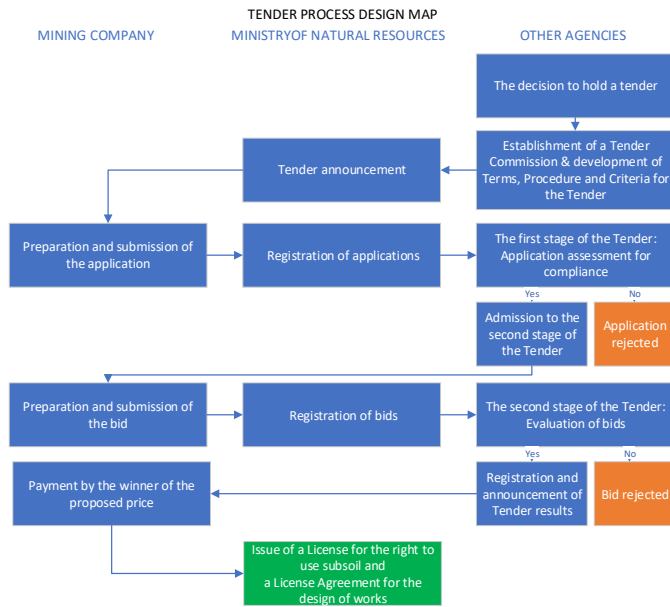
In pursuit of the project's goals, Transparency International Kyrgyzstan undertook a comprehensive mixed-methods approach. First, there was a comprehensive desk review regarding relevant national policies and legislation currently in force, along with all assessments available related to the general extractive sector and mining awards in particular. Desk review would be supported by broad field consultations entailing interviews and meetings with



the wide range of stakeholders. These stakeholders included representatives from government bodies, civil society organizations, local communities, and the private sector. This methodology has been designed so as to

ensure data triangulation in order to reach a holistic and valid analysis of the current licensing system.

## Findings



The findings of the project showed that, although quite a modern regulatory framework for sub-soil use has been developed in the Kyrgyz Republic, its implementation is uneven and problematic. Some of the main problems that surface include a lack of coordination by state bodies, mechanisms ensuring integrity, and a high risk of corruption within the process of licensing. All of these risks are compounded by the establishment of tender and auction commissions devoid of independent members, serving only to undermine public confidence in the fairness and transparency of the process

## Recommendations

Transparency International Kyrgyzstan has outlined several recommendations on how the system of licensing can be improved, namely the functional analysis of the authorized state body responsible for sub-soil use, the introduction of independent members in licensing commissions as a means of corruptive risks decrease, and the requirement to include anti-corruption clauses into all licensing. Transparency International Kyrgyzstan strongly believes that the public needs better access to information

about the licensing process itself, including the publication of EIAs and other vital documents. The implementation of such recommendations would bring the Kyrgyz Republic closer to a more open and transparent system - one that genuinely serves the interests of its citizens and approaches to the best international practices.



## SECOND COMPONENT

**Transparency International Kyrgyzstan sponsored by the World Bank** initiated a project that is aimed at improving the transparency and accountability of state-owned enterprises in the extractive sectors of the Kyrgyz Republic in order to study existing legal and institutional, practical barriers to reporting and disclosure by extractive SOEs, with suggestions of recommendations regarding international best practice. This was part of a larger governance reform package aimed at aligning Kyrgyz Republic practices with the 2019 Extractive Industries Transparency Initiative Standard.

### **Background**

State-owned enterprises in the extractive sector represent one of the significant actors in the economy of the Kyrgyz Republic and have become even more dominant after the nationalization of key assets, including the Kumtor gold mine. SOEs, such as the state-owned gold company Kyrgyzaltyn and other SOEs like Kyrgyzneftegaz and Kyrgyzkomur, play a very important role in foreign

exchange generation, fiscal revenues, and employment. Historically, these enterprises tend to be non-transparent, with very limited public disclosure of their financial and operational activities. Lack of transparency poses a great risk to economic stability and good governance as it inhibits public accountability, hence nurturing corruption

### **Methodology**

The project employed a mixed-methods approach, combining quantitative, qualitative, and participatory methods to collect and analyze data. The methodology included a comprehensive desk review of international standards for SOE transparency, such as those set by the World Bank, the Natural Resource Governance Institute (NRGI), and the Global Reporting Initiative (GRI). Additionally, field consultations were conducted through interviews and meetings with key stakeholders, including representatives from the SOEs, government regulators, and civil society organizations. This approach ensured a

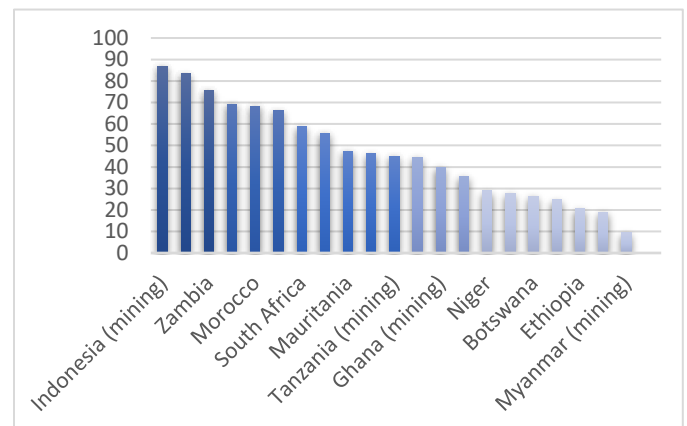


Figure 2 Mining SOE transparency scores (Source: 2017 Resource Governance Index)

through triangulation of information, providing a robust basis for the subsequent recommendations.

## Findings

The transparency practices of extractive SOEs in the Kyrgyz Republic are far below international standards. Transparency of Kyrgyzaltyn was observed to be the highest among the analyzed SOEs; however, the level of public disclosure in the sector as a whole is still insufficient. Among the key issues identified were a lack of independent audits, an absence of detailed financial reporting, and limited disclosure of governance structures and environmental impacts. The lack of transparency over such enterprises hurts the capacity of the government to manage these vital assets.

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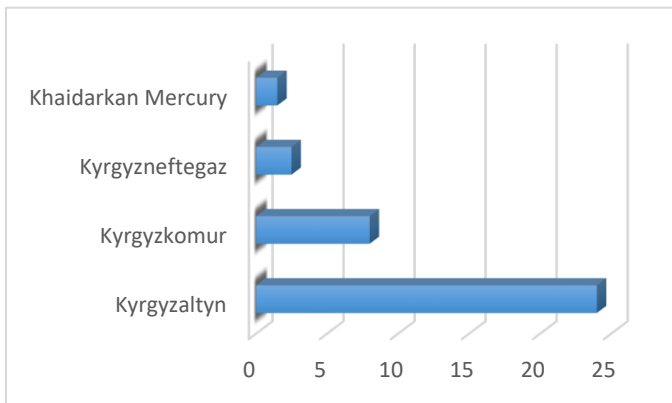


Chart 1. Transparency ranking of Kyrgyz extractive SOEs

## Recommendations

Recommendations to overcome these challenges included the development of a comprehensive SOE law; the publication of audited financial statements would be mandatory, along with annual detailed reports, as well as contracts and procurement information. It also recommended a more comprehensive enforcement of existing legal requirements by the government on the

publication of financial information, especially regarding the state-owned enterprises Kyrgyzneftegaz and Khaidarkan Mercury. Moreover, TI is recommending voluntary measures that would urge SOEs to follow best practices in transparency and reporting, as done by leading state-owned enterprises of other major economies.

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# THIRD COMPONENT

**Transparency International Kyrgyzstan, in cooperation with the World Bank**, carried out this project to enhance the level of transparency regarding the distribution of revenues within the local communities obtained in Kyrgyz Republic from extractive industries. The Project had the objective of assuring compliance with EITI, enhancing the governance over the extractive industries, and encouraging more transparent and accountable local-level revenue governance.

## Background

The extractive industries in the Kyrgyz Republic represent significant sources of public revenues, part of which is credited to local governments and communities. These revenues come directly from licensed companies holding sub-soil use licenses and revenue distributions remitted by the central government. However, the existing system of revenue distribution has been plagued by gaps in

transparency and accountability, hence lost public trust and conflicts in mining-affected communities. The project looked into the given conditions through an analysis of current practices on such payments and transfers, identifying barriers to transparency and suggesting measures for improving those practices.

## Methodology

It utilized the mixed-method approach, with both quantitative and qualitative modes of data accumulation and analysis. Precisely, an in-depth desk review was conducted where various international best practices in terms of transparency regarding local revenues from extractive industries were analyzed for applicability in the Kyrgyz context. Such consultations also found

complementary input from field consultations entailing interviews and meetings with representatives from public institutions, local councils, regional development funds, and civil society organizations. This methodology therefore ensured a kind of triangulation of information to form a sound basis for recommendations.

| KEY  | Document                    | 2010 | 2012 | 2015 | 2017 | 2019 | 2021 |
|--|-----------------------------|------|------|------|------|------|------|
| ● Available to the Public  | Pre-Budget Statement        | ⊘    | ●    | ●    | ●    | ●    | ●    |
| ● Published Late, or Not Published Online, or Produced for Internal Use Only | Executive's Budget Proposal | ●    | ●    | ●    | ●    | ●    | ●    |
| ⊘ Not Produced   | Enacted Budget              | ●    | ●    | ●    | ●    | ●    | ●    |
|  | Citizens Budget             | ⊘    | ⊘    | ●    | ●    | ●    | ●    |
|  | In-Year Reports             | ●    | ●    | ●    | ●    | ●    | ●    |
|  | Mid-Year Review             | ⊘    | ⊘    | ●    | ⊘    | ⊘    | ⊘    |
|  | Year-End Report             | ●    | ●    | ●    | ●    | ●    | ●    |
|  | Audit Report                | ●    | ●    | ●    | ●    | ●    | ●    |

Figure 3 Public availability of budget documents in Kyrgyz Republic



## Findings

The research revealed that while there are legal frameworks in place to ensure at least a minimum amount of openness in extractive revenue disbursement in the Kyrgyz Republic, their implementation is still partial and irregular. Among the heightened issues are the inadequacy of timely public disclosure of revenue payments in fine detail, unsatisfactory auditing procedures, and lack of any guidelines on social packages given to the communities

where the respective extractive companies operate. Also, the management and control of Regional Development Funds, so important for local development in mining areas, were susceptible to inefficiency and corruption due to the lack of transparency and independence regarding their management and operations.

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## Recommendations

The recommendations ranged from the legal requirement by government for publication of detailed data with respect to EITI reporting on local revenue payments to assurance of digitization of collection of data by sub-soil users in order to enhance transparency and reduce the workload of government bodies. Furthermore, it was recommended that the Chamber of Accounts be under an obligation to publicly disclose all unclassified audit acts with respect to local budgets and the utilization of municipal property as a means of ensuring increased access to information by interested members of the public and as a means of exercising proper public scrutiny. This

system was also to be further enhanced by supplementing the Model Regulations on Regional Development Funds with detailed procedures for the submission, evaluation, approval, and monitoring of project proposals, while ensuring that RDF supervisory boards remained independent from the influences of local governments. Finally, extractive companies were to voluntarily disclose their financial statements, major transactions, and social package contributions as an expression of commitment to transparency and adherence to EITI standards.

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## FOURTH COMPONENT

Transparency International Kyrgyzstan, supported by the World Bank, designed and implemented activities that are focused on strengthening civil society involvement in the governance of extractive industries of the Kyrgyz Republic as part of broader efforts to enhance transparency and accountability within the sector, through compliance with the standards proposed by EITI and through the institutionalization of local capacity for sustained civic engagement.

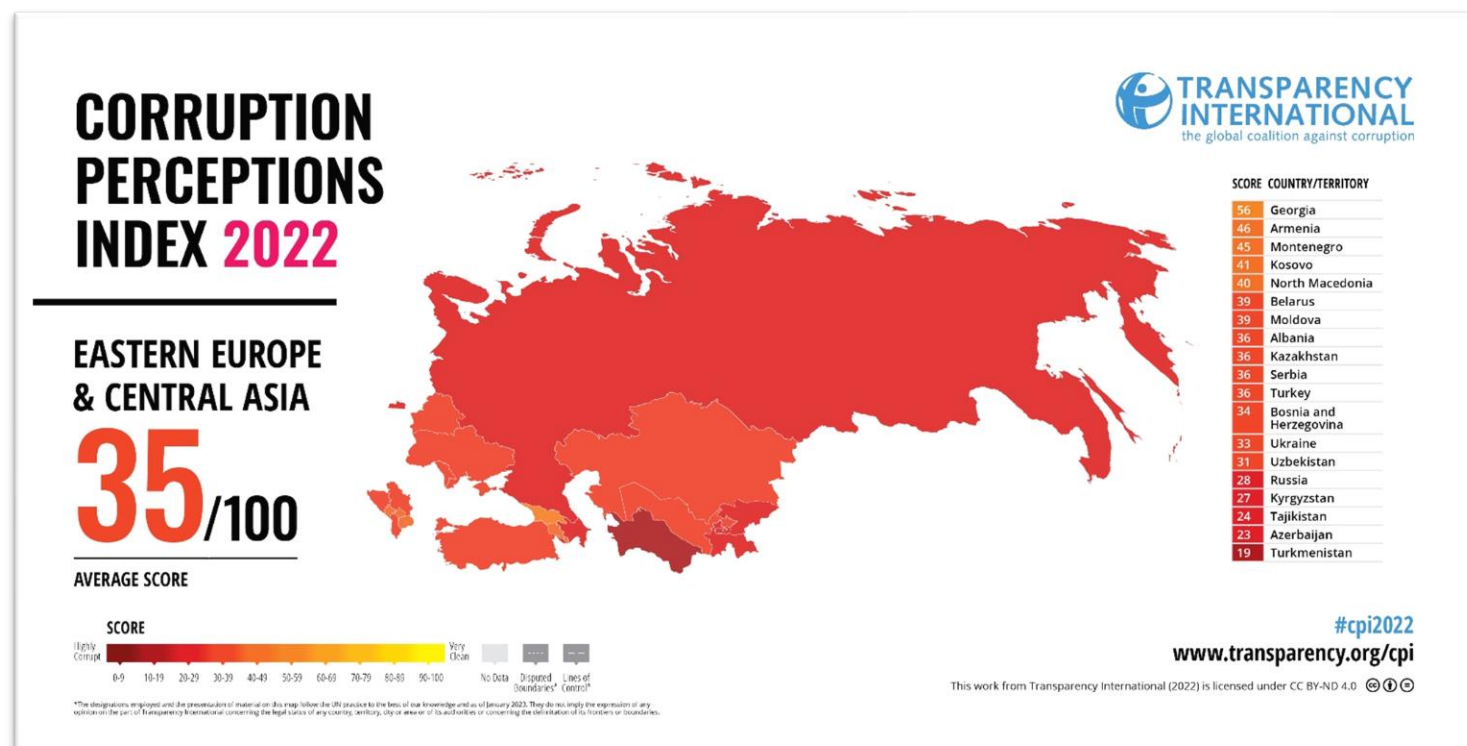


Figure 4 shows level of CPI in Eastern European and Central Asian states

### Background

The Kyrgyz Republic joined the EITI in 2007 and has since made considerable steps forward in enhancing transparency within its extractive industries. It is, however, at the level of civil society engagement that EITI's potential impact on transparency and accountability gains real significance. Historically, civil society involvement in the governance of the extractive sector has been

circumscribed by a lack of capacity, limited access to information, and public distrust toward government institutions. This project is meant to help the project ensure that the local communities and CSOs are empowered to participate in monitoring and decision-making processes with respect to extractive activities.



## **Methodology**

The approach towards achieving the project's objectives used stakeholder mapping: an analysis of legislation in regard to the participation of civil society in mining processes; extensive fieldwork, comprising consultations and interviews, was conducted with representatives from local communities, CSOs, and academic institutions. Such activities helped identify the information needs and gaps

in the capacity for the civil society actors, particularly those in mining-affected regions. With these insights in mind, the project team went about creating educational materials and conducting workshops to further the knowledge and capabilities of local activists and community leaders.

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## **Findings**

Some of the key findings outlined a number of challenges that were impeding civil society's engagement in the governance of the extractive sector. These included general public apathy, limited access to information, unwillingness of the state to engage with civil society, and the fragmented nature of civil society organizations

working on extractive industry concerns. One particular finding of the project was the need for urgent support that targets capacity enhancement of CSOs and raises public awareness for more active citizen participation in governance processes.

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## **Recommendations**

Recommendations include the introduction of a legal requirement for publishing detailed data associated with EITI reporting and an assurance that the collection of data is digitized with a view to increasing transparency and reducing the workload on government entities. It is important to mandate the Chamber of Accounts to publish all unclassified audit reports concerning local budgets and municipal property be made binding with a view to increasing public access to information and public oversight. It is recommended that targeted support be directed toward CSOs working on transparency and accountability issues taking into consideration the extractive industries through capacity-building programs, funding opportunities, and strategic alliances. Lastly, it recommends developing strategies for overall public distrust reduction of the state by increasing public

awareness on how to relate with government institutions while giving clearly worded step-by-step guidelines how citizens can get access to public services.

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