



## **Observations and Recommendations Report**

**In support of the action plan development of the working group on revision and further development of social services system for vulnerable groups of people in the Kyrgyz Republic**

*TRANSLATION FROM RUSSIAN*

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## Introduction

During the past year, the government of the Kyrgyz Republic proceeded to active development of reforms aimed at accomplishing goals of the 2009-2011 Country Development Strategy on strengthening human and social resources through increasing efficiency of the social support to the vulnerable groups of people. For this purpose, in 2008, an ad-hoc working group under the Ministry for labour and social development was set up. The tasks of the group included consolidation of efforts on reforms development, implementation of the specific steps on introduction of the reforms, and looking for practical instruments to implement the declared principles of decentralization and deinstitutionalization of social services.

In February 2009, with the assistance of the UN Child's Fund (UNICEF) in order to support the activities of the working group under the Ministry for labour and social development the visit to the Kyrgyz Republic of the Ukraine FISCO Inform company's experts was organized for the purpose of:

- Providing assistance in analysis of the current social services system,
- Assisting in identification of the main problem aspects, which require attention of the working group,
- Involving in development of an action plan to promote reforms (taking into consideration the experience on strengthening the social service system in Ukraine).

The report describes findings of the accomplished diagnostic work and preliminary recommendations to the attention of the working group.

The main part of the report contains description of the major legislative and institutional obstacles for efficient provision of social services and proposes formulation of the key tasks in order to eliminate them.

In addition to the report, the proposed draft Action plan for the working group with indication of possible priority level of different stages (the most urgent or strategic one) is attached.

The authors of the report thank for support, cooperation and the provided information:

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# 1. Homogeneity and inefficiency of the current social services menu

## ***Problem description***

As of today, the majority of services for vulnerable groups of people in the Kyrgyz Republic are provided by state-funded residential institutions. In particular, CAI Consulting<sup>1</sup> conducted a survey on identification of organizations providing social services to children and families, which established predominance of such services in the sphere of supporting vulnerable groups of children. From the organizations that provide such services 43, 83% - appeared to be organizations that provide “regular care for orphans and children without parental care», and other 23,46% - organizations that provide “a constant care for children with disabilities in growth and development». According to the above-mentioned survey, the majority of children presently obtain social services from big state-owned institutions.

For a number of reasons, these services are also often inefficient, and sometimes create an opportunity for violation of clients' rights. The major program documents of the country declare the need for de-institutionalization. In particular, the Strategy for Country Development for 2007-2010 is stating:

«Due to constant lack of funding a quality of social services provided in residential care institutions remains extremely low and expensive. There is a need for providing new types of services subject to market conditions of the modern society. »

The Strategy also states intentions to transform the current system through establishment of effective system of services at rayon level:

«The social services system will be transformed. The effective system for providing social services at rayon level aimed at creating favorable conditions for needy citizens and families that could allow them independently solve emergent social problems, maintain social relations with the community, and assist in overcoming social isolation will be established. This system proposes taking the following steps in policy:

- i. Development of three-sided partnership between the state bodies, trade unions, and employers. The authorities of the state bodies will be delegated to local government bodies and their role in provision of social services will be increased;
- ii. Coordination in introduction of integrated social services by the empowered body – Ministry for labour and social development;
- iii. Improving the institution of social workers and increasing their capacity;
- iv. Implementation of the state action program of social partners on the worse forms of labour for under age in the Kyrgyz Republic;
- v. Ratification of International Labour Organization Convention №168 on promotion of employment of population and protection from unemployment;
- vi. Complete implementation of the Country Program of the Kyrgyz Republic on appropriate labour for 2006-2009.»

The need for diversification of social services has been also indicated in the context of services for children in the Child Code of the Kyrgyz Republic where “decentralization of child care services

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<sup>1</sup> *Identification of organizations providing social services to children and families in the Kyrgyz Republic.* CAI Consulting with support of UNICEF, Bishkek, 2008.

and ensuring partnership between state and non-state institutions in the field of protection of child's rights and interests" was specified as one of the main principles.

However, despite wide recognition of the problem, actual steps to expand the range of services to include non-state and alternative providers are restrained by fundamental obstacles in the current legislation and in the organization of the system of service provision. These fundamental obstacles are described further in this document.

In the context of these problems, the infrastructure of residential care institutions has expanded during the past years. In particular, based on UNISEF Survey on child poverty, in the sphere of childcare services for the period of 2002-2008 the following changes have been observed:

- Number of residential schools increased from 28 to 70 (3,5 times),
- Number of students in residential schools increased from 9 329 to 20 595 (2,2 times),
- Number of residential schools for children with disabilities increased from 18 to 20 (by 11%),
- Number of students in residential schools for children with disabilities increased from 2 998 to 3 088 (by 3,2%),
- Number of children's home increased from 5 to 9 (almost 2 times),
- Number of inmates of children's home increased from 541 to 799 (1,5 times).

### ***Problems in principles of financing of service providers***

In current practice, budgets of operating institutions (as a rule, state-owned residential institutions) are formed in the course of allocation of funds by a funding agency (in most of the cases, Ministry for labour and social development) based on expenditure norms per one client.

This approach is traditional for majority of countries of post-planned budget systems and well known in the specific literature as "money follows the service provider". This term means that the state agency acting as a purchaser and at the same time as a representative of the system for providing services distributes the available resource between the existing agencies-providers (in this context, money follows "them", i.e. allocation is mainly oriented at those providers which already exist and at the services that they already provide). This approach to allocation of funds is convenient due to its simplicity. It also has been used in all western countries for a long time.

However, this approach has a number of big weaknesses, which are as follows:

- This approach does not encourage the organization providing a service to conduct the most careful assessment of current demand for the service and find the most efficient and cost-effective way to provide services satisfying the demand.
- Taking into consideration that resources are distributed between institutions proportionally to a number of clients using their service, this approach encourages expanding the client base (or creates a negative motivation for transferring clients from residential institution to more flexible forms of services). It also does not encourage improving provision of services, funds saving, and increasing quality.

Taking into account all these challenges, the method of funds allocation based on the principle "money follows the client" can be considered as the more up-to-date method as of today. In this case, the empowered state agency allocates the available resources based on a number of clients and their needs by selecting the necessary package of services in order to meet their needs (including selection of service providers on competitive basis). Thereby the system "money follows the client" separates the functions of purchaser and service provider: the state keeps exclusively the role of a purchaser representing the interests of clients, while institutions-providers play exclusively the role of service providers.

One of the characteristics of funding services by the method of purchaser-provider might be signing an agreement with a provider on providing a service based on expected result rather than by the principle of mechanical funding the needs of the operating organization. Such an agreement itemizes anticipated costs at the level of institution only in the case and in the amount which promote achieving and monitoring the result. Strict item-by-item funding gives way to a package funding, with significant independence in spending funds given to the relevant provider.

This separation of roles is also a step to address the second factor which currently leads to excessive role of residential services: it removes current financial incentives to expand the client base of these institutions. If the empowered authority acts as a state purchaser on behalf of the clients, it might become interested in defining allocations to organizations-providers in a completely new way. Representing clients' interests, a purchaser may establish the amount of funding for each provider based on the indicators of expected efficiency of their work rather than based on the needs for supporting the relevant institution (including supporting based on a number of registered clients).

Transition to per capita funding of schools in the Kyrgyz Republic currently implemented in the country with the support of the World Bank under the mid-term program for funding education is a good and quite simple example of this difference in approaches. The idea of the reform is changing the principle of school budget development. If before budgets were planned based on the needs of existing infrastructure, now, in the course of this experiment, they are developed based on a number of students with the funds being provided to a school as a lump sum, without breakdown of costs in the budget, i.e. with significant independence in spending these funds. Thus, a school gets motivated to educate a bigger number of students (which is a legitimate objective in education) in a most efficient way.

With regard to social services, identification of an effectiveness criteria is more complicated. Number of clients or inmates of children's homes cannot be a measure as it was in case of schools, for in this case excessive involvement of clients in residential institutions is considered as ineffective. However, an alternative measure could be the total number of people to whom this institution should be ready to provide a service (for instance, population of the relevant oblast or rayon) or the total number of people with a particular type of vulnerability. Again, as it was in case of reforms in the sphere of education, transfer of funds to providers on a lump sum basis (without breakdown of costs in the budget) can be considered.

It is worth to notice the Kyrgyz Republic has already undertaken a step forward in establishing departments for children and family support at local level. This department might be considered as a prototype of a structure to be used for the state's performance of a function of a social service purchaser (at least, in the sphere of support and protection of child's rights). A structure like this, capable of conducting competent analysis, examining client's needs, and carrying out selection procedures for the related services, is an important element for building contract relations based on the pattern "purchaser-provider".

#### Recommendations:

- Conduct an in-depth study of the experience from the experiments on transition to per capita funding of state budgeted institutions in the sphere of education and health care. Bring to an attention of the working group members a report on experience of these experiments as well as appropriateness of using it in the sphere of social services (priority: medium).
- Provide the working group with more detailed information on the system of purchasing state services by the pattern "purchaser-provider". Explore options for introduction of elements of such a system in building budget relations with residential institutions in the sphere of social services in Kyrgyzstan (priority: medium).

## ***Challenges in long-term financing of new forms of services***

As of today, legislation of the Kyrgyz Republic specifies two main procedures for financing of various types of services:

- Traditional funding of the existing institutions (as a rule, residential institutions) through annual allocation of funds from the national budget based on a number of clients served at each institution.
- Funding innovative social services through awarding a social contract. The procedures for placing social contracts are determined by the recently passed law of the Kyrgyz Republic “On state social contract”. Although this law does not limit the duration of financing of particular organizations, the current practice assumes only temporal support of successful applicants. In the interviews during the visit, representatives of the Ministry of labour and social development confirmed that although repeated granting of contracts to a particular organization is quite possible, duration of such repeated support is still limited. It is unlikely that the organizations could rely on the support for more than three years.

In other words, as of today, the range of the current funding procedures does not include any option for organizations whose services are introduced through a social contract to obtain further funding from the budget on longer term basis.

This situation is rather problematic, at least for those non-governmental organizations which could offer long-term innovative services (for instance, in the sphere of supporting children without guardianship). Besides, in general this approach does not propose the constant source of state financial support for participation of NGOs in the market of social services.

### **Recommendations:**

- Analyze possibilities for establishing an appropriate mechanism.

## ***Fragmentation of funding sources for different forms of services***

The two types of allocations on social services described above (traditional annual funding of residential institutions and placement of the social contract) are currently separate, independent items of the national budget. It means that analysis on what percentage various forms of social services (state or nongovernmental, traditional or new services, etc.) should make from the total amount of expenditures for social services does not really influence the decision on the amount of each of those flows. These flows are not “communicating vessels” that allow the government to be flexible in distribution of available resources between alternative forms of services.

In practice of the European countries, such flexibility is known under the name of “balance of services” and it is a leading concept in the European reforms on social services for the past years. The idea of the concept is that the agency responsible for providing a service could numerically identify a reasonable and the most cost-effective composition of various services being accessible to clients depending on what subgroups and with which needs they represent. Detailed description of this concept based on the materials developed earlier by Mr. Laurie Joshua (UK), the expert on public finance, is provided in Box 1.

Thus, after identifying a package of necessary services, which is an optimal match between relevance to client’s needs and marginal costs to the budget, the responsible agency should have an option to reallocate resources available for social services within the limits of total budget between different groups of representatives – state institutions as well as nongovernmental organizations - providing the necessary range of services.

The current system for funding of social services in the Kyrgyz Republic does not assume any link between the processes of defining spending levels for traditional social services, on the one hand,



and funds distributed through social contract, on the other. Thus, this system does not allow building package of services with such a level of NGO involvement that could be the most favorable for clients.

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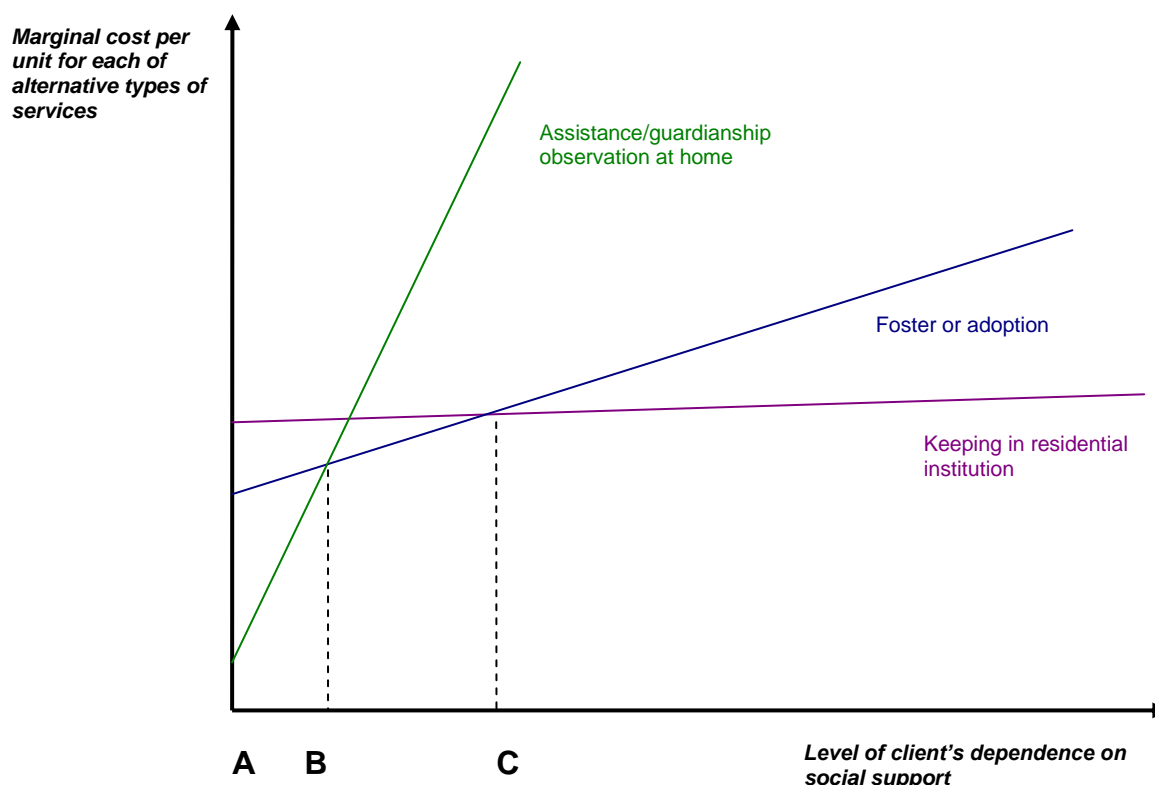
### Box 1. Balance of Services Model

Balance of services is considered as a list of various forms of services provided for each vulnerable group of citizens. The share of each form of services is defined by the funding agency based on analysis of the current needs of the clients of the particular group and their comparative cost for budget.

It is obvious that within each category of clients there is usually a significant variation in the level of dependence of an individual on social support. On the other hand, services also vary in the scope of proposed support (and, correspondingly, on its cost per unit). The goal is to identify which groups of clients (with what specific needs) should receive support, and to offer them services which represent the optimal combination of the scope of support and its cost. How to get such an optimal combination in each case?

Below is an example which illustrates the logic of making this kind of calculation for services provided to children without guardianship. The horizontal axis measures the level of child's dependence on additional assistance. This dependence can be measured in various units reflecting to which extent the child needs support (from occasional consultations to regular professional or medical assistance). The vertical axis measures marginal cost per unit for each type of service, i.e. how much it costs to provide a proper level of support with this particular service. For instance, additional medical assistance to a disabled child at home costs more than providing the same amount of assistance in the hospital or at a specialized residential institution. Having identified these measures, the agency involved in development of social services policy for this vulnerable group (for instance, for orphanages) might choose for each subgroup of clients the service that will provide maximal benefit at minimal cost (for each level X a service that corresponds with the lowest curve should be chosen). For example, providing services at home is more desirable for children that need support at the level within the range AB (low enough), etc. Then, depending on the composition of subgroups, there is an opportunity to identify the most favorable balance of necessary services in general.

**The example of identification of the most favorable type of services for children in the Balance of Service Provision Model**



### Recommendations:

Analysis of options for establishment of a single mechanism of resource distribution between the state, nongovernmental, and innovative (being introduced) services.

This mechanism should include a single (or coordinated) source of decisions regarding the range of needs in services (from extremely dependent clients requiring residential care to quite independent clients that may successfully reintegrate into society with the assistance of alternative services).

Based on this analysis, this single or collective body can provide a balance of necessary types of services that must be later funded either through traditional residential institutions or the network of more flexible and relatively constant non-governmental providers or (in case of necessity for introduction of new types of services) through announcement of social contract with the relevant subject priority.

### ***Weakness of methodological framework for awarding social contract***

In the course of consultations during the visit the issue of methodological imperfection of procedures for announcement of a social contract has been raised a number of times. In particular, there are at least two significant problems in the current procedure for conducting a tender:

- The application requirements related to budget of the services proposed for funding do not include analysis of services' cost per unit or alternative methods to control efficiency of future expenses.
- The application requirements do not contain a comprehensive analysis of efficiency of services proposed for funding (expected indicators for project success, sources of all necessary data, etc.)

### Recommendations:

- Appropriate procedures can be developed and included in application requirements for the next round as well as passed to local self-government bodies for use during expected decentralization of this instrument (Priority: high).

## **2. Challenges in quality control of social services**

Systems of quality control in social service provision, as well as development of relevant standards, represent a special area in social work and social policy, and is not a direct subject of this research. At the same time, the document summarises those aspects of quality control which are closely linked to development of service funding systems, including systems of financial relations between levels of governance.

### ***Peculiarities of defining service standards in countries of post-planned economy***

Legislation of the Kyrgyz Republic as well as of the majority of post-soviet countries was formed under the influence of constitutional tradition dominating in these countries. The basis of this tradition is declaration of a broad range of rights and intentions in response to people's expectations even in conditions of uncertainty about possibility for practical realization of those rights and costs for this realization.

As a majority of countries in the region, the Kyrgyz Republic today has realized the importance for systematization and optimization of the declared commitments including those reflected in the law

“On the framework of social service for people in the Kyrgyz Republic” and bringing them in compliance with financial resources and the current budget procedures in the country. In particular, the government insistently raises the need to differentiate between a minimal package of services, which has to be guaranteed to people (including based on available resource), and additional services that might extend the range of the services (including at the expense of particular models of co-funding by clients). One idea the stakeholders are proposing as an instrument of such systematization is introduction of clearer standards for service provision, which could help to determine the scope and to calculate the cost of minimal package of services guaranteed by the government. This issue is one of the most important ones in the agenda of other states in the region, including Ukraine.

However, the objective of development and introduction of standards for provision of services in the field of supporting vulnerable groups of people is one of the most complicated and still open issues in the sphere of state governance. This issue remains open even for countries with relatively more developed systems of social protection (in particular, the European Union). The sections below briefly describe these challenges, open issues and general trend for development of issues on standardization of social services.

### ***Challenges and approaches in development of systems of standards for social services***

As in Kyrgyzstan, technologies for standardization of social services in countries with advanced systems of social protection are developed as an instrument to influence the scope and quality of services in building relations between the government and the organizations and subordinate authorities providing the services (for instance, in the course of decentralization of such services).

However, some challenges have been identified in this connection and no single strategy has been proposed yet in order to address them. In the European countries at this point, there is a constant hesitation between two approaches with opposite challenges and with no conclusion about relatively optimal and compromise option.

The unsolved issues include:

- Challenge of measuring the quality of social services and, correspondingly, standardization of quality indicators. Even in comparison with related state services in education and health care, social services might be considered as the most complicated for standardized measurement of quality. This is because social services are inherently oriented at the broad range of various aspects of social vulnerability, which is extremely subjective, depends on many factors, and can be addressed in many ways, which are difficult to compare.

The solution to this problem lies exclusively in the area of building social services around major role of the client and his/her needs. However, it is not enough just to involve clients and their representatives (including NGOs) into the process of developing standards (although it is important). The point is to organize service delivery in such way which would make sure that the state purchaser representing the interests of the client would be empowered with sufficient administrative independence to make choice on the form of service which is most appropriate for each individual case. However, this objective, obviously, creates problems for introduction of unified standards for services.

- Challenge of developing the universal national standards. The more service delivery gets closer to clients based on the principle “client-oriented” services and subsidiarity, the more difficult it becomes for any central government to introduce unified standards of services (for different territories, various social and economical contexts, etc.) At the same time, the objective of protection of equal access of citizens to state services makes the government compromise and find certain unified principles. Social policy making in the UK might be considered as an example of such an unsettled dilemma, where discussions on this issue have been continued until now.

One of the options used there was an introduction of principle of supervising social service by the method of *inspections and general guidance* without introduction of *obligatory quality standards* (this gave an opportunity to inspecting body to be more flexible in taking into account the local situation and needs of clients and at the same time influencing the character and quality of services).<sup>2</sup>

- Challenge of regular collection of necessary data. As illustrated below, sufficient information on social service that may allow forming a valid and substantive standard for its provision, requires a big number of various data (including information about clients, their situation, method and cost for provision of the service, background factors, success of support, etc.). Collecting information – and moreover, collecting it at regular basis – often appears as an unachievable objective even for countries with developed statistical and control and auditing systems. In this connection, many of these countries admit that in formulation of standards they are often guided by the data level that they will be able to collect and analyze, although this approach remains extremely inadequate.<sup>3</sup>

As of today, the European development of “framework approach” to unification of social services can be considered as the most progressive achievement. This approach describes any service as a systematic process of welfare creation for clients and society. In this model of systematic welfare creation by each service, its different elements can be clearly divided up and standard for each of the elements can be identified (or unification of this aspect of the service can be deliberately declined).

Below is a chart of this framework approach. As it is clearly reflected in the chart, any service, first of all, consists of certain inputs (resource inputs, including time and salaries of the staff, procurements, etc. as well as non-resource inputs, such as individual characteristics of partners and influence of general context for service delivery). These inputs are a possible object for standardization. Moreover, this kind of service’s characteristics more often becomes an object for identification of standards in the countries of post-planning economic tradition.

On the other side, quality control of a service may (and should seek to) take into account the actual outcomes of the service (intermediate as well as final). It is obvious that intermediate outcome is usually considerably easier to measure and standardize (for instance, with regard to the existing institutions, number of visits, etc.) However, the main performance indicator is obviously the overall result – changes in life of the client – and ideally it should be the object for analysis and formulation of objectives/standards for service provider (government-financed or government body).

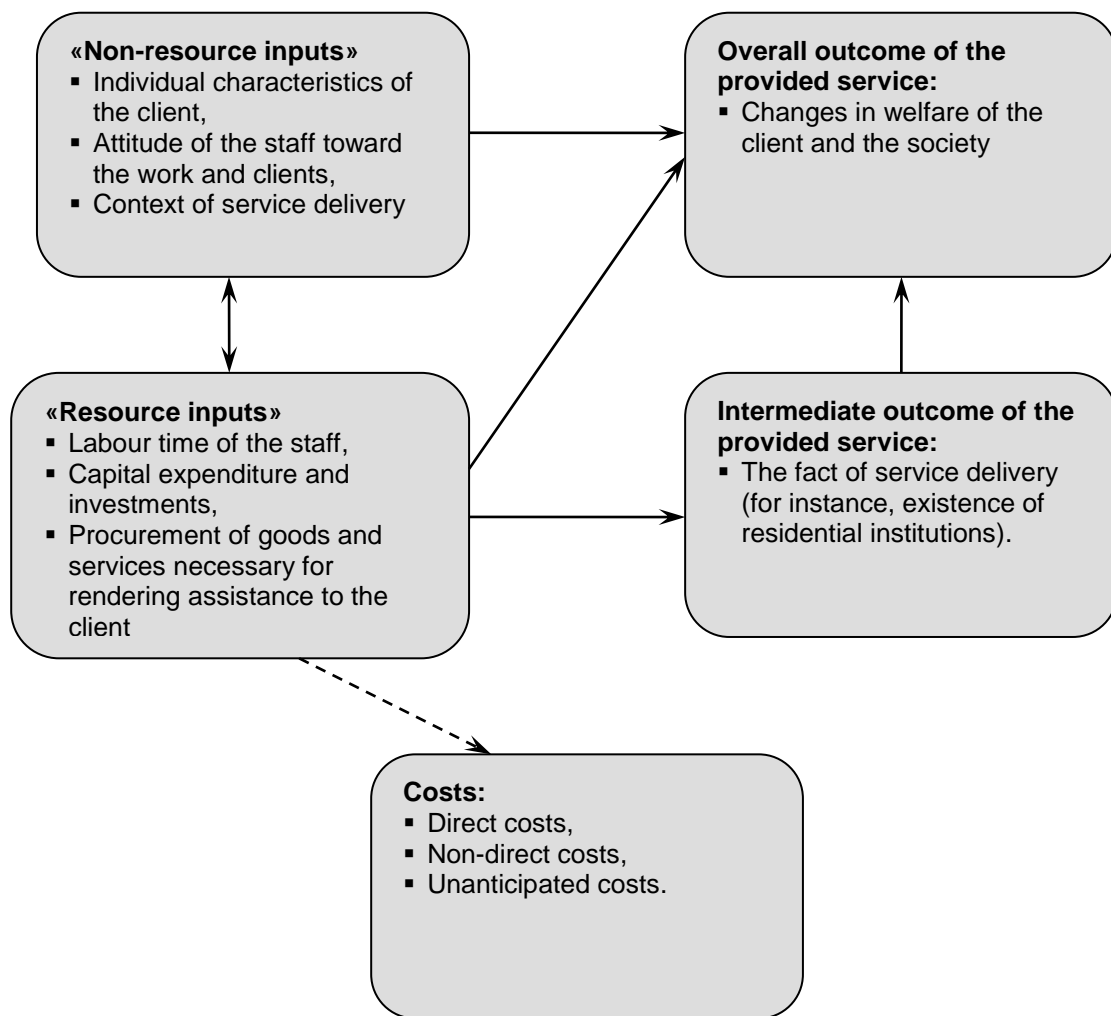
However, even in the European countries this framework approach often serves for acknowledgement of the extent to which the current standards are failing to capture the overall service effectiveness. Very often, these standards concern only intermediate results. In this case, focus on the framework approach helps take such a decision consciously and to develop next steps for their improvement.

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<sup>2</sup> *Performance Indicators in Social Care for Older People*. By David Chalis, Paul Clarkson, Raymond Warburton, University of Kent at Canterbury Personal Social Services Research Unit; Published by Ashgate Publishing Ltd, 2006.

<sup>3</sup> Ibid

#### Chart of framework approach to standardization of services based on the logic of welfare creation<sup>4</sup>



### ***Procedural issues in development of standards***

Taking into account that there is no single universal method for identification of quality standards, the procedure for their development should be mostly based on the goals and objectives set for the future system of quality control by its designers and responsible agency. It is desirable to state these expectations in some written document that might be used as a reference point and could help take complicated decisions and make compromises with regard for the character of the objectives.

Depending on the objectives, designers may detail the groups of services that need to be standardized. For instance, in case of development of standards for building decentralized system of financing (when it is required to develop expectations on the policy of local self-governance) or clarification of the declared commitments on guaranteed minimum of services, these groups may be outlined more broadly as functional categories. As to more specific objectives on selection of providers (for instance, for improving the procedures for social contract), the list of services can be more detailed.

The next step should be a decision about which stage of the process of welfare creation will be standardized by the regulating authority. This decision should be based on analysis of the available data, the level of complexity of the provided service, and technical feasibility for control.

Having determined these grounds, designers on behalf of the regulating authority with obligatory participation of representative of clients and professional service providers must select the most

<sup>4</sup> Ibid

detailed list of elements of the service for standardization and identify measurable indicators for each of the elements.

In case of input indicators and intermediate outcomes, such indicators can be more obvious. The overall outcomes of a service may be measured in more complicated ways. For instance, designers can identify the main expectations on the overall results (for example, observance of personal dignity of the elder people obtaining guardianship) and translate them into practical quality indicators by identifying relevant characteristics of the service (for example, possibility for living in a separate room).

The follow-up analysis of validity and feasibility of measurement and control for each of the identified standards is absolutely necessary (including in terms of existence of the relevant authority).

It is worth to add that using quality standards of services for clarification of the state's constitutional commitments to citizens is only a technical instrument that may inform the related political decision. The other technical instrument that could inform this complicated choice could be analysis of comparative efficiency of the state and private financing of various social services (which goes beyond the scope of this research).

### ***Weaknesses and gaps in procedures for licensing of service providers***

The procedures for licensing of organizations providing social services are an important element for their quality control. These procedures have been mentioned as imperfect by representatives of the government a number of times during the research. At the same time, licensing of organizations is only indirectly connected with the issues of the public financial management system and that is why goes beyond the scope of this research. Nevertheless, it seems appropriate to include this issue in the list of priorities to the attention of the working group.

### ***Challenges of quality control of social contract at national level***

As it is described in more details below, the issue of quality control has become the most urgent issue in the Kyrgyz Republic due to necessity to exercise control over services at local level by the central agencies including the Ministry for labour and social development in the course of awarding social contract.

Further sections of this report explain in detail why it is extremely difficult to regulate procurements of this type (direct procurements of social services at local level) from central level. Respectively, these reasons show that it is incredibly desirable to decentralize this instrument for implementation by local governments as soon as possible, as also described in other sections of the report.

At the same time, certain improvement of quality control can be achieved already at this stage by increasing transparency of tender procedures, introducing the easier examined quality characteristics to the application requirements, and developing monitoring procedures (including involvement of independent observers).

#### **Recommendations:**

- In case of continuing the format of the central social contract to support innovations in the sphere of social service delivery, increasing quality control by gradual increasing transparency of tender procedures (application requirements, performance indicators, system for their monitoring, involvement of independent observers, etc).

### 3. Excessive centralization of services

#### *Description of general characteristics*

The main package of social services supported by the public finance system of the Kyrgyz Republic is funded from the national (Republican) budget. As illustrated in Table 1, financing of social protection programs from local budgets in 2007-2008 made up only 4,74% and 9,28% from total costs for this budget item.

**Table 1. Expenditure for social protection in 2007-2008.**

Expenditures	2007		2008	
	Thousand soms	In % to total expenditures on social protection	Thousand soms	In % to total expenditures on social protection
<b>Social Protection (TOTAL)</b>	<b>3,782,201</b>	<b>100.00%</b>	<b>4,659,248</b>	<b>100.00%</b>
Republican budget	3,603,104	95.26%	4,226,887	90.72%
Local budgets	179,096	4.74%	432,361	9.28%

Admittedly, these expenditures include not only financing of social services but also programs for social protection transfers to the population. At the same time, it seems plausible to assume that a similar proportion holds true for expenditures on institutions that provide social services.

According to the law of the Kyrgyz Republic “On local self-governance and local state administration”, local responsibilities essentially do not include programs related to social service delivery (Article 18) except organization of activities related to children and youth (p.20). In the course of consultations during the visit, it has been mentioned a number of times that the majority of institutions is indeed funded from the national (Republican) budget. Almost without exceptions, new organizations created for service delivery with assistance of external sponsors (including international organizations) are funded from local budgets only in certain cases and for the limited time and, then, as a rule, are transferred to the national budget.

The survey on identification of organizations providing social services to children and families conducted by CAIC Consulting company revealed that the majority of socially vulnerable children in Kyrgyzstan are placed in the state institutions, where only 7,4% of children stay in the institutions belonged to municipal property (correspondingly, 92,6% children stay in the state-owned institutions). From 82 operating state-owned institutions, only 50 get funding from the national budget (and 35 more from local budgets including budgets of Bishkek and Osh cities). Unfortunately, information on the amounts of financing that could allow to numerically define the share of local budgets has not been collected in this research.

As it was mentioned before, budget financing of NGO innovative services is carried out in Kyrgyzstan through awarding social contract, which is also a part of the national (Republican) budget.

Thus, according to the current legislation as well as the current practice, the function of social service delivery in the Kyrgyz Republic is heavily concentrated at the central level. Programmatic documents of the government declare a long-term intention for gradual delegation of this function to the local level.

In particular, the National strategy on “Decentralization of national governance and development of local-self governance in the Kyrgyz Republic until 2010” is oriented at maximum compliance with

the principle of subsidiarity (maximum proximity of services to a customer). It is stating the following:

«According to the principle of subsidiarity, local authorities are closer to people and better understand which services are in a great demand and how they should be rendered to local people. [...] National level is responsible for defining the policy, minimal standards, providing rates, planning, and attracting large-scale investments. Local state administration ensures governance of the state property as well as control over implementation of the state national programs by local self-governance bodies and execution of the delegated state authorities. ***The local self-governance bodies are directly involved in rendering services to population of local communities.*** »

However, at present, this intention remains the strategic perspective while the practical tendency is occurring in the opposite direction (gradual transfer to central level even newly created services with international support).

### ***Geographical disparities in social vulnerability***

At the same time, the available data and the opinions of the consultations' participants during the visit indicate significant geographical dispersion of problems and priorities in the sphere of social vulnerability by location in the country. This diversity is common for most of the countries.

The examples of big diversity of problems in various regions can be found in the recently conducted research on child poverty in the Kyrgyz Republic with the support of the UNICEF. This research revealed a big geographical irregularities in extension of child poverty: relative welfare in Bishkek and Chui oblast (13,1% and 31,6% children living in poverty correspondingly) and much higher level of poverty in the other oblasts, especially in the southern regions (up to 65% in Osh oblast). Besides, this research demonstrates complex correlations of social risks and vulnerability from level of poverty, which increase relevant geographical differences in the character of social problems.

Social service delivery is a sphere of the state policy which is extremely sensitive to individual peculiarities of clients' needs, which might be very diversified. In particular, this sensitivity is manifested in the necessity to select priorities in financing of various types of services in the most effective way. Unfortunately, selecting these priorities by the single decision at national level with regard for individual needs of particular regions is nearly impossible.

In particular, even procurement of services through competitive state contract as the most flexible mechanism for financing of social services among the operating ones in the Kyrgyz Republic proposes formulation of the subject priority by the decision of the Ministry for labour and social development.

The case of social services is one of the striking examples of the appropriateness of application of the principle of subsidiarity declared in the law "On local self-governance and local state administration" as well as in the current Decentralization Strategy. The Article 16 of the law "On local self-governance and local state administration" is stating that state functions shall be distributed between the government bodies, particularly, based on the principle "service delivery by the lowest level of governance which is able to render the services in effective way".

The principle of subsidiarity for social service becomes particularly important in the case of expanding the package of services beyond standard residential institutions in order to support the more complicated range of vulnerability. This expansion is reasonable first of all for satisfaction of individual needs of clients and that is why it significantly benefits from maximal proximity of the funding agency to the clients (i.e. from decentralization of this function).

Obviously, the principle of subsidiarity also correlates flexibility with regard for local peculiarities with the capacity of the government body to render these services effectively. Particularly, the empowered government body should have a sufficient capacity to develop a policy of service



delivery at its territory, analyze clients' needs, represent their interests, and carry out relevant tender procedures, etc. These capabilities are more likely not available at local level. However, in order to gradually build an effective system of decentralized social service delivery, it is important even at first stages to clearly understand which level of authority ideally could be the most effective representative of local needs.

#### Recommendations:

- Conduct a comprehensive statistical research for testing hypothesis on significance of inter-territorial differences for the character of social vulnerability of population. Inform the working group of the research results (priority: low).

### ***Challenges of quality control over social contract at national level***

Challenges of quality control over services provided by applicants are a big problem for awarding social contract from the national budget. As of today, national systems of quality control (for instance, unified standards for service delivery and existence of the empowered and competent authorities for their checkup) in fact are not available. Ministry for labour and social development as the body responsible for carrying out tender procedures, is not able in practice control and improve quality of the completed work. With a significant number of participants of social contract, their geographical dispersion, and innovative character of the services proposed for funding the Ministry has no opportunity for even elementary checkup of the main parameters of the organization-participant and its completed work.

#### Recommendations:

- Decentralization of social contract mechanism and transferring it to local level (priority: high)

## **4. Horizontal fiscal imbalances**

### ***Challenges of horizontal and vertical fiscal balancing***

The central Government of each country deals with the objective to “equalize” local budgets – to transfer funds to local budget system aimed to ensure equal access of country residents of all regions in the country to defined scope of public services.

As a rule, this objective consists of two main parts. On one hand, the central Government always keeps its responsibility to a range of liabilities to country residents that are enforced by the national legislation, however, to provide them from the center is ineffective, therefore, it is necessary to decentralize them to a certain degree. Actually, decentralization of functions means that local authorities are delegated certain additional spending liabilities, thus, there is a question from what revenue sources they will be financed. In other words, functional decentralization always creates certain “**vertical imbalance**”, i.e. the gap between the spending liabilities and local revenue capacities. The central Government is responsible to choose the option to cover this vertical gap. Among the wide range of options is the full and complete transfer of taxes to the local level, their sharing, as well as integrating diverse range of transfer schemes.

The other part of the equalizing objective in any multi-tier budget system is to develop policy with regard to unavoidable variances between regions in their capacity to finance public services. These variances between budgets of the same level in this case are considered as “**horizontal imbalances**”. Usually, the Government practices certain horizontal equalizing mechanisms between budgets, especially, with regards to those services where the central government is still legally liable to certain groups of population.

The systems that various countries build to equalize vertical and horizontal budget imbalances vary and depend on variety of factors, including specific features of the politic system, the country's interpretation on demarcation of duties between tiers of power, and preferences of the public regarding the optimal extent of equalizing between regions, etc.

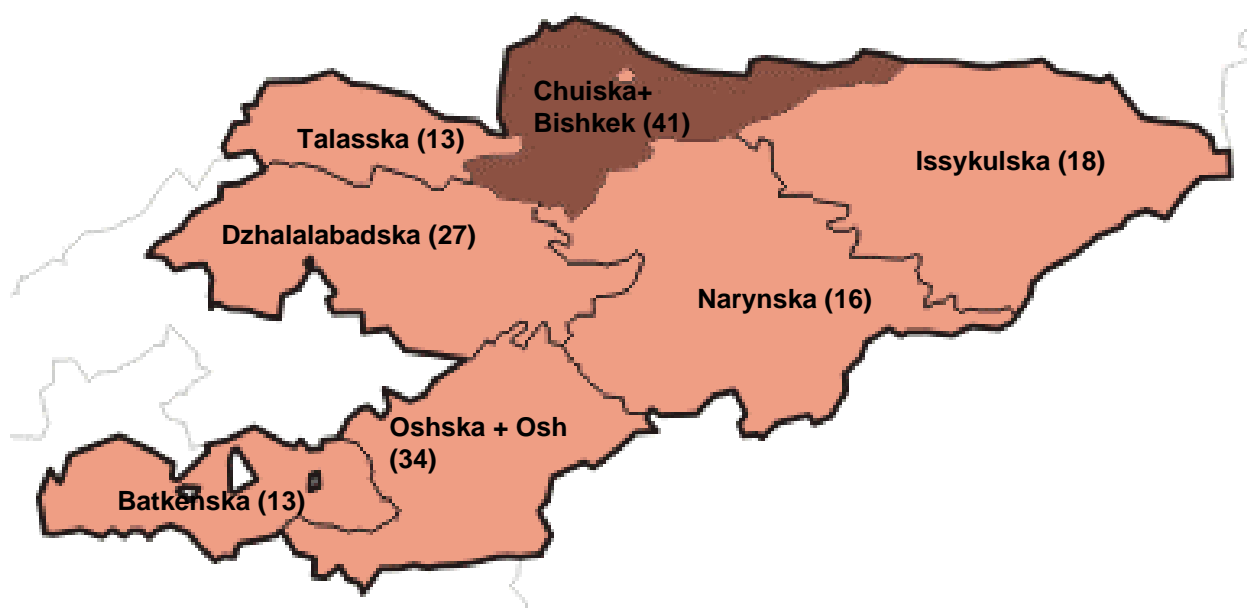
### ***Inequalities in access to social services among regions (a hypothesis)***

The data available in this analysis are insufficient to demonstrate substantial horizontal gaps among regions in the KR in terms of access to social services. However, according to the range of indirect evidences one can assume that this access can be extremely inhomogeneous.

In particular, the National Strategy «Decentralization of the Public Administration and Development of the Local Self-Governments in the Kyrgyz Republic until 2010» specifies that «existing model of the deconcentrated inter-governmental relations does not contribute to strengthening financial and economic capacity of local self-governments. This creates a drastic variance across regions in terms of budget sufficiency, lack of real incentives to increase tax collection and other revenues».

#### **Geographic distribution of organizations that provide social services to children and families**

*(for organizations of all forms of ownership, by CAIConsulting)*



The findings of the UNICEF-funded research conducted by the CAIConsulting company to identify institutions that provide services to children and families highlight considerable concentration of such providers (of all forms of ownership) in the north of the country, especially, in the Chui oblast (including Bishkek city) (see the map above). However, according to the draft findings of the UNICEF Global Study of Child Poverty and Disparities, the southern regions of KR have much denser population than the country's average, and the problems of children in poverty in these areas are more obvious as well as social vulnerability dimensions associated with poverty. This survey directly indicates the links between family poverty level and unsatisfactory schooling performance of a child, drug abuse, criminal and asocial behavior.

Moreover, the survey identifies substantial constraints related to accessing social services for children and families from remote, hard-to-reach regions in certain oblasts. This is an especially severe problem for children with disabilities whose problems make it nearly impossible for them to learn the skills necessary to live their future lives independently of external support. Due to poor coverage of hard-to-reach areas with appropriate quality services, many children in need of support are left unattended and uncared.

### Recommendations:

As mentioned above, equalizing horizontal imbalances in financing various services require development of a comprehensive system of allocating responsibilities between different tiers of government. Some aspects of these objectives are addressed further in this report. One of the first steps to develop the system is to understand the existing variance between regions in terms of access to services that should become a subject for equalizing.

Therefore, it would be useful to conduct a more detailed comparative research of access to social services and of supply of such services across the regions in the country. The research should investigate whether the budget financing system ensures equal access of country residents to this centralized public function regardless of their place of birth or residence (priority: medium).

### ***Disparities in fiscal and economic potential across the regions***

The main cause of horizontal imbalances in access to social services in different regions is a dispersion of their own economic capacity and the impact of this variance on local budget capacity.

As discussed in the next section, currently, one peculiarity of the Kyrgyz inter-governmental relations system is that central revenue sources (in particular, indirect taxes, especially, VAT and customs dues) play a very substantial role in financing of social services. At the same time, in the long run, the capacity of local self governments to generate local resources to improve efficiency of services to citizens should steadily increase. This is why, in order to build an effective fiscal equalization system, it is useful to understand the disparities in economic capacity of various territories (their nature and depth/extent).

As in the case of social vulnerability, certain dispersion of economic capacity among regions is also normal for any country. The challenge of inter-regional economic variance analysis in the Kyrgyz Republic is intensified due to considerable role of shadow/underground sector in economy, in particular, formal and informal private remittances from abroad.

### Recommendations:

- To conduct a comparative research of capacity across the regions to independently finance additional social functions and responsibilities.

### ***Absence of horizontal budget equalization for social services***

In the Kyrgyz Republic, the legally regulated system of horizontal equalization of the access of citizens to public services in different regions is represented by a set of equalizing transfers from the national (Republican) budget to the local budgets.

Transfers of this type play a relatively insufficient role in shaping local budget revenues: as shown in Table 2, such funds represented only 2,2% and 3,4% in 2007 and 2008, respectively. The size of equalizing transfer for each region is determined based on the methodology established in the Decree of the KR Government «Methodology of Calculating Equalizing Grants». According to this methodology, the equalizing transfer should cover, for each budget, the estimated gap between projected revenues of this local budget from shared taxes (e.g. from income and land taxes) and estimated cost of expenditures for a limited range of services - housing and utilities services, individual education programs, culture and religious programs and public services of general significance. The estimated size of such expenditures is defined based on a formula, in proportion to the size of population in appropriate regions using a set of adjusting factors.

Thus, social services for vulnerable groups of population are not covered by this equalizing mechanism.

Since most of these services are financed directly from the national (Republican) budget, and since the amount of funding for each provider is allocated by relevant central agency based on expenditure standards, one may say that a certain degree of equalization in the service delivery system is achieved manually through managerial solutions with regard to distribution of network of institutions across the regions of the country. But this approach to the problem could be considered rather risky, as it highly depends on the existing distribution of social infrastructure, not always takes into account the service coverage of population of different regions and is usually rather sluggish.

**Table 2. Composition of local budget revenues in 2007-2008**

	2007	2008
	Thousand som	Thousand som
<b>Local budget revenues (TOTAL)</b>	<b>8,607,691</b>	<b>12,146,782</b>
Including own revenues:		
Taxes on land and immovable property	586,850	665,519
Taxes on movable property	126,588	228,650
Taxes on specific services	61,902	96,804
<b>Own revenues as % of total local revenues</b>	<b>9.01</b>	<b>8.16</b>
<b>Grants to local budgets (total)</b>	<b>2,464,503</b>	<b>3,523,138</b>
Categorical grants	2,278,218	3,115,981
Equalization grants	186,285	407,157
Stimulating grants	0	0

### Recommendations

It is obvious that including social services into the inter-governmental fiscal equalization system can be associated only with general decentralization process of these programs and transferring them (fully or partially) to the local budgets. Only in that case the MoF will be able to adjust financial capacity of various budgets for social services provision and to equalize disparities between these budgets. Therefore, recommendations for addressing this problem correlate with overall directions towards delegating social services to local budgets and making local authorities more active in their provision.

### ***Insufficient marginal local revenues***

Local revenue sources— i.e., local budget revenues where local authorities are entitled to establish the tax rate independently from central authorities – lay the foundation for so called “marginal revenue flexibility” in providing services to the population. In other words, availability of these sources enables local authorities to introduce additional levels of taxation in their regions (i.e. to increase the rate) in order to increase the size or quality of local services in case if local population has appropriate desire and needs.

Even with the current distribution of responsibility for social services delivery, with the decisive role of the national budget, access of local authorities to additional sources of revenues play a significant role in the local decision-making regarding additional activities on social protection and support of vulnerable group of population (at least with regard to activities related to youth and children specified as local issues in the effective Law «On Local Self-Governance»). As the involvement of local authorities in services delivery will be increasing (as it is stipulated in key programmatic documents in the long run), the role of own resources in improved efficiency of social services policy will also steadily grow.

As of today, the size of own revenues of local budgets in the Kyrgyz Republic remains extremely low. As shown in Table 2, such sources include property tax, land tax and other specific services taxes, which constituted, in 2007 and 2008, 9,01% and 8,16% from the overall volume of local incomes respectively. Significance of this problem is mentioned in the National Strategy «National Governance Decentralization and Local Self-Governance Development in the Kyrgyz Republic until 2010», which says: «the local self-governments are experiencing hard financial times, in most of cases; they suffer from acute shortage of financial resources».

Enforcement of property taxation effective from the beginning of this year is a progressive measure, considering that this tax is, by its economic essence, one of the most efficient sources of local income. However, as of today, the magnitude and sustainability of revenues from this tax remains to be uncertain.

Another potential source for expanding local income could be created through extending personal income tax reforms to create an opportunity for local surcharges on top of the national tax rate. However, as it goes from the Table 2 and is more comprehensively described in the following Chapter on vertical fiscal imbalances, although the personal income tax is one of the largest revenue sources in Kyrgyzstan, its size remains much lower compared to indirect taxes, especially VAT. This is explained, first of all, by peculiarities of the current economic situation in the country, when the substantial part of income of citizens is constituted through informal payments or remittances from abroad, which are hard to tax directly.

In view of this circumstance, extending own revenue base of local budgets through transfer or creation of additional sources is hardly possible in the nearest future. The key potential to extend this base in the long run is overall progressive growth of population's income, with decreasing role of informal payments, allowing to increase the share of personal income tax assigned to local budgets.

## **5. Vertical fiscal imbalances**

### ***Background***

As discussed in the previous chapter, the «vertical imbalance» in the inter governmental fiscal relations is the gap between the expenditure liabilities and revenue capacity of local self-governments, emerging in the situation of decentralized delivery of public services. Taking into account the fact that it is impossible to finance all public services from the central budget, such vertical gaps will always emerge – and will always need to be covered through allocation of funds from the central budget. In case when such cover is not sufficient (disproportionate to the scope of delegated responsibilities), these uncovered responsibilities are known as «unfunded mandate».

As of today, around 30% of the overall public spending in the country is implemented through local budgets of Kyrgyzstan. These expenditures – “matters of local importance” – include a range of services primarily related to communal maintenance systems and land improvement. The bulk of these decentralized expenditures is financed through shared personal income tax complemented by an insignificant amount of local taxes (around 9% from total amount of local revenues), as well as a number of transfers from the central budget (around 30% from the overall volume of local revenues).

The bulk of the country's consolidated budget revenues is collected through indirect taxation of private consumption – namely, through the value added tax, which (until now and prior to tax reforms) used to be the major source of revenues and made (in 2008) 36% from all revenues. For comparison, receipts from personal income tax in the same year made only 9% from the budget revenues. This breakdown is quite natural taking into account the significance of informal incomes among the population and income generated through remittances from abroad.

This main part of the budget is currently the key and most sustainable source of financing for the social services.

With the current distribution of roles between the tiers of government, when services delivery is funded almost exclusively from the Republican budget, providers are financed through direct allocation of funds by responsible central authorities. However, even if the government decides to decentralize this function – in other words, to transfer expenditures on social support to vulnerable groups of population to local budgets – the financing will still have to be generated from this same source, for example, through allocation of relevant grants. In this case, in order to develop the efficient scheme of decentralization, the government and local self-governance bodies will encounter the whole range of problems and issues described below.

### ***Left-over uncertainty in division of expenditure responsibilities between tiers of government***

As in many post-soviet countries, the Kyrgyz Republic has inherited a system of intergovernmental fiscal relations built on extremely centralized vertical subordination of local authorities to higher ranking tier of power in terms of organizing the services, also known as a “budget matryeshka” (a nested doll). In a «matryeshka», each tier of power was virtually entitled to manually control the budget management of lower ranking level and virtually had no opportunity to intervene in budget decisions of subsequent levels (for example, the central ministries had highly obscure ideas about funds allocation principles at rural districts level, which remained highly opaque). In such conditions, allocation of roles and financial flows between tiers of power was not transparent, inconsistent, and in most of cases unreasonable (including the fact of unfunded central mandates with regard to local budgets).

Reforms of inter governmental relations taking place in the Kyrgyz Republic in recent years substantially contributed to systematizing this allocation of roles. In particular, this goal is pursued by the Law «On Local Self Governance and Local State Administration», which clearly specifies the «local responsibilities» and principles of inter budget relations. In addition, both this Law and the National Strategy «Decentralization of national administration and local self-governance development in the Kyrgyz Republic until 2010» identify principles and milestones of subsequent shifts in roles allocation: which services will be expedient to decentralize in future and upon what conditions (first of all, based on obligatory contracting and transfer of relevant compensation funds).

However, this process of systematization is still in progress, and even legally enacted allocation of functions as of today is not fully implemented. The obvious example of such remaining ambiguity is the education spending. Whereas this public function is not included in the list of local responsibilities, in reality only those educational expenditures are covered from the national budget which are directly linked to the learning process (primarily staff payroll). The costs of housing and utilities services delivered to educational institutions are financed by local budgets, despite the fact that these expenditures are the integral part of delivering educational services. This situation is clearly recognized by all actors in intergovernmental relations, including the National Agency on Local Self-Governance in the Kyrgyz Republic, and causes concerns at the local level.

In addition, despite the declared full responsibility of the republican level in terms of delivering the social services per se, many local governments actually encounter the need to finance different services related to social protection. As a rule, such situations emerge in the course of implementation of different projects to create new services or organizations/institutions (mostly under the support of international organizations), which raise the issue of transferring the newly developed services to local budgets. However, as a rule, even in case of including such new services in the local budget, the relevant local authority over time appears to be forced to raise the issue of attracting additional funds from the national budget. Thus, expenditure responsibilities related to social services are not clearly demarcated at the moment, forcing authorities to make relevant decisions in a manual mode.

The local authorities are increasingly concerned about the ongoing ambiguity, which affected the text of the National Decentralization Strategy:

«The process of transferring functions and relevant financial and economic resources to local governments is delayed, there is no transfer mechanism in place».

The described ambiguity with regard to *current* responsibilities is clearly affecting the local governments' position or stance in the dialogue related to re-distribution of responsibilities in *future* in case of implementing any decentralization reforms. Until there is a full clarity on this issue, it is hard to expect that local self-governments will initiate taking responsibility for additional functions related to social services.

Currently, the position of local governments with regard to their responsibility for social services is dominated by the desire to start with a clear, and properly enforced, division of responsibilities according to the way it is stated in the already approved legislation – namely, with the full responsibility for this sector accepted by the national level. In view of this standing, based on conducted consultations, the probable course of events can be *reduction* of social protection specialists in the staff of local governments with the aim to avoid risks of creating grounds or reasoning for implementing social functions which are not inherent to this budget level.

#### Recommendations:

To ensure the final allocation of spending responsibilities between different tiers of power as soon as possible *according to concluded agreements* is the highly crucial condition to resume the constructive dialogue between them with regard to new *agreements for future*, including possible decentralization of social services in future. The reform actors should contribute to finalizing this process as much as possible. In particular, the initiatives of local governments to eliminate remaining elements of unfunded mandates should be widely endorsed. The initiatives to reduce the staff of social protection specialists at the local level should be perceived from the perspective of existing challenges related to demarcation of functions. In order to resolve this issue it is necessary to make a decision accounting as much as possible for concerns of local governments with regard to unfunded mandates in the social sector.

### ***Remote prospects of delegating responsibilities for social services to local levels***

The current National Strategy «National Administration Decentralization and Local Self-Government Development in the Kyrgyz Republic until 2010» and the Law of the Kyrgyz Republic «On Local Self-Governance» constitute the scope for delegating social services to the local level in future. This opportunity remains a hypothetical, but also the most prospective, pathway of evolution for the system of intergovernmental financing of social services.

These legal regulations choose to apply a number of approaches to potential delegation of functions which are highly progressive and lay the ground for the most efficient solution of this issue in future. In particular, the following positions are strategically critical:

1. Overall focus of reforms towards full-fledged decentralization. The decentralization strategy reads the following:

«Based on the principle of subsidiarity, the local authorities are more proximate to population and have better understanding of which services are most in demand and how they should be delivered to local population»

2. Identifying the decentralization principles based on principles of functional *delegation*.

Delegation is one of three possible methods of decentralization which differ between themselves in degree of regulatory and financial autonomy assigned to local self-governments:

- The lowest degree of decentralization is «deconcentration», when the local level of authority is assigned to implement decisions of the higher ranking government

backed up with financial resources which are accurately estimated as the cost of impending expenditures.

- The next one in terms of degree of depth is «delegation» of functions – when local self-governments are additionally entitled to decide how and to what extent the decentralized services should be delivered, though the central government keeps the right to influence these decisions. Accordingly, the amount of provided financial resources is estimated less precisely – it is anchored not so much to precise cost of specific services but represents a balanced compromise between the available funds and general outcome expectations, presuming local autonomy in terms of making organizational decisions and impossibility to estimate their exact cost.
- The most powerful decentralization method is «devolution», in other words, full transfer of decision making rights to local level with regard to a certain sector.

The laws mentioned earlier contain provisions which describe principles of potential decentralization in future exactly based on conditions of delegating. In particular, the Decentralization Strategy reads:

«In order to improve the quality of social services delivered at local level it is necessary to clearly demarcate revenue and expenditure responsibilities of each territorial level of local budget and to legally enforce the autonomy and independence of local self-governments in terms of allocating financial resources»

In addition, Article 20 of the Law «On Local Self-Governance» identifies decentralisation process exactly as «delegation» and includes provisions which raise expectations exactly for this degree of autonomy when transferring functions:

- Responsibilities should be delegated solely based on special law or agreement between central authorities and local self-governments (Para 2).
- It is mandatory to back up the agreement on delegation by establishing the «procedure of enforcing conditions by the state to implement the delegated responsibilities through providing essential technical and financial resources» (Para 2) and providing for «earmarked transfers from the national budget to the local budgets or identifying sources of financing required for implementation of delegated responsibilities» (Para 3).
- The need to clearly identify requirements to reporting on performance and mechanisms to control on the part of the higher ranking authorities (Para 5).

At the same time, there are several risks to the expectation that decentralization will indeed follow the «delegation» pattern:

- The text of the Article 20 of the Law «On Local Self-Governance» contain ambiguities which allow to interpret it in a number of ways. Despite the emphasis on definitions in the Article on *delegating* as an option to transfer responsibilities, the listed attributes of such agreement in the Article actually provide a scope for weaker decentralization. This Article does not provide a scope for the key feature of delegation – freedom of local self-governments in terms of allocation of financial resources within the local policy of services delivery. Following the provisions of this Article it is possible to transfer prescriptive assignments to local level to pay for the services delivered by certain institutions without providing a scope for autonomous arrangement of local services delivery system, with no scope for potential re-allocation of funds between institutions providing residential and non-residential care, without authorities to optimize the existing infrastructure, etc..
- There is an overall challenge of implementing delegated expenditures arrangements in case of insufficient experience and expertise of partnership relations between tiers of power. Delegating is one of the most demanding form of partnership relations, including financial relations at the level of authorities. Delegating always assumes substantial degree of trust between two parties and, at the same time, the availability of a number of reliable, transparent mechanisms to control actions of the other party.



In countries with post-soviet arrangements of public finance, functional delegation is a new form of inter-governmental relations, which can be easily confused and in practice is frequently replaced by regular pattern of deconcentrated execution of central assignments by subordinated bodies.

In the Box 2 below there is an example of similar challenges which the reform of intergovernmental relations has encountered in Ukraine.

- It could be challenging to select the level of authority to implement delegated services. The foundation for efficiency of delegated services is the selection of such a degree of decentralization where the service, on one hand, would be approximated to the client, but on the other hand – would be delivered by the tier of government capable to ensure efficient administration and management of this service on its territory. In case with social services, such a “capacity” should provide, in addition to others, for the scope of flexible re-allocation of resources among other types of services, including even highly specialized services delivered by residential care institutions.

In most of cases, it is quite challenging to strike such a balance between various types of services within a territory of one administrative unit since the residential care institutions frequently have to provide services to children from different cities and villages. In view of this, in case of decentralization of social services, it becomes quite crucial to determine which level of local authorities would be most appropriate as a decision-maker for development of efficient *local* policy of social services.

As it is illustrated in the Box 2, this issue, in particular, remains unresolved for the Ukrainian system of social services. Interim estimates and consultations concur that the best level of decentralization of this function in Ukraine is the level of the oblast. However, the further consideration of such option is not progressing because of number political and institutional reasons.

As it was mentioned, the Country Development Strategy for 2007-2010 provides for creation of the network of social services at the rayon level. As of yet such a scenario is deemed unfeasible taking into account lack of efficient body of budget policy at rayon levels. Thus, the issue of decentralization level for this function is deemed as unresolved.

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### **Box 2. Delegating public expenditure responsibilities to sub-national governments: experience from Ukraine**

Intergovernmental relations is the area where Ukraine has experienced visible and significant changes related to decentralization. In 2001, the country adopted a new Budget Code which established highly decentralized system of relations with substantial spending autonomy at the level of oblasts, rayons and cities.

The new system was conceived as a fiscal platform to provide to local level substantial freedom of decision making in health care, education, and delivery of social services to vulnerable groups of population. In order to finance these decentralized expenditures it was intended to provide to local level large scale equalizing transfer. Its size was estimated in such a way that allows equalizing the differences between regions and at the same time to absorb the vertical gap between relative revenue collection capacity and relative spending demands for delegated functions. It is critical that in order to implement freedom and efficiency in spending of funds at the local level the formula of estimating the equalizing transfers was focused on differences between the territories in terms of objective benchmarks (for example, in terms of size of population), but not in terms of existing infrastructure benchmarks (for example, the number of existing schools or hospitals).

However, the very first years of enforcing new inter budget relations system revealed a whole range of loopholes and shortcomings which at present time virtually erodes its positive impact. One of the key gaps was the partial scope of reforms. In particular, though the reform has transferred to local authorities the budget responsibility for certain types of expenditures and even substantial resources for their financing, the regulatory authorities and opportunity to modify approaches of services arrangements were left centralized as ever (enforced by central authorities). This meant that local governments essentially received a deconcentrated task: a task of administering payments for certain types of services, which were identified and regulated from the center. However, the financial resource for this assignment was estimated based on the principle of delegation – based not on exact cost of services but based on relative demands of each territory compared to the average indicator across the country (since in case of delegating services it is assumed

that the local authority is entitled to optimize delivery of services and thus achieve cost efficiency and costs saving). Moreover, in this situation the local authorities also were denied access to significant sources of own revenues – which prevented them from using this mechanism to absorb the emerged unfunded mandates.

It could be considered a positive achievement that emerged contradictions in Ukraine have raised the need for a final, more transparent, allocation of responsibilities between the tiers of government (which would include a clear choice between delegation and deconcentration). As of today, this topic is the pivotal issue for discussions and studies, however, there is no final decision on this issue.

Another unaddressed cross-cutting issue is choosing, for each of public functions, the level of government which would be most capable to deliver relevant services to the public on their territory efficiently and in the most approximated manner. In Ukraine there are currently four tiers of public administration – 1). central, 2). oblast, 3). cities of oblast significance and rayons, and 4). villages and towns of the rayon significance (that is, towns which remain under the budget and administrative frameworks of rayons). Initially, quite high degree of decentralization was chosen virtually for all services. However, it became obvious over time that not every tier of power has adequate technical capacity and geographic catchments for efficient administration of relevant services. Owing to this in recent years there were trends of re-centralizing of certain services in Ukraine to higher ranking authorities.

Similar issues are emerging currently in allocating responsibilities for delivering social services. As of today these responsibilities are shared between rayon/city and oblast levels (the oblast level is responsible for financing most specialized institutions). However, such fragmentation of responsibility does not provide hope that the integrated agency over time will be able to implement the balanced policy of delivering social services, to estimate their balance and offer the customers a diversified range of alternative options. In view of this, the issue of strengthening the role of oblast level in terms of developing such a local policy is frequently raised in the agenda.

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#### Recommendations:

- To summarize and finalize the legislative framework based on which the social services in future will be transferred to local level for provision as delegated functions. To inform all stakeholders on differences of types of decentralization which can be enforced (namely, on differences between the delegated and deconcentrated responsibilities). To analyze provisions in terms of the best and desired form of decentralization.
- To ensure full-fledged participation of the Working Group in future activities to develop the action plan for implementation of the Decentralization Strategy. The text of this programmatic document allows to expect that this kind of action plan will be developed by the Government at some point in future:
  - «After official legal enforcement of the present Strategy, it will be implemented into practice through fulfillment by the Government of the Kyrgyz Republic of a complex set of actions on decentralization of public administration and development of local self-governments until 2010».

#### ***Lack of regional level of government***

The role and the desired strength of the regional self-governance in any country represent one of the most debatable and challenging questions in building a multi-tier system of public administration. What makes this issue so challenging is the existing fears and concerns inherent to central level related to risks of territorial integrity of the country and the threat of “regionalization”. In other words, the typical concern is to let certain territories to strengthen politically to such an extent which may contradict, or prevent from implementing, overall national public policy on these territories, and which may possibly contribute to further federalization. But at the same time, prudent and strategic decentralization and strengthening the regional link for partnership cooperation with the central government in many instances proved to be the most efficient way to strengthen the integrity of unitary states and to alleviate threats of internal conflicts and tensions in these countries.

In particular, the policy of regionalization is the fundamental institution of the European Union where the development of regions and interregional cooperation is the political and financial priority. In particular, the recommendations of Council of Europe in 1999 regionalization was

proclaimed as the valuable tool to «avoid tensions and even conflicts within certain states». The major flows of structural financial funds of the European Union are specially aimed at supporting regions as the crucial link of public power. Development of regional self-governance remains to be one of key requirements in the process of adaptation and adjustment of new member-countries to European standards. However, even within the European context, this policy generates many contradictions (in particular with regard to small countries, such as Slovenia or Estonia), which is manifested, for example, in difficulties in terms of enforcing at European level the Charter on regional self-governance.

The ambiguity of the issue of regional self-governance only increases for post-soviet countries. For example, as it goes from the Box 2, it is precisely the role of regional (oblast) level which still remains to be the stumbling block in the process of decentralization of social services in Ukraine. In addition, special studies agree that the issue of regionalization is especially sensitive in Asian countries<sup>5</sup>, whose cultural and historical traditions often differ from European ones.

The central feature of reforms of intergovernmental relations implemented in the Kyrgyz Republic over the last years is quite radical way of addressing this issue, given that the budget role of rayon and oblast levels in the course of these reforms was virtually abolished.

During the consultation for the present research, the central authorities of the Kyrgyz Republic did not raise any concerns about technical workload emerged in the result of such reforms related to the need to establish direct financial relations of the Government with every local budget of the country. At the same time, both Ministry of Finance and Ministry of Labor and Social Development admit that, on the one hand, the challenges and difficulties of quality control of local services from the center and, on the other hand, the low technical and political capacity of many village administrations in terms of efficient implementation of local spending policy. This dilemma can become more relevant in the process of future functional decentralization.

#### Recommendations:

- Taking into account the ambiguity of the issue of regional self-governance, the traditional role of the regional level in implementing social policy in other countries, as well as relatively recent background of relevant reforms in the Kyrgyz Republic, it should be reasonable to continue reviewing and analyzing findings of these reforms along with continuous increasing the awareness of the Working Group.
- To explore technical capacities which exist at local level to make strategic decisions related to administration and management of social services on their territory (in view of possible delegation of this function in future).
- To review the existing capacities of local self-governance for regional cooperation and implementation of joint social care projects.
- To inform the members of the Working Group on experience of regional cooperation in other countries, in particular, within the regional policy in European countries.

## **6. Challenges in Institutional Relations**

### ***Lack of shared vision of the course and consistency of reforms in the Working Group***

Development of strategic solutions in the policy of social services delivery (as in the majority of fundamental issues of public administration) is one of the most challenging tasks for countries in transition, and especially for countries with traditions of planned state structure. The challenge, first

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<sup>5</sup> Reflections on regionalisation in Europe: lessons for Asia? By Bernhard Zepter, Published online: 27 October 2007, # Springer-Verlag 2007.

of all, is the need to agree and harmonize this policy across agencies, tiers of power, representatives of different sectors, and the constituency.

Different opinions about the course of reforms and even obvious conflicts are inherent to any political process, and they inevitably intensify and aggravate in case of financial risks for any of the actors of the dialogue (for example, in case of drastic deinstitutionalization of services). The most efficient way of resolving these problems is in consistent consultations to address key discrepancies of opinions and in searching for compromising solutions prior to initial development of relevant draft legal regulations and statutes (but not after their enforcement). Ideally, such political compromises can be manifested in development of “white papers” which describe the overall vision of further steps. Even without legal enforcement such papers frequently allow streamlining further cooperation between the agencies, to duly present implications of the reforms to non-governmental sector, constituency and international community.

One critical feature of the political process for tangible progress in the system at this stage is the secondary role of formal agreements (as compared to informal but committed decisions by engaged actors). Therefore, at this stage the activity of the Working Group could have been quite efficient in the format of “task force meetings”, which would consistently address certain conflict issues (for example, referring to the interim list of challenges and recommendations proposed in this report).

#### Recommendations:

- To conduct series of «task force working sub-groups» in order to find out and discuss the major differences and discrepancies with regard to course of the reform.
- To develop a «white paper» (or an equivalent conceptual paper), which incorporates the shared vision of the reforms course by the members of the Working Group.

### ***The Need for further advocacy of deinstitutionalization of services***

The government and non-government sectors of the Kyrgyz Republic have covered quite a long way to understanding the challenge of reforming social support to vulnerable groups of population. The provisions declared in programmatic papers testify to this through statements which include a course to increase the role of the client, approximation of services to the person and his/her environment as much as possible, meeting different social needs and demands in a flexible and sensitive manner. In addition, the reform stakeholders in Kyrgyzstan have at their disposal a set of data and research findings which demonstrate the importance of these objective, and which is not always the case in other countries of the region, which lack these data. In particular, UNICEF Kyrgyzstan office has access to research findings available on comparative achievements of children raised under different types of care and in native families which can be used (and are already used) to promote the idea of deinstitutionalization.

However, in the course of consultations before drafting this report many representatives of the government and non-governmental organizations mentioned about ongoing lack of awareness of some high ranking actors of the reform on constraints of current pattern of service delivery system, on negative implications of economy of scales in the area of social support to vulnerable groups (for example, in case of large residential care institutions), on advantages of providing services in the family and community environment. To continue wide advocacy of this issue is quite a crucial task for supporters of reforms in Kyrgyzstan.

#### Recommendations:

- Sampled research of the comparative unit costs of social services to certain vulnerable groups in residential institutions versus alternative forms of service provision. It is necessary to ensure wide dissemination of collected statistical data and estimates (among the members of the Working Group as well as members of the Government, non-governmental stakeholders and wider public through appropriate training activities and publications).

- Sociological survey to compare life outcomes of children raised in different family conditions (in residential institutions, foster families and in native families with parents). It is necessary to ensure wide dissemination of collected statistical data and estimates (among the members of the Working Group as well as members of the Government, non-governmental stakeholders and wider public through appropriate training activities and publications).
- Targeted review and mapping positions of key stakeholders, to identify needs in additional information on options of delivering alternative services and arrange relevant study tours, visits to pilot projects of alternative services.

## Proposals to the Working Group's Draft Plan of Actions

As a basis to initiate discussion of next steps of the Working Group the list of priorities can be proposed which were identified within this analysis to address key challenges and constraints hampering the efficient delivery of social services in the Kyrgyz Republic.

The similar principle of developing Plan of Actions was previously used in Ukraine. Members of the extended Working Group to develop reforms of social services were provided with a detailed diagnostic analysis, which identified major gaps in the existing system and the list of possible solutions. At the meeting where that paper was presented the members of the Working Group discussed each of proposed solutions and through the survey and working in sub-groups have shared their opinions with regard to adequacy and priority of described problems and objectives (each member received the matrix with description of proposed objectives and marked its priority as "high" "medium" or "low"). Such format of discussions was able to identify also those objectives which were not clearly highlighted or substantiated, and required more detailed information from technical consultants. In the result, such a discussion enabled to filter the primary diagnosis and identify the list of specific priorities enabling the Working Group to initiate activities.

Below is the list of priorities based on the field visit primary diagnosis.

Issues to brief the Working Group	Priorities (proposed benchmarks)		
	High	Medium	Low
Objective I: To extend and diversify the range of social services			
<ul style="list-style-type: none"> <li>To explore the experience of piloted projects to switch to per capita based financing of public budget institutions in education and health care sectors. To provide to members of the Working Group the report on such experiments' findings as well as its feasibility in the sector of social services.</li> </ul>	*		
<ul style="list-style-type: none"> <li>To provide to members of the Working Group information on public services procurement system based on the pattern «purchaser-provider». To consider options of integrating elements of such system in the structure of budget relations with residential care institutions providing social services in the Kyrgyz Republic.</li> </ul>	*		
<ul style="list-style-type: none"> <li>To review possibilities and scope for creation of one integrated mechanism to allocate resources between public, non-governmental and innovative (newly integrated) services.</li> </ul>	*		
<ul style="list-style-type: none"> <li>To explore possibilities to create a mechanism to provide budget funds on a long term basis to institutions which introduced innovatives services through the mechanism of social contracting.</li> </ul>	*		
<ul style="list-style-type: none"> <li>To develop methodological recommendations to conduct comparative analysis of estimated unit costs of services declared during the advertisement of the</li> </ul>	*		

social contract.			
<b>Objective II: To enhance quality assurance of services</b>			
<ul style="list-style-type: none"> <li>▪ To develop service delivery standards. It is possible to use the pattern described in the report: <ul style="list-style-type: none"> <li>- To discuss and record in writing the expectations of the Working Group with regard to the role of future standards (or cluster of standards) and the goals they have to meet.</li> <li>- Based on identified objectives it is necessary to identify groups or clusters of services which require standardization.</li> <li>- To pass a decision with regard to which stage of the process of «welfare creation» the regulating body is going to standardize. This decision should account for the analysis of existing data, degree of complexity of delivered service and technical monitoring capacity.</li> <li>- After accommodating these issues the performance of developers in the person of the regulating body involving representative of customers and professional providers of services should focus on selecting more detailed list of elements of the services which qualify for standardization and identify the measurable benchmarks fro each of such elements.</li> <li>- Subsequent analysis of validity and feasibility of measuring the selected benchmarks and their monitoring (also from the perspective of availability of the competent body).</li> </ul> </li> </ul>	*		
<ul style="list-style-type: none"> <li>▪ Analysis of comparative efficiency of public and private financing of different social services and to brief the Working Group in order to make a decision on the extent of customers' share participation in financing the social services.</li> </ul>		*	
<ul style="list-style-type: none"> <li>▪ To refine the procedures of licensing.</li> </ul>	*		
<ul style="list-style-type: none"> <li>▪ In case of extending the framework of central based social contracting to support innovations in the sector of providing social services – to strengthen quality assurance through progressive enhancing of tender procedures transparency (RFP requirements, success benchmarks, performance verification system, involving independent observes, etc.).</li> </ul>	*		
<b>Objective III: Decentralization of delivered services</b>			
<ul style="list-style-type: none"> <li>▪ To implement a detailed statistical survey to validate the hypothesis on substantial variance across the regions in terms of nature of social vulnerability of population. To brief the Working Group on survey findings.</li> </ul>			*

<ul style="list-style-type: none"> <li>▪ Decentralization of social contracting mechanism and delegating it to local level.</li> </ul>	*		
<ul style="list-style-type: none"> <li>▪ To conduct comparative research of access to social services and outcomes of supplying such services across the regions in the country. The research should answer the question whether the budget financing system ensure equal access of country residents to this centralized public function regardless their place of birth or residence.</li> </ul>		*	
<ul style="list-style-type: none"> <li>▪ To conduct a comparative research of different regions' capacity to independently finance additional social functions and responsibilities.</li> </ul>		*	
<ul style="list-style-type: none"> <li>▪ If possible, to support overall efforts of the Government of the Kyrgyz Republic towards delegating social services to local budgets and more active involvement of local authorities in their provision. To ensure full-fledged participation of the Working Group in the future activities to develop implementation plan of the Decentralization Strategy.</li> </ul>	*		
<ul style="list-style-type: none"> <li>▪ To endorse initiatives of local self-governments to eliminate elements of unfunded mandates (including the social sector).</li> </ul>	*		
<ul style="list-style-type: none"> <li>▪ To develop consolidated description of legislative framework based on which the social services can be transferred to local authorities for implementation as their delegated functions and responsibilities. To make all stakeholders aware on different types of decentralization which may emerge in such cases (in particular, on differences between delegated and deconcentrated authorities). To review and analyze policies to find out what type of decentralization is more desired and reasonable</li> </ul>		*	
<ul style="list-style-type: none"> <li>▪ Taking into account the ambiguity of regional self-governance issue, the traditional role of the regional link in implementing social policy in other countries as well as relatively new background of relevant reforms in the Kyrgyz Republic it is reasonable to continue analysis of findings of such reforms with ongoing update of the Working Group.</li> </ul>			*
<ul style="list-style-type: none"> <li>▪ To explore technical capacities which exist at local level to enact strategic decisions to manage social services within their regions or territories (in view of potential delegation of this function in future).</li> </ul>			*
<ul style="list-style-type: none"> <li>▪ To assess the available capacities of local self-governments for regional cooperation and implementing joint social projects.</li> </ul>			*
<ul style="list-style-type: none"> <li>▪ To brief and update the members of the Working Group on experience and expertise of regional cooperation in other countries, in particular, within the framework of regional policy of European countries.</li> </ul>			*



Objective IV: To strengthen inter-agency cooperation and liaison			
<ul style="list-style-type: none"> <li>To develop a «White Paper» (a conceptual paper), which incorporates the compromise vision of the course of reforms shared by Working Group members.</li> </ul>	*		
<ul style="list-style-type: none"> <li>To conduct series of «Target Working Sub-Groups» in order to identify and discuss major disagreements with regard to course of reforms</li> </ul>	*		
<ul style="list-style-type: none"> <li>To conduct sampled comparative research to estimate the unit cost of social services to certain vulnerable groups of population in residential care institutions versus the alternative services. Wide dissemination of collected statistical information and estimated calculations (both among members of the Working Group and other members of the Government, non-governmental stakeholders as well as wider public through relevant training events and publications).</li> </ul>			*
<ul style="list-style-type: none"> <li>Sociological survey comparing life outcomes of children brought up in different family environments (in residential care institutions, foster families and in families with biological parents). Wide dissemination of collected statistical information and estimated calculations (both among members of the Working Group and other members of the Government, non-governmental stakeholders as well as wider public through relevant training events and publications)</li> </ul>			*
<ul style="list-style-type: none"> <li>To implement targeted or pinpointing research and mapping positions of key stakeholders, to identify needs in additional information on potential delivery of alternative care and services and arrange relevant fact-finding activities, trips to pilot alternative services project sites.</li> </ul>			*