



INFF

Integrated National
Financing Frameworks



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Aligning tax incentives with SDGs in the Kyrgyz Republic

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Context



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Integrated National Financing Framework (INFF) scoping mission identifies **tax incentives** are **significant in scale**, estimated to cost around **5% of GDP** in **foregone revenue**. Yet the systems to monitor their use and impact, manage their effectiveness and report on their costs and benefits, were underdeveloped.

INFF has worked with the Ministry of Economy of the Kyrgyz Republic to introduce a system to fix it.



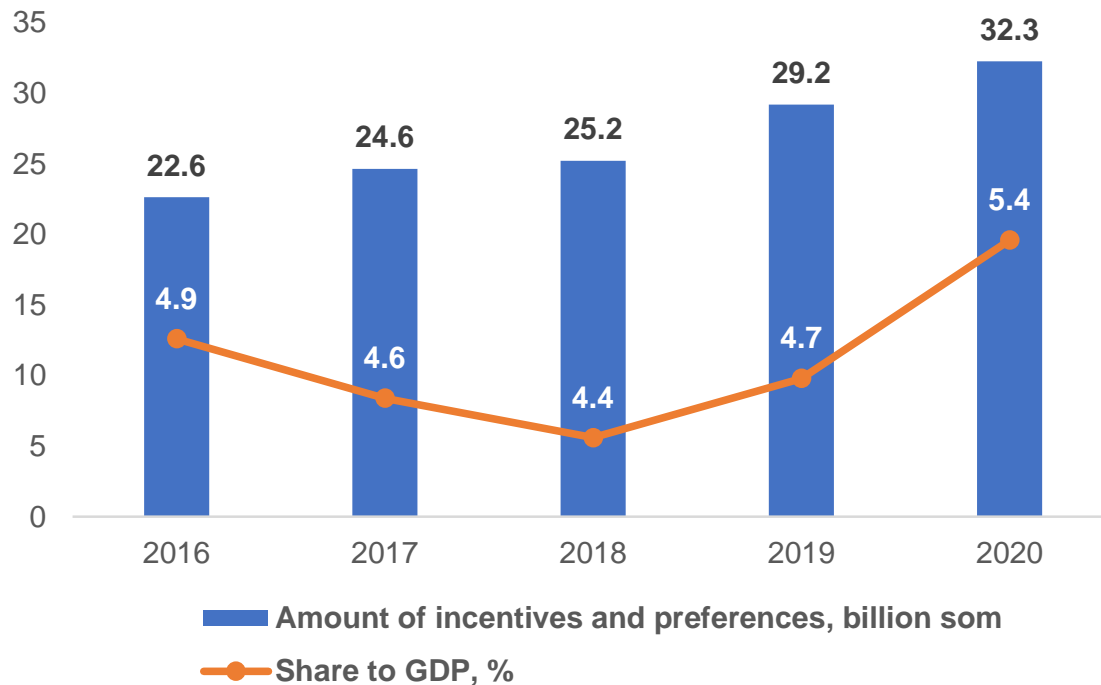
Context



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Based on the Ministry of Economy's data, the tax incentives and preferences in the Kyrgyz Republic, 2016 - 2020 amounted:



Previous Tax Code:

- **no requirement on assessment of tax incentives' efficiency**
- **provided tax incentives and preferences**, some of which had **no deadline**
- no requirement to evaluate the effectiveness of the incentives
- over **150** types of **incentives and preferences**
- about **5.4% of GDP** (2020) – the amount of **tax incentives and preferences**



New Tax Code: Requirements on assessment of tax incentives' effectiveness

New Tax Code 2022 has a **requirement to assess efficiency of tax incentives** and provide reporting on tax incentives

1. **Article 14. The principle of effectiveness of tax incentives**

1. Tax incentives shall be aimed at achieving the objectives provided in this article.
2. Tax incentives shall be granted for:
 - a) inducing **sustainable development** of the economy of the Kyrgyz Republic;
 - b) attracting investment and financing for priority sectors of the economy for sustainable development;
 - c) to achieve the **main priorities of the National Development Strategy** of the country;
 - d) social support of the population;
 - e) promotion of socially useful, including charitable, activities.

An individual entrepreneur and an organization applying a tax incentive shall be **obliged to provide information** to assess the effectiveness of the tax incentive in the manner prescribed by this Code.



New Tax Code: Requirements on assessment of tax incentives' effectiveness

2. Article 36. Assessment of the effectiveness of tax incentives

1. The effectiveness of tax incentives shall be **evaluated** in accordance with **the principles of tax incentives effectiveness**.
2. The list of tax incentives subject to evaluation in accordance with this article, as well as the procedure and types of effectiveness of tax incentives evaluation shall be approved by the Cabinet of Ministers.
3. For the purposes of this Article, the effectiveness of a tax incentive shall mean the ratio of the performance result of the respective industry for the period of application of the tax incentive to the result of the preceding period, respectively, characterizing the degree of achievement of the purpose of granting the tax incentive, broken down by taxpayer.



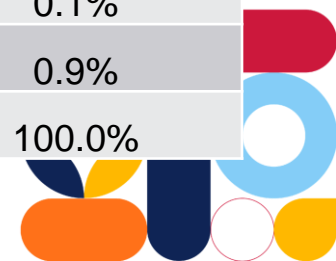
Aligning tax incentives with SDGs: Approach

1. Assigning tax incentives to SDGs as per their **intended objective/impact**
2. Assigning tax incentives based on their **relevance to sectoral strategies and programs**
3. **Expert approach**



Aligning tax incentives with SDGs, billion som

SDGs	2016	2017	2018	2019	2020	Total	Share of SDG in Total 2016-2020, %
SDG 1. No poverty	8.94	8.17	7.96	8.81	9.86	43.74	32.7%
SDG 2. Zero hunger	1.02	1.02	0.84	0.88	0.52	4.28	3.2%
SDG 3. Good health and well-being	1.80	2.08	2.09	2.34	3.22	11.54	8.6%
SDG 4. Quality Education	0.05	0.04	0.06	0.07	0.06	0.28	0.2%
SDG 6. Clean water and sanitation	0.25	0.26	0.26	0.32	0.35	1.44	1.1%
SDG 7. Affordable and clean energy	0.75	0.82	0.83	0.92	1.05	4.36	3.3%
SDG 8. Decent work and economic growth	7.07	9.52	9.20	12.36	14.96	53.11	39.7%
SDG 9. Industry, innovation and infrastructure	1.96	1.78	3.25	2.69	1.53	11.21	8.4%
SDG 10. Reduced inequality	0.23	0.22	0.21	0.23	0.23	1.11	0.8%
SDG 11. Sustainable cities and communities	0.12	0.21	0.10	0.20	0.13	0.77	0.6%
SDG 15. Life on land	0.15	0.15	0.15	0.16	0.16	0.78	0.6%
SDG 16. Peace, justice and strong institutions	0.00	0.06	0.01	0.02	0.01	0.11	0.1%
difficult to assign	0.27	0.29	0.25	0.21	0.18	1.21	0.9%
Total by SDGs	22.63	24.64	25.22	29.19	32.26	133.93	100.0%



Aligning tax incentives with SDGs: Challenges and next steps

Challenges



Data

- No consolidated data on volumes of incentives provided to each company
- No consolidated data source of exemptions provided



Methodology

- No particular methodology to match tax expenditures and exemptions to SDGs

Next steps

- Update the current assessment methodology:
 - incorporate the principles of sustainable development
 - ex-ante and ex-post evaluation





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Thank you!



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