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The World Bank

Report No ICR2519

IMPLEMENTATION COMPLETION AND RESULTS REPORT
(IDA-38710 TF-56725)

ON A

CREDIT

IN THE AMOUNT OF SDR 6.1 MILLION
(US\$ 9 MILLION EQUIVALENT)

TO THE

KYRGYZ REPUBLIC

FOR A

PAYMENTS AND BANKING SYSTEM MODERNIZATION PROJECT

April 15, 2013

Private and Financial Sector Development Unit
Central Asia Country Unit
Europe and Central Asia

CURRENCY EQUIVALENTS

(Exchange Rate Effective October 23, 2012)

Currency Unit=Som
Som 47.0539 = US\$ 1
US\$ 1.54057 = SDR 1

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ATM	Automated Teller Machine
BCS	Bulk-clearing system
CPC	Card Processing Center
FIRST	Financial Sector Reform and Strengthening (FIRST) Initiative
GL	General Ledger
ISN	Interim Strategy Note
NACH	National Automated Clearing House
NBKR	National Bank of the Kyrgyz Republic
PIU	Project Implementing Unit
PHRD	Japan Policy and Human Resource Development Grant
POS	Points of Sale
RTGS	Real-time gross settlement system
SSC	Savings and Settlement Company
WTO	World Trade Organization

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KYRGYZ REPUBLIC
Payments and Banking System Modernization Project

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DATASHEET

A. Basic Information			
Country:	Kyrgyz Republic	Project Name:	Payments & Banking System Modernization Project
Project ID:	P074881	L/C/TF Number(s):	IDA-38710,TF-56725
ICR Date:	04/30/2013	ICR Type:	Core ICR
Lending Instrument:	TAL	Borrower:	KYRGYZ REPUBLIC
Original Total Commitment:	XDR 6.10M	Disbursed Amount:	XDR 4.31M
Revised Amount:	XDR 4.31M		
Environmental Category: C			
Implementing Agencies: National Bank of the Kyrgyz Republic			
Cofinanciers and Other External Partners:			

B. Key Dates				
Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	06/09/2003	Effectiveness:	09/23/2004	09/23/2004
Appraisal:	10/28/2003	Restructuring(s):		03/12/2009 04/26/2012 06/20/2012
Approval:	03/16/2004	Mid-term Review:	05/19/2008	05/19/2008
		Closing:	10/31/2008	10/30/2012

C. Ratings Summary	
C.1 Performance Rating by ICR	
Outcomes:	Satisfactory
Risk to Development Outcome:	Moderate
Bank Performance:	Moderately Satisfactory
Borrower Performance:	Satisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)			
Bank	Ratings	Borrower	Ratings
Quality at Entry:	Satisfactory	Government:	Satisfactory
Quality of Supervision:	Moderately Satisfactory	Implementing Agency/Agencies:	Satisfactory
Overall Bank Performance:	Moderately Satisfactory	Overall Borrower Performance:	Satisfactory

C.3 Quality at Entry and Implementation Performance Indicators			
Implementation Performance	Indicators	QAG Assessments (if any)	Rating
Potential Problem Project at any time (Yes/No):	No	Quality at Entry (QEA):	None
Problem Project at any time (Yes/No):	No	Quality of Supervision (QSA):	None
DO rating before Closing/Inactive status:	Moderately Satisfactory		

D. Sector and Theme Codes		
	Original	Actual
Sector Code (as % of total Bank financing)		
Banking	25	25
Payments, settlements, and remittance systems	75	75
Theme Code (as % of total Bank financing)		
International financial standards and systems	50	50
Legal institutions for a market economy	25	25
Regulation and competition policy	25	25

E. Bank Staff		
Positions	At ICR	At Approval
Vice President:	Philippe H. Le Houerou	Shigeo Katsu
Country Director:	Saroj Kumar Jha	Dennis N. de Tray
Sector Manager:	Paloma Anos Casero	Tunc Tahsin Uyanik
Project Team Leader:	Sylvie K. Bossoutrot	Rochelle Hilton
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F. Results Framework Analysis

Project Development Objectives (from Project Appraisal Document)

The objectives of the project are to assist the Borrower in the implementation of the national payments system modernization program and banking system reform.

Note: The above formulation of the Project Development Objectives (PDOs) is from the original Credit Agreement because the Board was informed in the Project Paper dated

February 17, 2009 that the correct formulation of the PDOs is the one used in the Legal Agreement. The Project Paper informed that there was a discrepancy in the formulation (not the intent) of the PDOs, as formulated in the Credit Agreement (Schedule 2) and in the PDO definition in the PAD and clarified that the observed discrepancy is of a semantic nature and does not reflect a divergence in the intended objectives and scope of the Project.

Revised Project Development Objectives (as approved by original approving authority)

The objective of the project is to assist the Borrower in the implementation of the national payments system modernization program.

In the Level One restructuring of the project approved by the Board on June 10, 2012, the targets for PDO Indicators 1 and 2 were increased in line with the extension of the closing date to October 31, 2012. The PDO Indicator 3 was added as a new indicator to measure the original outcome that was not measured in the PAD.

(a) PDO Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Total value of transactions channeled through and processed by the national payments system (in Som mlns)			
Value quantitative or Qualitative)	90,000	180,000	650,000	547,495
Date achieved	12/31/2003	12/31/2008	10/31/2012	10/31/2011
Comments (incl. % achievement)	361 % achievement vs. original target and 84.3% achievement vs. revised target. The original target was increased with the extension of the closing date and volumes processed were slowed down during the 2010 political and financial crisis.			
Indicator 2 :	Total number of bank accounts			
Value quantitative or Qualitative)	140,000	500,000	850,000	961,226
Date achieved	01/31/2013	12/31/2008	10/31/2012	10/31/2012
Comments (incl. % achievement)	192% achievement against the original target and 113.1% achievement against the revised target. The target remained relatively the same. It was increased in line with the closing date extension in June 2012.			
Indicator 3 :	General ledger of the NBKR automated and integrated with RTGS and BCS			
Value quantitative or Qualitative)	No	Yes	Yes	Yes
Date achieved	03/02/2009	04/26/2012	10/31/2012	01/01/2013
Comments (incl. % achievement)	100% achievement vs. revised targets. The original target was the same although not explicitly measured in the result framework. Full automation was completed after NBKR completed the full automation and interface with the RTGS and			

other payment systems.

(b) Intermediate Outcome Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Bulk Clearing System: total number of transactions of transactions processed through the system			
Value (quantitative or Qualitative)	600,000	20,000,000	N/A (Indicator 1 was dropped in the restructuring dated June 2012 and replaced by Indicator 2 which measures the same result and targeted the same outcome level?, but based on a different unit of measure)	25,200,000
Date achieved	12/31/2003	12/31/2008	10/31/2012	10/31/2012
Comments (incl. % achievement)	126% achievement against the original target			
Indicator 2 :	Bulk Clearing System: total number of batches of transactions processed through the system			
Value (quantitative or Qualitative)	690,900	N/A (Indicator 1 measured the same result and targeted the same outcome level?, but based on a different unit of measure)	1,600,000	1,790,046
Date achieved	12/31/2003	12/31/2008	10/31/2012	10/31/2012
Comments (incl. % achievement)	112% of achievement against the revised target.			
Indicator 3 :	Interbank card system: (i) total number of cards			
Value (quantitative or Qualitative)	7,700	400,000	280,000	369,278

Date achieved	12/31/2003	12/01/2008	10/31/2012	10/31/2012
Comments (incl. % achievement)	92.3% of achievement vs. original target and 132% of achievement vs. revised target. The targets were decreased due to the negative impact of unforeseen political circumstances which led to the destruction of bank buildings, ATMs, payment machines in 2010			
Indicator 4 :	(ii) Average monthly volume of transactions processed with bank cards compatible with the shared system			
Value (quantitative or Qualitative)	20,100	2,000,000	450,000	568,087
Date achieved	12/31/2003	12/01/2008	10/31/2012	10/31/2012
Comments (incl. % achievement)	28.4% of achievement vs. original target and 126.2% of achievement vs. revised target. The targets were decreased due to the negative impact of unforeseen political circumstances which led to the destruction of bank buildings, ATMs, payment machines			
Indicator 5 :	RTGS: Total value of individual transactions (yearly) (Som mlns)			
Value (quantitative or Qualitative)	66,000	120,000	540,000	498,292
Date achieved	12/31/2003	12/31/2008	10/31/2012	10/31/2012
Comments (incl. % achievement)	415.2% of achievement vs. original target and 92.3% of achievement vs. revised target. Actual value slightly under revised target because original target was increased with the extension of the closing date and volumes processed were slowed down in 2010.			
Indicator 6 :	Operating efficiency of SCC as % of total operating expenses to total deposits			
Value (quantitative or Qualitative)	28%	23%	N/A (this indicator was dropped in the June 2012 restructuring due to cancellation of Banking sector reform component)	N/A
Date achieved	12/31/2003	12/31/2008	10/31/2012	10/31/2012
Comments (incl. % achievement)	The indicator was dropped to reflect the cancellation of the Banking sector reform component as the related activities were financed outside the project			
Indicator 7 :	Status of procuring and operations of the improved General Ledger of the NBKR			
Value (quantitative or Qualitative)	Old general ledger	N/A (this original result was not measured in the result framework in the PAD)	Transition to commercial operation	Full automation of the general ledger
Date achieved	12/31/2008	10/31/2012	10/31/2012	01/01/2013
Comments (incl. % achievement)	100% of achievement against the revised target as of January 2013. The original target was the same although not explicitly measured in the result framework			

Indicator 8 :	Direct project beneficiaries			
Value (quantitative or Qualitative)	140,000	N/A	850,000	961,226
Date achieved	12/31/2003	10/31/2012	10/31/2012	10/31/2012
Comments (incl. % achievement)	Indicator introduced in the June 2012's restructuring to the result framework to meet corporate requirements for reporting on project beneficiaries (which in this case are understood as bank account holders). 113.1% of achievement against the target.			

G. Ratings of Project Performance in ISRs

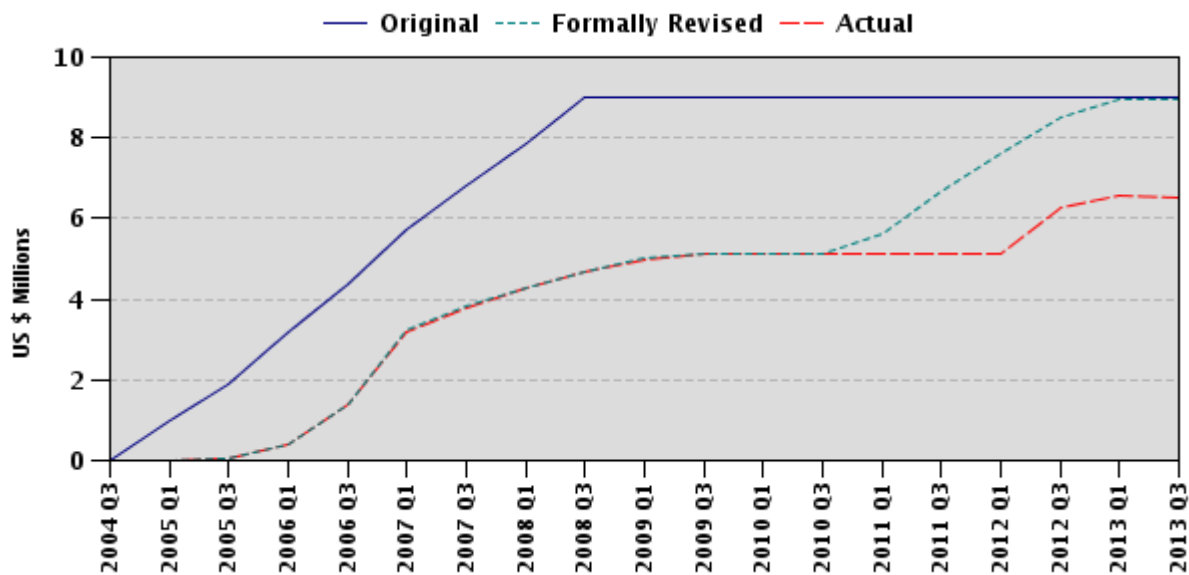
No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	06/15/2004	Satisfactory	Satisfactory	0.00
2	11/11/2004	Satisfactory	Satisfactory	0.01
3	05/24/2005	Satisfactory	Satisfactory	0.26
4	07/05/2005	Satisfactory	Satisfactory	0.40
5	03/15/2006	Satisfactory	Satisfactory	1.39
6	12/13/2006	Satisfactory	Satisfactory	3.49
7	11/01/2007	Satisfactory	Satisfactory	4.26
8	08/12/2008	Satisfactory	Satisfactory	4.92
9	04/29/2009	Satisfactory	Satisfactory	5.12
10	02/01/2010	Satisfactory	Satisfactory	5.12
11	10/26/2010	Moderately Satisfactory	Satisfactory	5.12
12	06/17/2011	Moderately Satisfactory	Satisfactory	5.12
13	01/14/2012	Moderately Satisfactory	Moderately Satisfactory	5.78
14	06/27/2012	Moderately Satisfactory	Satisfactory	6.40
15	10/28/2012	Moderately Satisfactory	Moderately Satisfactory	6.56

H. Restructuring (if any)

Restructuring Date(s)	Board Approved PDO Change	ISR Ratings at Restructuring		Amount Disbursed at Restructuring in USD millions	Reason for Restructuring & Key Changes Made
		DO	IP		
03/12/2009		S	S	5.12	To reflect additional TA activities (the services of an advisor for the privatization of Aiybank and TA for the reform and modernization of the banking sector, to inform that there was a discrepancy in the formulation (not the intent) of

Restructuring Date(s)	Board Approved PDO Change	ISR Ratings at Restructuring		Amount Disbursed at Restructuring in USD millions	Reason for Restructuring & Key Changes Made
		DO	IP		
					the PDOs, to clarify that the observed discrepancy is of a semantic nature and does not reflect a divergence in the intended objectives and scope, and to confirm that the correct formulation of the PDOs is the one used in the Legal Agreement.
04/26/2012		MS	S	6.25	To extend the closing to complete the implementation of the General Ledger contract.
06/20/2012		MS	S	6.38	To reflect the cancellation, the extension of the closing date and the negative impact of difficult external circumstances on some targets and to enhance the completeness of the results framework.

I. Disbursement Profile



1. Project Context, Development Objectives and Design¹

1.1 Context at Appraisal

The Kyrgyz Republic, with a population of about 5 million, had a GDP in 2003 of about US\$1.9 billion (in 2012 prices). After its independence, the country achieved greater macroeconomic stability and took major steps in introducing the conditions necessary for the development of a market-based economy. This included land reform, liberalization of trade and membership in the World Trade Organization (WTO), and financial sector reform. However, this was hampered by the turmoil following the 1998 Russian financial crisis, after which the Government reaffirmed its commitment to economic growth, poverty reduction and private sector development. The details of the Government's program were presented in its National Poverty Reduction Strategy, which was prepared with international donors.

Although many measures were taken to strengthen the banking sector, weaknesses remained and were exacerbated by the 1998 crisis. Following the crisis, extra measures were taken over bank closures and consolidation, portfolio carve out, and strengthened supervision. There were then 20 banks, of which two – Savings and Settlement Company (SSC) and Kairat – were state-owned. The banking sector was small, with US\$210 million of total assets in mid-2003 (about 11.5 percent of 2002 GDP). Basic infrastructure was poor, depositors' confidence was weak, the quality and range of banking products and services was limited, and financial intermediation was low.

The National Payments system was operated by the National Automated Clearing House (NACH), an affiliate of the National Bank of the Kyrgyz Republic (NBKR). The NACH, which provided the clearing and pre-settlement of large and small payments, was automated in 2003. However, the improved NACH did not support a standardized and automated interface between banks and the settlement system, and there were no plans or back-up facilities. It was also at full capacity and could not accommodate further increases in volume and functions. These weaknesses impeded banks' efforts to provide affordable, convenient and reliable payment services. The few individual card systems that existed in the country provided mostly debit cards services and the total number of cards issued (less than 5,000) was low. There was no nationwide Automated Teller Machine (ATM) network.

In regard to the state-owned banks, SSC was a narrow (non-lending) bank, with the largest branch network. Through this network, SSC operated as a banking and payments services delivery mechanism and provided fiscal and quasi-fiscal payments for the Social Fund and other budgetary services for households. However, its operating costs were high as it lacked modern facilities, systems and banking practices. Kairat Bank was established in 1999 from the remains of three liquidated banks. Subsequently, in 2000, to save the bank from collapse, the inherited bad loan portfolio was carved out, the bank

¹ This section was co-authored with Lawrence Kay.

was recapitalized, its lending activities stopped, and a restructuring plan initiated. The bank was generating profits at the time of appraisal and the authorities offered the bank for privatization at the end of 2003. Support for this program was provided by both the Japan Policy and Human Resource Development (PHRD) Grant and the Financial Sector Reform and Strengthening (FIRST) Initiative.

1.2 Original Project Development Objectives (PDO) and Key Indicators

The objectives of the project were to assist the Borrower in (i) the implementation of the national payments system modernization program and (ii) banking system reform, narrowly defined as supporting the institutional strengthening of the Savings and Settlement Company (SSC) and improving its efficiency in delivering banking and payment services (see Section 1.6)², according to the PAD. The PAD stressed that the first aspect of the PDO was the primary objective of the project.

The key indicators from the PAD were as follows:

- a) an increase in the number of bank accounts;
- b) an increase in the volume of transactions channeled through the national payments system; an increase in the total number of transactions processed through the bulk clearing system;
- c) an increase in the total number of cards;
- d) an increase in the average monthly volume of transactions processed with bank cards compatible with the shared system;
- e) an increase in the total value of transactions processed through the RTGS;
- f) an increase in SSC's operating efficiency.

These indicators contributed to financial access objectives and promotion of judicious yet broader use of financial services in Kyrgyzstan. In this context, the Payments System component was the most significant pillar of the project with promise for on-the-ground practical developmental results. It was also the key component in terms of impact, as well as the costs envelope in the project, and the number of intermediate and final outcomes measured.

²The above formulation of the Project Development Objectives (PDOs) is from the original Credit Agreement because the Board was informed in the Project Paper dated February 17, 2009 that the correct formulation of the PDOs was the one used in the Legal Agreement. The Project Paper stated that there was a discrepancy in the *formulation (not the intent) of the PDOs*, as formulated in the Credit Agreement (Schedule 2) and in the PDO definition in the PAD and clarified the fact that the observed discrepancy was of a semantic nature and did not reflect a divergence in the intended objectives and scope of the Project. The PDO definition in the PAD did not refer to the banking sector reform objective as the Legal Agreement did. This objective was secondary according to the PAD and narrowly defined as supporting the strengthening of the SSC and improving its efficiency in delivering banking and payment services. The Board was notified of the correct PDO in connection with the 2009 restructuring. It was triggered by an ECA-wide exercise to remove any discrepancies in PDO formulations in 2009.

1.3 Revised PDO

In June 2012, the World Bank Board approved the revision of the PDO to reflect the cancellation of the Banking Sector Reform component, narrowly defined as supporting the strengthening of the SSC and improving its efficiency in delivering banking and payment services (see Section 1.6). The revised PDO was to “assist the Borrower in the implementation of the national payments system modernization program”. The Banking Sector Reform aspect of the PDO was removed as the implementation of the planned project activities was financed from other sources or would have been completed from other sources after the project closing date. The revised PDO represented more closely the outcome attributable to the project.

The PDO, key indicators and expected outcomes were modified to (i) reflect the cancellation of the Banking Sector Reform component, the extension of the closing date to October 30, 2012, and the negative impact of difficult external circumstances on some targets; and (ii) to enhance the completeness of the result framework. Table 1 summarizes the changes in the PDO, outcome and intermediate indicators.

Table 1. Changes in the PDO and Key Indicators

Original PDO	Revised PDO	Modification	Explanation
“The objectives of the Project are to assist the Borrower in the implementation of the national payments system modernization program and banking system reform.”	“Assisting the Borrower in the implementation of the national payments system modernization program.”	(a) Definition confirmed (March 2009). (b) Definition revised (June 2012).	(a) Clarified thematic discrepancy in the original formulation within the PAD and with the legal agreement. (b) The implementation of the Banking Sector Reform component was taking place with financing from other sources.
Original Outcome Indicators	Revised Outcome Indicators	Modification	Explanation
N/A.	General ledger of the NBKR automated and integrated with the RTGS and BCS.	A new PDO indicator (no change in outcomes).	The PAD did not include targets for this indicator except that for providing full automation and interface between the RTGS and all components of the payments system and NBKR.
Original Intermediate Outcome Indicators	Revised Intermediate Outcome Indicators	Modification	Explanation
BCS: Total number of transactions processed through the system.	BCS: Total number of batches of transactions processed through the system.	❖ Unit of measurement changed. ❖ Baseline increased. ❖ Target reduced.	Insufficient data held by the NBKR to track “Total number of transactions processed through the system”. Baseline increased and target reduced as the unit of measurement changed.
Interbank card system: (i) Total number of cards.	No change.	❖ Baseline increased. ❖ Target reduced.	Targets reduced due to the negative impact of unforeseen political circumstances, such as the 2010 revolution, which led to the destruction of bank buildings, automated teller machines, payment machines; and because of persisting low standards of living, and related factors that deeply affected the banking system and the ability to use and access bank cards.
Interbank card system: (ii) Average monthly volume of transactions processed with bank cards compatible with the shared system.	No change.	❖ Baseline increased. ❖ Target reduced.	Same as in case of (i).
RTGS: Total value of individual transactions (yearly) (Som mlns).	No change.	❖ Target increased.	Target increased because of the extension of the closing date.

N/A.	Direct project beneficiaries (number) of which female (%).	❖ New (no change in outcomes).	Corporate requirement for reporting on project beneficiaries.
N/A.	Status of procuring and operations of the improved General Ledger of the NBKR.	❖ New (no change in outcomes).	No indicator was provided at appraisal.
Banking Sector: Operating efficiency of SSC measured as percentage of total operating expenses/total deposits.	-	❖ Dropped.	The component was dropped because the activities were financed outside of the project.

1.4 Main Beneficiaries

Project beneficiaries included a wide range of stakeholders. **Citizens and residents** using financial services were the primary target group of the project. A reliable and efficient payments system would substantially improve the quality and provision of services to businesses and households, increase confidence in the banking sector and hence help to deepen financial intermediation and stimulate private sector growth. The improved payments systems, both large and low value, would also provide appropriate tools to participating commercial banks to enhance the monitoring of their treasury operations and cash management, mitigate their credit and liquidity risks and reduce cash transactions.

The direct project beneficiaries included the **NBKR and SSC**. The institutional and oversight capacity of the NBKR would be greatly strengthened and its monitoring of banking sector liquidity improved. Furthermore, building the institutional capacity and technological infrastructure of SSC would improve access to the population at large to banking services and financial intermediation through SSC's extensive country-wide network. It would improve SSC's outreach to the financially **underserved rural populations**.

1.5 Original Components

Originally, the project included three main components, one focusing on building Kyrgyz's payments infrastructure, one for the enhancement of the general ledger of the NBKR, and a third aimed at building SSC's institutional and operational capacity (defined as Banking Sector Reform).

Component 1: Payments System Infrastructure (total cost: US\$7.2 million)

A) Bulk-clearing system (BCS): this included technical assistance for advisory services and establishment of a modern, fully automated bulk-clearing system. This was intended to enable commercial banks to process debit and credit orders for high volume/low-value transactions, including utility payments, salaries, pensions and other fiscal and quasi-fiscal payments, in a more secure, reliable and efficient manner.

B) Inter-bank card system supported by a Card Processing Center (CPC): this included technical assistance for advisory services and establishment of a national inter-

bank card arrangement supported by a shared processing center. This subcomponent was intended to coordinate and strengthen Kyrgyz commercial banks' initiatives in card activities, thus enabling bank customers to use any card accepted in the scheme in any ATM or merchant's equipment (Points of Sale (POS)). This subcomponent also included installation of a number of ATMs and POS equipment for improved access.

C) Real-time gross settlement system (RTGS): this included technical assistance for advisory services and establishment of an RTGS to provide timely settlement of large-value or urgent inter-bank transactions. The RTGS was intended to enable banks to settle their large-value transactions and those from credit transfers of major clients in a more secure and timely fashion, thus eliminating paper-based recording, while providing the NBKR with an accurate risk management tool to better monitor intra-day liquidity positions and, exceptionally, overnight collateralized credit.

D) Project management support for the payments infrastructure modernization program: the NBKR was committed to completing a complex payments system within a tight timeframe. The project was intended to provide project management support services, including studies and the establishment of a monitoring and evaluation system.

Component 2: General ledger of the NBKR (total cost: US\$1.6 million)

Component 2 aimed at financing a feasibility study, as well as advisory services and investment costs to enhance and strengthen the NBKR's general ledger (GL) so that it would become fully compatible and consistent with the requirements of the improved payments system. It was intended to provide full automation and interface between the RTGS and all components of the payments system and the NBKR.

Component 3: Banking sector reform (defined in the PAD as supporting the strengthening of the SSC and improving its efficiency in delivering banking and payment services) (total cost: US\$1.6 million)

Component 3 aimed at implementing other areas of the Government's banking sector reform program to support the strengthening of the SSC, to improve its efficiency in delivering banking and payment services and thus better fulfill the banking needs of its customers. To this end, the project was meant to support (i) long term advisory services for institutional and operational capacity building; (ii) specialized assistance to complete an IT needs assessment and to implement the agreed recommendations, including the provision of hardware and software for improving the bank's information systems; and (iii) international audits of SSC's financial statements.

1.6 Revised Components

The Banking Sector Reform component was revised in a Level Two restructuring approved by Bank management in March 2009 and a Level One restructuring approved by the Board in June 2012. The first restructuring introduced some project support to Component 3 (Banking sector Reform) for the privatization of Aiyllbank (estimated costs of SDR200,000) and other key activities to support the borrower's banking sector reform

program. These funds were unused proceeds under the SSC component. The second restructuring cancelled SDR755,538.99 intended for Goods and Consultants Services to strengthen SSC operational and institutional capacity and support Aiybank privatization under Component 3. This restructuring required Board approval because the partial cancellation of the Banking Sector Reform component affected the PDO. The changes and reasons are explained in Table 2 below.

Table 2. Revisions of Component 3

Original component	1 st restructuring (March 2009) approved by Bank management	2 nd restructuring (June 2012) approved by Board
<p>Original description in the Credit Agreement:</p> <p>1. Carrying out audits of financial statements for SSC, through the provision of consultants' services</p> <p>2. Strengthening of SSC's operations and institutional capacity to improve financial services delivery, product diversification and modernize its technical capacity including network and outreach streamlining, through the provision of consultant's services and goods.</p>	<p>Revised description in the Credit Agreement:</p> <p>(1) Carrying out audits of financial statements for SSC, through the provision of consultants' services.</p> <p>(2) Strengthening the operational and institutional capacity of SSC through the provision of consultant's services and goods to improve SSC's delivery of financial services, as well as providing technical assistance and support to the Borrower's program for the privatization of Aiybank and the reform and modernization of the Borrower's banking sector.</p>	<p>Revised component description in the Credit Agreement: (1) Carrying out audits of financial statements for SSC, through the provision of consultants' services. Sub-component (2) related to strengthening the operational and institutional capacity of SSC and supporting the privatization of Aiybank in the Credit Agreement was dropped.</p>
	<p>Reasons for revision</p> <p>The intention to provide privatization assistance to Aiybank (est. costs SDR 200,000) was based on (i) the Parliament's decision of May 2008 to proceed with the privatization of Aiybank and (ii) the Ministry of Finance's request of October 2008 to use some of the available proceeds of the Credit for the work of the advisor. The provision for other technical assistance activities in support of the banking sector reform was proposed to provide flexibility in meeting the Borrower's needs. There were expected to be minor activities that could have been financed through a regular reallocation of available loan funds.</p>	<p>Reasons for revision</p> <p>Sub-component 2 in the Credit Agreement was implemented outside the project from SSC's own resources.</p> <p>The new activities introduced in March 2009 were financed outside the project according to a timetable that went beyond the closing date of the project (after the closing of the project, the Government decided to cancel the privatization of Aiybank due to the opposition of one member in the Parliamentary committee).</p>

1.7 Other significant changes

Implementation schedule: The project was extended three times to ensure that, among other things, major activities would be completed, including late arriving ones requested by the Borrower and the development objective substantially achieved within a longer timeframe:

- In March 2009, Bank management approved the extension of the closing date of the project from October 31, 2008 to April 30, 2010 to allow adequate time for the

successful implementation of the envisaged GL and to enable identified cost savings from other components to be used to expand the ATM and POS elements of the technical infrastructure, and thus provide an opportunity for government agencies and commercial banks to substantially decrease their dependency on cash usage through increased use of electronic payment instruments.

- In January 2010, Bank management approved the extension of the closing date of the project from April 30, 2010 to April 30, 2012. The extension was justified by (i) procurement delays due to unsuccessful bid for the GL that needed to be re-tendered, (ii) the complexity and large scope of the activities related to the SSC component, including the procurement and installation in all of its 50 branches and 60 outlets of a custom tailored Core Banking System that needed to upgrade the bank's internal business management processes through better accounting, settlement, cash operation, and client account management systems; and (iii) the need of additional time to launch and monitor the privatization process of Aiybank, through the recruitment of a qualified Privatization Transaction Advisor.
- In April 2012, the World Bank Board approved the extension of the closing date of the project from June 30, 2012 to October 31, 2012. The extension was justified by procurement delays caused by slow processing of a key IT procurement package and subsequent implementation delays of the GL component (Section 2.2).

Co-financing: In April 2007, the World Bank management approved a Borrower-executed grant funded by Japan's Population and Human Resources Development (PHRD) grant in the amount of US\$330,000 (TF056725) and effective in April 21, 2007. The grant was used to support project preparation for the development of a modern integrated national payments system in the Kyrgyz Republic, accepted and used by commercial banks and their customers (government, business and individuals). The grant financed project preparation activities and provided technical assistance to (i) assist the CPC with the development of a strategy to promote the expansion of the national retail payment card system, in the area of marketing policy, product line definition and pricing policies as well as technical assistance to member banks on how to optimize earnings on card transactions while keeping risks and expenses at a level acceptable to end-users; (ii) support public information campaigns aimed at increasing awareness of the advantages of using payment cards for retail transactions; and (iii) assist in the procurement of the GL component for the development of bidding documents and evaluation of proposals. The public awareness campaigns included workshops and seminars, as well as advertisements on television, radio and publications of brochures.³ In June 2008, the closing date of the grant was extended by 6 months from October 21, 2008 to April 21, 2009 because of the re-advertisement of the GL project activities.

Cancellation: The June 2012 project restructuring also cancelled SDR702,378.86 intended for Goods and Consultants Services under Component 1 because of cost savings

³ A workshop on clearance system development was held at Ak-Keme Hotel (Bishkek) in 2008; 30,000 advertising booklets on the national payment card (ElCart) were developed and published; 10 advertising articles were published in mass media; Short video materials on advantages of the national payment card (ElCart) were prepared and shown on television for five months.

derived from lower-priced payments systems hardware and software than originally planned and an opportunity to contract high quality services at relatively low cost.

2. Key Factors Affecting Implementation and Outcomes

2.1 Project Preparation, Design and Quality at Entry

Soundness of the background analysis: The project was well prepared which helped positively its implementation and outcome. Support for the preparatory work was provided by the IMF as well as from resources from the PHRD Grant which assisted the NBKR in the elaboration of a business plan, strategy and cost benefit analysis of a payments system in the Kyrgyz Republic. The Grant also financed the preparation of a launch workshop in September 2003 which focused on implementation, financial management, procurement and technical matters. Feedback from the participants indicated that procurement discussions were particularly useful and timely. Also, the preparatory work undertaken with the assistance of the IMF to reform the legal framework had an important impact on the sustainability of the project. In addition, the project benefited from the experience in the preparation of payments system projects for the West Africa Monetary Union (Credit 3424 of September 2000) and for Azerbaijan (Credit 40300 of June 2005) as stated in the PAD.⁴ The project design and preparation took into account some lessons learnt from these similar projects such as the fact that the NBKR collaborated extensively with all expected stakeholders of the project (commercial banks, utility companies, government agencies, bankers association, MoF, etc.) during the preparation of the project.

Assessment of the project design: The project was rated Satisfactory by QAG.⁵ The rating is in line with the ICR mission assessment. The modernization of the Payments System Infrastructure component of the PDO was very clear, highly relevant and essential to the development of the Kyrgyz banking system. As the largest and most important component of the project, it was designed with a view to incorporating several of the most critical functions of modern payment systems to cover retail, wholesale, individual and business customers, to generate a working financial infrastructure that would contribute to the financial sector access objectives of the economy. Other components were a small fraction of the project and with hindsight, modernizing the GL of the NBKR proved to be ambitious given the low appetite of qualified firms to participate in biddings due to political instability, and given the various technical elements of such a system that are lengthy to procure. In many projects, banking sector reform is a very broad area of intervention, but in this project it was limited to one institution, namely “to assist the Government in the banking sector reform by improving SSC’s efficiency in delivering banking and payment services.” This aspect of the PDO

⁴ See PAD p. 4 and p. 6.

⁵ See QALP-1 report. A QAG assessment was undertaken in 2008. All the individual categories were rated Satisfactory except Bank’s attention to technical, financial and economic aspects, the quality of results framework to achieve the development objectives and the quality of arrangements for monitoring and evaluation.

was also relevant but the fact that it was so broad compared to the project intervention was misleading and made assessment of results difficult.

Assessment of risks: The risks, mitigation measures and risk ratings were correctly identified with a few exceptions. At the design stage, the risks identified centered mainly on the potential lack of commitment and cooperation between the different stakeholders. With hindsight, it appears that the project risks were accurately identified. The delays experienced in the project were not linked to a lack of evaluation of the potential risks, but rather to the unpredictable deterioration of the economic, political and social environment. These risks materialized in 2005 with the political events of the Tulip Revolution, and in 2010 during the Second Kyrgyz Revolution and the ousting of Kyrgyz president Kurmanbek Bakiyev.⁶ The latter prefaced ethnic tension across the country, which led to significant financial sector instability. It proved to have a negative impact on project implementation (see Section 1.3).

Adequacy of government's commitment: The Kyrgyz government, through the NBKR, and key stakeholders, was strongly committed to the project. The commitment was demonstrated in (a) the 2003-2005 National Poverty Reduction Strategy (NPRS)⁷ developed by the Government which included reforming the banking sector and improvement of financial services and intermediation as an essential means for stimulating private-sector led growth; (b) the State Action Program for 2003-2005⁸ approved in 2002 by the President which involved the full backing of the Government in introducing a non-cash payments system and establishing an infrastructure ensuring effective execution of recurring payments (salaries, pensions, communal services and taxes); (c) the Joint IDA-IMF Staff Advisory Note on the Poverty Reduction Strategy (NPRS) Paper⁹ for the period of 2007-2010 which reiterated the importance of a modern

⁶ Kyrgyz Second Revolution: In the three years before April 2010 the president concentrated power in his administrative apparatus, weakened the national assembly, and circumvented ministries. In April 2010, anti-government demonstrations led to the overthrow of the government and the formation of an interim administration. In June 2010, violent clashes took place over three days, particularly in the cities of Jalalabad and Osh. It was officially reported that over 300 persons were killed, over 2500 were injured, and nearly 400,000 were temporarily displaced. The disturbances also damaged infrastructure and destroyed private and public property. Economic activity was disrupted, investment fell, trade was adversely affected, and the financial sector was severely stressed. The economy contracted by 0.5 percent in 2010. Inflation rose to about 20 percent at the end of 2010 due to spikes in world food prices, the current account went from a surplus in 2009 to a 6.9 percent deficit, and fiscal pressures emerged.

⁷ The NPRS includes the Government's strategy to reform the banking sector. It is built on the findings of the 2002 FSAP. http://siteresources.worldbank.org/INT/PRSI/Resources/Country-Papers-and-JSAs/Kyrgyz_PRSP.pdf

⁸ Main Directions of Payment System Development for 2002-2005 were implemented in order to increase the share of non-cash payments and the efficiency of the payment system, through creation of conditions for the development of payment services and their availability for the payment services users. It was developed with extensive support from the IMF. <http://www.nbkr.kg/index1.jsp?item=99&lang=ENG>. It was developed with extensive support from the IMF.

⁹ The strategy stressed the reform of the payment system which would facilitate development of new payment mechanisms through banking accounts convenient for individuals and businesses. It was planned to develop an infrastructure on acceptance and servicing payments with use of banking innovation services and technologies as well as payment cards all over the territory of the republic for wire transfer of regular and budget payments, salaries through commercial bank accounts. http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2008/09/09/000160016_20080909091815/Rendere d/PDF/39599main.pdf.

payments system infrastructure which accepts and makes servicing payments with use of banking innovation services and technologies as well as payment cards; and (d) involvement and dialogue led by the NBKR which resulted in widespread support among stakeholders.

2.2 Implementation

(a) Factors outside the control of the government or implementing agencies

Some factors outside the control of the Borrower affected the project implementation and outcomes.

Procurement delays: The procurement process took longer than estimated for the reasons outlined below, delaying the installation and launching of IT systems:

- (i) the bidding process of CPC was suspended after the second best bidder submitted an official complaint to the NBKR over what it claimed was an unfair bidding process. The reason for the complaint was technical and involved procurement procedures and bid evaluation. The World Bank reacted relatively quickly to address the complaint and found that there was no irregular activity relating to the procurement procedures followed by the NBKR based on the evidence available. The implementation of the CPC was delayed by several months (the bidding process started in February 2005 and was completed in November 2007);
- (ii) the procurement of the General Ledger was extremely lengthy due to multiple consecutive unsuccessful bidding processes, the original underestimation of the cost allocated to the implementation of the GL at design, inadequate professional qualification of firms participated in the tender and the complexity of the configuration of the IT systems including the migration of old IT systems to updated ones. A new procurement process was launched in 2009 with additional funds allocated out of savings from Component 1;
- (iii) the limited availability of specialized procurement specialist capacities within the World Bank slowed the processing of key IT packages.

Political events also caused delays: As explained in section 2.1, the political turmoil of 2005 and 2010 caused instability in the banking system. In 2010, the second revolution led to the destruction of bank buildings, automated teller machines and payment machines. Combined with persisting low standards of living and related factors that deeply affected the banking system, this affected the ability to use and access bank cards. Project implementation was slowed down while key stakeholders were more concerned with maintaining their daily operations.

Extensive consultations with key stakeholders at entry: As discussed in 2.1, the project was prepared with considerable input from stakeholders, especially during the 2003 launch workshop. During implementation, the consultative working groups developed during preparation were maintained which permitted stakeholders to raise and resolve issues.

(b) Factors generally subject to government control

The constant support of the Government contributed positively to project implementation. The preparatory work undertaken with the assistance of the IMF to reform the legal framework had an important impact on the sustainability of the project. Also, the commitment was demonstrated during project implementation in (a) the amendments to the Civil Code in 2006 to allow non-cash payments – credit and debit orders – for individual bank accounts (these legal loopholes in the legal framework could have undermined the implementation of different elements of the project, and in particular the card system); (b) the review of the Resolution enacted in August 2006 by the Government of the Kyrgyz Republic¹⁰ to allow detailed and careful planning of the closing of utility cash collection outlets; (c) the recognition of SSC's efforts to improve its operational efficiency and banking services delivery capacity in 2007 when it was granted a universal license by the NBKR; and (d) NBKR's own resources to complete the implementation of the GL component.

The procurement process of the RTGS was delayed at the beginning of project implementation by the lack of internal coordination between the Payments System Department, the PIU and the IT Department. The issue was solved when coordination arrangements were clearly defined under the leadership of the Chairman and the appointment of a strong management team for the PIU. It contributed to expediting the resolution of all remaining technical and procurement issues and improved the dialogue with suppliers and consultants.

During project implementation the Government delayed the privatization of Aiybank. The small project allocation for Aiybank was kept available for a couple of years pending the Government's action until it was cancelled from the project in June 2012. After the closing date of the project, the Government cancelled the privatization of Aiybank. Although the advisory services for its privatization were a minor activity in the project, the cancellation of the privatization was broadly speaking a significant set-back to years of policy dialogue. The implication of this cancellation would negatively affect the Government's efforts to improve access to finance (mainly in the rural sector).

(c) Factors generally subject to implementing agency control

The management of the NBKR, especially the Governor and Deputy Governor, gave the program its full support¹¹. Despite some early changes of PIU director in 2004, a leadership vacuum and staffing issues related to the temporary suspension of the NBKR Governor in 2005, the appointment of a solid project management team contributed to the

¹⁰ According to the 2006 Resolution of the Government of the Kyrgyz Republic, all utility cash collection outlets had to be closed by January 1st, 2007 and payments made via non-cash payment instruments. During the 2006 supervision mission, the team stressed the lack of specific information as to how this decree should have been implemented among the population and the commercial banks and warned that although it considered the Decree to have a commendable objective, its implementation would have required detailed and careful planning, as the financial system, the population and other stakeholders were not be ready to translate the intentions of the Decree into cost effective actions.

¹¹ The Deputy Governor was also the project director.

acceleration of the project's implementation from 2006. Given the complexity of the procurement of large IT systems, the NBKR ensured that its staff receive adequate training and nominate a back-up to the procurement specialist to support the PIU.

2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization

M&E design: The project appraisal document contained a number of outcome and component level indicators. The ICR mission noticed some short-comings in the original results framework: (i) the main outcome indicators were too specific to evaluate the impacts of all the three components of the project; (ii) the original results framework did not include an outcome indicator to measure the results of the GL (see M&E implementation); (iii) the Banking Sector Reform component was measured with very specific indicators in the PAD but it was not reflected in the results framework, (iv) some baseline data needed to be adjusted during project restructuring(s); and (v) one indicator ("General ledger of the NBKR automated and integrated with the RTGS and BCS") was not measurable.

The key performance indicators for the three systems under component 1 (Payments System Infrastructure), which was by far the largest piece of the project, were fully measurable and reflected the expected results of this component.

M&E implementation: Significant efforts were undertaken during supervision to make sure that data collection mechanisms were put in place to gather the relevant information and ensure data quality. Data were collected and reported quarterly by the steering committee, under the chairmanship of the NBKR. The last restructuring enhanced realism of targets reflecting changed circumstances (for example, the interbank card system was negatively affected by political instability), made the result framework more comprehensive (the GL indicator was added) and finally revised the unit of measurement based on available data for one indicator (the one measuring the use of BCC). Overall, the restructuring helped assess ultimate results better based on updated performance expectations.

M&E utilization: The M&E indicators were key in closely monitoring the progress and reach of the payments system in strengthening the country's financial infrastructure and providing increased volume of access to payments and financial services. The indicators were also key to decision making in particular when the project was restructured.

2.4 Safeguard and Fiduciary Compliance

There were no major fiduciary or safeguard issues nor any deviations or waivers from Bank safeguards, fiduciary policies or procedures.

Financial Management was Satisfactory: The NBKR provided timely and reliable information required for monitoring project implementation in line with World Bank requirements. Quarterly financial monitoring reports, annual financial management

supervision reports and annual audit reports were sent in a timely manner in a format and with content acceptable to the World Bank.

Procurement is rated Satisfactory: The project required the procurement of four large and complex information technology systems (BCS, CPC, RTGS and GL). The NBKR had relatively low capacity at managing World Bank procurement and carried out the procurement of the systems with some difficulties. One bid related to the acquisition of the GL was re-bid twice because of a constrained budget and an inadequate procurement method (single stage versus two- stage). The bidding of CPC was suspended for several months after the second best bidder submitted an official complaint to the NBKR for unfair bidding process. The bidding process to buy the RTGS system was suspended for 10 days after the World Bank received another complaint letter by a non-selected vendor. The two complaints were handled adequately by the NBKR. Disbursements were slow (there were no movements of funds between April 2009 and April 2011) compared to initial planning because of procurement delays and political turmoil.

2.5 Post-completion Operation/Next Phase

In view of the cancelation of the Banking Sector Reform component and the political and banking crisis that affected the Kyrgyz banking sector in 2010, the need for technical assistance to support the strengthening of the banking sector had increased substantially. The World Bank decided to respond by providing (i) dedicated technical assistance to the NBKR through a larger FIRST-funded financial technical assistance grant; and (ii) a US\$7.15 million Financial Sector Development Project (FSDP) (P125689), approved by the World Bank Board in March 2012 but until now Parliamentary opposition has delayed effectiveness.¹²

3. Assessment of Outcomes

In line with the assessment against the CPSS Core Principles for Systemically Important Payment Systems (CPSIPS), of the BCS and the RTGS undertaken in August 2012 by a World Bank expert from the Financial infrastructure practice, the ICR team estimates that project achievements are highly commendable.¹³ Modernizing the payment system infrastructure was the main objective of the project according to the PAD and the largest share of the project financing. The payment systems were put in place efficiently, as demonstrated below. Most results indicators have exceeded significantly both their original and revised targets. Also further benefits have been achieved such as with regard to access to financial services (see Annex 2).

¹²The FSDP's PDO are to (i) enhance financial sector stability, and (ii) increase access to financial services. The signing has been delayed due to the opposition by one member in the Parliamentary Budget and Finance Committee to the concept of Aiybank's privatization. The project is being restructured to cancel the support to Aiybank to reflect the fact that the privatization of Aiybank has been cancelled.

¹³ KYRGYZ REPUBLIC - Detailed Assessment of Observance of the CPSS Core Principles for Systemically Important Payment Systems - October 2012.

3.1 Relevance of Objectives, Design and Implementation

Original objectives, design and implementation assistance

The overall relevance of the original objective, its design and implementation assistance is considered high because the payment system was highly relevant on all aspects and because the shortcomings were related to the secondary PDO (see Table 3). The relevance of the revised PDO on all aspects is high.

Table 3. Relevance by PDOs

	Original PDO		Revised PDO
	Primary PDO	Secondary PDO	
Objectives	High	High	High
Design	High	Modest	High
Implementation	High	Modest	High
Relevance by Prim./Sec. PDO	High	Substantial	-
Overall relevance by PDO	High		High

The primary PDO: Implementation of the national payments system modernization program: The main original objective, “to assist with implementation of the national payments system modernization program”, its design and implementation are consistent with current development priorities in the Kyrgyz Republic and with current Bank country and sector assistance strategies to a high extent.

The focus of the original primary objective and its design reflected proper diagnosis of Kyrgyz financial sector development priorities to further increase financial intermediation and strengthen the banking sector, including introducing a non-cash payments system and establishing infrastructure to ensure efficient payment execution maintenance. The primary objective is also highly relevant for the country’s current priorities. They are supported by (i) the World Bank’s Interim Strategy Note (ISN) FY12-FY13¹⁴, of which improving access to finance is one of the key outcomes;¹⁵ and (ii) the Country Medium Term Development Strategy for 2012-2014, which also includes financial sector reforms as a key area, including reforms in bank resolution and prompt remedial action framework, financial stability and access to finance. The PDO and design also supported the preparation of the Financial Sector Development Project in Kyrgyz Republic (P125689) that was designed to support the privatization of Aiybank, increase access to finance and develop the areas mentioned in the above country strategy.

The secondary PDO: Implementation of the banking system reform, narrowly defined as support to strengthening the SSC to improve its operational efficiency:

¹⁴The ISN covers the period of August 2011 to June 2013 and succeeds the previous CAS of 2007-2010. http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2011/07/14/000333038_20110714001702/Rendere d/PDF/627770ISN0R20100701201100BOX361509B.pdf.

¹⁵ See paragraph 86.

The relevance of the secondary objective, its design and implementation assistance are considered substantial based on the following reasons.

- The objective remains highly relevant for the Government, as stated in the Country Medium Term Development Strategy for 2012-2014. SSC’s rapid credit growth in the past two years has prompted the authorities to request the help from the IMF. A sales strategy was defined in 2012 under the IMF Three-Year Arrangement of the Extended Credit Facility to ensure that the majority of SSC’s shares are privatized over the medium-term.
- The design was initially relevant, but a larger part of its relevance changed to modest because (i) the planned advisory services for SSC were not needed as its operational efficiency improved based on its own efforts; (ii) the project’s planned IT upgrades for SSC were self-financed based on the Bank procurement documentation (see Section 1.6); and (iii) the privatization of Aiybank was first postponed during the implementation of the project and eventually taken off the Government’s agenda for political reasons after the project closing date.
- The implementation assistance is considered highly relevant. The Bank responded appropriately to changed circumstances and restructured the project by cancelling the funds that remained unused because of the above reasons to meet the client’s needs and to strengthen the engagement of the client (see Section 1.6).

Revised objectives, design and implementation assistance

As explained above, the revised objective “to assist with implementation of the national payments system modernization program” and its design are highly relevant for the Kyrgyz financial sector development priorities and with the World Bank’s Interim Strategy Note (ISN) FY12-FY13 and the Country Medium Term Development Strategy for 2012-2014. The Bank’s implementation assistance remained highly relevant as the Bank appropriately supported completing the final activities on a timely basis and closing the project.

3.2 Achievement of Project Development Objectives

The efficacy of the original project is high (see Table 4). The project modernized the national payments system from manual processing of transactions in a highly cash-based economy. The project contributed to increasing the operational efficiency of the SCC to a modest extent but this does not undermine the overall high efficacy of the original project because this aspect of the PDO was of secondary importance (and it was nevertheless achieved). The project’s revised targets for modernizing the national payments system were met overall to a high extent.

Table 4. Efficacy by PDOs

	Original PDO		Revised PDO
	Primary PDO	Secondary PDO	
Efficacy	High	Modest	High
	High		High

Table 5 summarizes the percentage of achievement under the original and revised outcome targets and the datasheet provides the details.

Table 5. Summary of percentage of achievements against targets

Indicator	% achievement against original targets	% achievement against revised targets
PDO #1: Total value of transactions channeled through and processed by the payments system.	361%	84.3%
PDO #2: Total number of bank accounts.	192%	113%
PDO #3: GL automated and integrated with the RTGS and BCS.	Yes / 100%	Yes / 100%
Payments system modernization	(US\$7.22 mn)	(US\$4.5 mn)
IOI #1 &2: BCS - Total number of transactions/batches of transactions processed through the system.	126%	112%
IOI #3: CPC – Total number of cards.	92.3%	132%
IOI #4: CPC – Average monthly volume of transactions processed with bank cards compatible with the share system.	28.4%	126.2%
IOI #5: RTGS – Total value of individual transactions.	415.2%	92.3%
General Ledger Upgrade	(\$1.64 mn)	(\$2.05 mn)
IOI #6: General Ledger – Status of procuring and operations.	100%	100%
Banking system reform	(\$1.56 mn)	(\$0.04 mn)
IOI #7: SSC – Increase operating efficiency.	374%	Dropped

Primary PDO (original and revised): Assist the Borrower in the implementation of the national payments system modernization program

Implementation of the national payments system modernization program. The national payments system infrastructure was modernized and integrated with the project financing, and its performance and use improved remarkably. Specifically, the improvement of the national payments system facilitated the development of new payment mechanisms through banking accounts convenient for individuals and businesses. It also provided payment cards all over the territory for wire transfers of regular and budget payments, and salaries through commercial bank accounts.

Critically, the payment systems component provided Kyrgyzstan with the requisite “financial infrastructure” to broaden the reach, automaticity and electronic controls in financial and economic transactions in the country. The reach of this key element of the project has not only helped catapult Kyrgyzstan into a much more advance stage in the state of its financial system but also provided a leap in the electronic retail and wholesale transactions reflected in the increased bank access of the population.

In terms of risks, the automation and electronic processing via modern payment systems actually reduce transaction risk and fraud and increase controls. Thus the expansion evidence in the project does not imply any increase in financial sector risk. Typically,

expansion of credit is associated more with potential risks or asset bubbles in the financial system, but the payments system in itself is purely for enhancing the efficiency, automation and access of non-cash transactions and bank accounts, thus providing the essential financial infrastructure for residents, citizens and firms to be connected with the financial system and exploit its efficiencies and economies of scale.

All original PDO indicators exceeded the original targets to a high extent: The total value of transactions channeled through and processed by the national payments systems is above the target value set originally and the total number of accounts has been multiplied by more than five during the implementation of the project. The total value of transactions channeled through and processed by the national payments systems remained somewhat under the revised targets (it was most likely overestimated as there are no other obvious factors that could have negatively affected the outcome).

- ❖ **Bulk Clearing System (BCS):** The BCS financed by the project constitutes the only clearing system in the Kyrgyz Republic, with 22 commercial bank participants connected to the NBKR using the Interbank Communication Network. The system, which was introduced in 2006 is also owned and operated by the NBKR. It has operated without interruptions since its startup, even during the 2010 political instability. The speed for clearing transactions between banks and the electronic system linking banks has been increased. Bank-to-bank transactions are cleared the day they are submitted for clearing. The World Bank assessment against the CPSS Core Principles for Systemically Important Payment Systems (CPSIPS) rated that the BCS "fully observed" one principle out of ten, "broadly observed" eight out of ten, and partly observed one out of ten. Participants generally have a good understanding of the rules of the BCS and the need to abide by them.

The original and revised intermediate indicators were met: The total number of transactions or batches (as the new measurement unit) processed through the system has been multiplied by 3.3 and 3.5 above the project's original and revised targets, respectively, during project implementation.

- ❖ **Card Processing Center (CPC):** The use of non-cash instruments in the Kyrgyz Republic has increased substantially during project implementation (see Annex 2), and the two revised intermediate targets were met. Som568,087 million transactions by about 369,0278 cards (for a total of more US\$1.7 billion) were made between the start of operations of the system in 2006 and September 2012, which represented a 132 percentage and 126 percentage achievement against the revised target, respectively. Out of 22, seventeen banks have been participating in card issue and 21 banks have been connected to the CPC. New instruments, such as cash cards, have been introduced thanks to the introduction of national and international interbank card systems, which are facilitating doing business, paying taxes and utilities and receiving salaries.

The original targets were not met because of the negative impact of unforeseen political circumstances, such as the 2010 revolution, which led to the destruction of

bank buildings, automated teller machines, payment machines, and due to overall persisting low standards of living and related factors that deeply affected the banking system and the ability to use and access bank cards. It should be noted, however, that the following two other indicators have shown the positive impact of a modern electronic card system: (i) since 2008, there has been an increase in the use of non-cash instruments with the share of currency in M1 declining from 89.9 percent in 2008 to 84.4 percent in July 2012; and (ii) the total number of customers of deposit-taking institutions was multiplied by two between 2008 and 2011 from 6.4 percent to 12.6 percent of the population (no direct impact but long-term impact).

- ❖ **Real-Time Gross Settlement system (RTGS):** Since 2008, the RTGS is fully operational with no significant operational failure. The BCS net obligations are settled in central bank money through the RTGS system, in line with international best practices. The RTGS has contributed to reducing settlement risk in securities transactions by facilitating the delivery versus payment (DVP) mechanism. In this context, the setting up of the Payment Systems Department is in itself a positive achievement which ensures the availability of resources to pay undivided attention to payment systems issues and in particular the oversight function. Also, the development of an RTGS system in the Kyrgyz Republic has dramatically reduced settlement and systemic risks on the interbank settlement process. This is made possible by effecting final settlement of individual funds transfers on a continuous basis during the processing day. The credit risk in the RTGS system is significantly reduced by the requirement for an account to be adequately funded before a transaction can be processed. In 2012, the NBKR conducted a self-assessment, as part of its payment system oversight responsibilities. The World Bank assessment against the CPSS Core Principles for Systemically Important Payment Systems (CPSIPS) rated the RTGS system "observed" for three principles out of ten, "broadly observed" for five out of ten, and partly observed for one out of ten (while one principle is not applicable). Participants generally have a good understanding of the rules and the need to abide by the RTGS.

The implementation of the RTGS has highly exceeded its original target: The annual value of individual transactions has been multiplied by four compared to the original target. RTGS captures 88.8 percent of interbank transactions. It has been reported that an average 416 payment operations are performed per day under the RTGS, representing an average daily amount of Som2.1 billion (US\$0.45 min). Swifter funds transfers between banks in order to manage their settlement positions with other banks or with the NBKR have significantly improved the management of liquidity and reserves while reducing systemic risks. The revised target for total value of individual transactions fell slightly short (it was most likely overestimated as there are no other obvious factors that could have negatively affected the outcome), but the ultimate objective of settling transactions in a more secure, timely and efficient manner, as described above, demonstrates the full achievement of the objective.

Overall, participating commercial banks have consolidated their accounts in the NBKR into a single settlement account, which has improved the NBKR's knowledge of and control over the liquidity position of banks.

General Ledger. The full automation of the GL (Component 2) was completed with some delay in January 2013 when the GL went live (see Section 2.2). It provided an interface between the GL and the RTGS. Commercial banks' opening and closing balances are now transferred to the RTGS at the beginning and at the end of the day. The closing balances are reflected in the daily balance sheet of the NBKR. The new GL has allowed the NBKR to integrate and adapt its accounting, treasury and financial information systems to accommodate the increased flows and volume generated by the improved payments system infrastructure.

Secondary PDO: Assist the Borrower with implementation of the banking sector reform, narrowly defined as support to strengthening the SSC to improve its operational efficiency (according to the PAD)

As discussed earlier, the project was to assist the Government in banking sector reform by improving SSC's operational efficiency in delivering banking and payment services. According to the PAD, it was a high priority for the Government, but a secondary project objective. In the end, the project contributed modestly to improving SSC's operational efficiency in delivering banking and payment services. Of the original activities, the project only financed SSC's international financial audits. The procurement of SSC's information systems upgrade was in progress for several years due to unsuccessful re-bids but, due to the project's closure, it was implemented by SSC based on documentation prepared under the project. The technical assistance portion to enhance its institutional and operational capacity was canceled in June 2012 (see Section 1.7). With regards to Aiybank, due to the political developments and turmoil in the Kyrgyz Republic, its privatization was first postponed during project implementation and eventually cancelled after the project closure for political reasons (see section 2.2).

Although most outputs were not financed by the project, the original target for operational efficiency of SSC was exceeded based on improvements financed by SSC: the operating efficiency of SCC defined as % of total operating expenses to total deposits in the result framework decreased from 28 percent in 2003 to 8.6 percent in 2012. SSC's efforts to improve its operational efficiency and banking services delivery capacity were recognized in 2007 when it was granted a universal license by NBKR. Also, in 2012, the Kyrgyz government developed a sales strategy for SSC with the assistance of the IMF, to ensure that the majority of SSC's shares are privatized over the medium-term. The strategy is expected to be voted on by the Parliament in 2013.¹⁶

¹⁶The Kyrgyz authorities developed a sales strategy for SSC according to the letter of intent sent to the IMF Managing Director by the Kyrgyz government in April 2012. The letter was included into the Second Review under the Three-Year Arrangement of the Extended Credit Facility and Request for Modification of Performance Criteria released by the IMF on May 15, 2012. The Kyrgyz government planned to extend Som1.5 billion in 2012 through SSC and the other state-owned banks for government supported programs (Som0.6 billion has already been on-lent through these banks). Large capital injections by the government into SSC, which already experienced more than three-fold asset

3.3 Efficiency

The project is cost-effective: The PAD did not include quantitative cost benefit analysis. As usual in this type of project, the economic benefits were described in qualitative terms. The efficiency of the project in achieving its objectives is difficult to estimate precisely but, from a cost effectiveness perspective, this project delivered more efficient, safer and cheaper technologies as well as upgraded IT systems that have reduced the cost of manual processes of using cash for transactions, in particular for the payment of salaries, pensions and utilities services. As noted in Table 5 above, the percentage achievements of each target under the original and revised outcome indicators reflect financial transaction cost savings as well as financial earnings by customers, savers and banks that will more than offset the overall costs of the project in the medium and long terms. The extensions totaling 4.5 years brought some additional benefits: (i) lower costs of key payments systems and IT packages; and (ii) an upgrade of IT systems not planned at design but necessary to the modernization of the GL. The funds to improve SSC’s operational efficiency were not used for several years due to unsuccessful re-bids for the information systems upgrade and due to project’s closure, and it was implemented by SSC based of documentation prepared under the project. Overall, it could be said that both the original and revised project benefits were substantial compared to the value of project investment in capacity and infrastructure improvements.

Table 6. Efficiency by PDOs

	Original PDO		Revised PDO
	Primary PDO	Secondary PDO	
Efficiency	Substantial	Modest	Substantial
	Substantial		

3.4 Justification of Overall Outcome Rating

Rating: **Satisfactory**

The objectives were achieved to a satisfactory extent based on a weighted average of the ratings of the original PDO and the revised PDO, as shown in Table 7. The “satisfactory” original outcomes are based on high relevance, high efficacy and substantial efficiency. The “satisfactory” revised outcomes are based on high relevance, high efficacy and substantial efficiency. Although the relevance and efficacy of the banking sector reform aspect of the original PDO, narrowly defined as support to strengthening the SSC to improve its operational efficiency, were modest, this does not undermine the overall high relevance and efficacy of the original PDO because this aspect was of secondary importance for the project.

growth during the last two years, would allow the bank to resume its rapid expansion. The authorities committed to limit capital injections into SSC to Som250 million in 2012 with a view to containing SSC's growth. NBKR has been closely monitoring SSC's financial indicators, which have so far not suggested any worrisome trends. A preliminary assessment of the strategy indicated that follow-up work is needed to further reduce the government's involvement in SSC.

Table 7. Weighted Rating of Original and Revised Objectives

Description	Original PDO	Revised PDO	Overall
Rating of the PDO	<i>Satisfactory</i>	<i>Satisfactory</i>	-
	High relevance: Primary PDO – high Secondary PDO - substantial	High relevance High efficacy Substantial efficiency	
	High efficacy: Primary PDO – high Secondary PDO – modest		
	Substantial efficiency: Primary PDO – high Secondary PDO - modest		
Rating value	5.00	5.00	
Weight	98.46%	1.54%	
Weighted value	4.92	0.08	5.00
Overall rating	-	-	Satisfactory

*S=satisfactory =5, MS= Moderately Satisfactory=4

**Disbursements were USD 6,395,101.47 as of June 30, 2012 and USD 6,494,835.77 as of March 14, 2013.

3.5 Overarching Themes, Other Outcomes and Impacts

(a) Poverty Impacts, Gender Aspects, and Social Development

As explained earlier, the project was not primarily focused on poverty issues although efficient, affordable and safer access to a wide range of automated financial services offered by the commercial banks will help the underserved and disconnected populations in the long term. Several parameters suggest that these ambitions were met, at least in part. Between 2004 and 2011 the number of ATMs in the country increased from 21 to 460, or a growth from 0.6 and 0.1 ATMs per adult and per 1,000 KM² respectively to 12.1 and 2.4 respectively. The number of commercial bank branches per 100,000 adults also rose from 5.1 to 7.3, or from 0.9 to 1.4 branches per 1,000 KM².¹⁷ In 2012, the team measured the gender disaggregation of bank account ownership and found it relatively significant.

(b) Institutional Change/Strengthening

The project has had a positive impact on strengthening the institutional capacity of the NBKR. A new banking clearing department for payments systems (for RTGS and retail payments) was created. A division of this department is in charge of the oversight of the payments system. The capacity of the NBKR staff has been enhanced and there are currently 16 staff in the payment systems department, of which 6 staff member are in charge of analyzing, monitoring and supervision of payments systems.

¹⁷ IMF, *Financial Access Survey*

The project has also contributed to the institutional strengthening of all banks, particularly in the case of smaller local financial institutions which had to update their information technology to be able to participate in the system.

(c) Other Unintended Outcomes and Impacts (positive or negative)

N/A

3.6 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops

N/A

4. Assessment of Risk to Development Outcome

Rating: **Moderate**

The risk that the outcomes will not be maintained is moderate. The PDOs have been met. The BCS, RTGS and General Ledger have become part of the NBKR's functions and oversight. The NBKR has been able to process all payment transactions in a secured way. It shows the NBKR's strong ownership. The continuous upgrading of the IT systems (for both NBLR and the commercial banks), with the development of new technology, poses a risk of sustainability to the overall system, but it is mitigated by the fact that all banks have already planned IT upgrades in their operational strategies.

The project also helped introduce a national inter-bank card system with international standards which did not exist. 17 banks out of 22 have been participating in the CPC and the remaining 4 banks, mostly large international banks, have been only accepting national system cards in their peripheral devices. The national card system and CPC should be further enhanced.

Also, the assessment of the BCS and the RTGS against the CPSS Core Principles for Systemically Important Payment Systems¹⁸ concluded that there is still room for improvements for Kyrgyz payments systems such as i) improved liquidity management and monitoring; ii) introduction of DVP in the settlement of securities; and, iii) improved operational risk management through hardware support to fully ensure business continuity. Also, improving interoperability of the ATM and POS networks would lead to an increase in the use and efficiency of electronic payment instruments.

Finally, there are some uncertainties related to maintaining the outcomes related to SSC. While the Parliament is expected to vote on the sales strategy of SSC in 2013 to ensure that the majority of its shares are privatized over the medium term, there are some political uncertainties related to its outcome (similar to the ones that cancelled the privatization of Aiybank).

¹⁸The CPSS-IOSCO has issued the new "Principles for Financial Market Infrastructures" (PFMIs). Systemically important payment systems in Kyrgyz Republic will have to be assessed against these new standards to determine compliance.

5. Assessment of Bank and Borrower Performance

5.1 Bank Performance

(a) Bank Performance in Ensuring Quality at Entry

Rating: **Satisfactory**

The rating reflects (a) the strategic relevance and appropriateness of the objective for the Borrower and the World Bank in line with the QAG report;¹⁹ (b) the adequacy of project design and all major relevant aspects taken during preparation and appraisal such as technical, financial, economic, institutional, fiduciary and social; (c) clearly defined institutional and implementation arrangements as well as M&E arrangements; and d) the extensive involvement of key stakeholders in all aspects of the preparation of the project. It also reflects some short-comings: (a) the project did not initially provide an efficient solution to address the lack of strategy related to SSC and the banking sector component; (b) the under-estimated cost and time required to procure and implement all the systems (BCS, CPC, RTGS and GL); and (c) broad designation of the Banking Sector Reform component of the PDO which made the results difficult to assess (although it was initially possibly meant to provide flexibility).

Overall, the project was technically sound and addressed the needs of NBKR, commercial banks and other stakeholders. Project components were designed to reflect best international principles and standards as well as local realities. In addition, major risk factors and lessons learned from other related projects in implementing payment systems infrastructure were considered and incorporated into the project design.

(b) Quality of Supervision

Rating: **Moderately Satisfactory**

The rating reflects (a) frequent supervision and the intense efforts of TTLs for in-field follow-up and electronic communication following 2008 QAG's recommendation; (b) adequate use of performance indicators after the 2009 and 2012 project restructurings, while considering that the last restructuring could not have a significant impact on M&E results given the disbursement rate by then; (c) proactive team efforts in restructuring the project which shows flexibility in responding to client needs as the extensions allowed NBKR to complete the implementation of the revised project activities in full compliance with the fiduciary requirements and in accordance with loan agreements; and (d) the presence of a locally based financial sector specialist (ETC/STC) that strengthened supervision between missions (since 2007).

¹⁹ The ICR team concurs with QAG in their rating of the Bank performance in ensuring quality at entry. The project was strategically relevant and its design and approach were appropriate for the country's track record and capacity.

There were a few shortcomings in project supervision such as the limited availability of IT procurement resources in the country and slow procurement reviews in case of key IT packages, particularly at the beginning of the project.

(c) Justification of Rating for Overall Bank Performance

Rating: **Moderately Satisfactory**

The assessment of the overall Bank performance is based mainly on (a) the successful implementation of a strategically important and technically complex project by a client with low capacity; (b) initial shortcomings in the design, and (c) insufficient IT procurement resources.

5.2 Borrower Performance

(a) Government Performance

Rating: **Satisfactory**

The rating is supported by (a) the NBKR's high level of commitment to the objectives and design, as demonstrated by continuous support and approval of legal framework (legal loopholes found in 2006) and close involvement with SSC and Aiybank activities; (b) high involvement of the Working Groups comprised of the NBKR, SSC and Aiybank with project design and implementation; and (c) additional financing in the project implementation by the NBKR for the completion of the automation of the GL.

Several shortcomings which affected the implementation negatively included (a) a leadership vacuum and lack of coordination by the suspension of the Chairman of the NBKR who was on house arrest in 2005 and 2006 and which created some frictions and disagreements between the PIU and the Payments System Department in 2005 and 2006; (b) fraud allegations resulting in an internal investigation on the evident leak of information in connection to the RTGS contract delayed the procurement of the contract by several months. Eventually, coordination improved with the restructuring of the PIU.

(b) Implementing Agency or Agencies Performance

Rating: **Satisfactory**

The performance of the implementing agency – PIU – was satisfactory. The PIU was established in the Directorate on Investments and Technical Assistance Coordination (DITAC) within the NBKR. The PIU managed and coordinated project implementation, including financial management, procurement and disbursement. The PIU also complied with fiduciary requirements and ensured close coordination with SSC and Aiybank and with other commercial banks. The PIU's staff was responsive and dedicated throughout the life of the project.²⁰ The procurement staff performance was particularly good considering the complexity of the design and procurement packages, mainly after 2009. Yearly financial management supervision reports confirmed the existence of satisfactory financial management arrangements.

²⁰ In 2004, the director of the PIU was quickly replaced by DITAC's Chief economist.

(c) Justification of Rating for Overall Borrower Performance

Rating: **Satisfactory**

The overall outcome is Satisfactory based on the NBKR's satisfactory performance and the PIU's satisfactory performance.

6. Lessons Learned

Payments systems are technically complex and can take more time than planned to implement, especially in low capacity and politically and economically unstable IDA countries. The project required Bank and Government teams with specialized skills. Because of the technical documentation and lengthy procurement processes required of such systems and financial infrastructure, it usually takes more time to implement than expected. Payment system projects should take their complex nature into consideration in allocating resources and designing implementation plans.

The restructuring of the project gave the opportunity to show the Bank's and the NBKR's flexibility and pro-activity in resolving implementation issues, though such instruments can be over-utilized. The 2009 and 2012 restructuring of the project gave a momentum to the project to get back on track. Specifically, the 2012 restructuring of the project allowed more time and focus on the GL implementation issues, and reinforced stakeholders' ownership. However, the final restructuring near project closing, while attempting to adjust all indicators to the final state of the project accurately, did not provide maximum value given the already high disbursement rate at that point.

The capacity of procurement and financial management should be in place before the start of the project. This is particularly important for technically complex projects with extended bidding documentation, which takes a long time to prepare and review. Also, there was a lack of sufficient IT capacity at the World Bank, the NBKR and the PIU which caused early delays in the procuring of the BSC and the RTGS. It is worth noting that the selection of a reputable vendor and proven systems are crucial for systematically important payments systems (RTGS).

7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners

(a) Borrower/implementing agencies

None

(b) Cofinanciers

None

(c) Other partners and stakeholders

None

Annex 1. Project Costs and Financing

(a) Project Cost by Component (in USD Million equivalent)

Components	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal
Payments System Modernization	7.22	4.50	62%
General Ledger (NBKR)	1.64	2.05	125%
Banking Sector	1.56	0.04	3%
Project Implementation and Administration	0.07	0.04	57%
Total Baseline Cost	10.49	6.63	63%
Physical Contingencies	0	0	
Price Contingencies	0	0	
Total Project Costs	10.49	6.63	63%
Front-end fee PPF	0	0	
Front-end fee IBRD	0	0	
Total Financing Required	10.49	6.63	63%

(b) Financing

Source of Funds	Type of Cofinancing	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal
Borrower		0.21	0.14	66%
International Development Association (IDA)		9.0	6.49	72%
Local Sources of Borrowing Country		1.28	0	

Annex 2. Outputs by Component

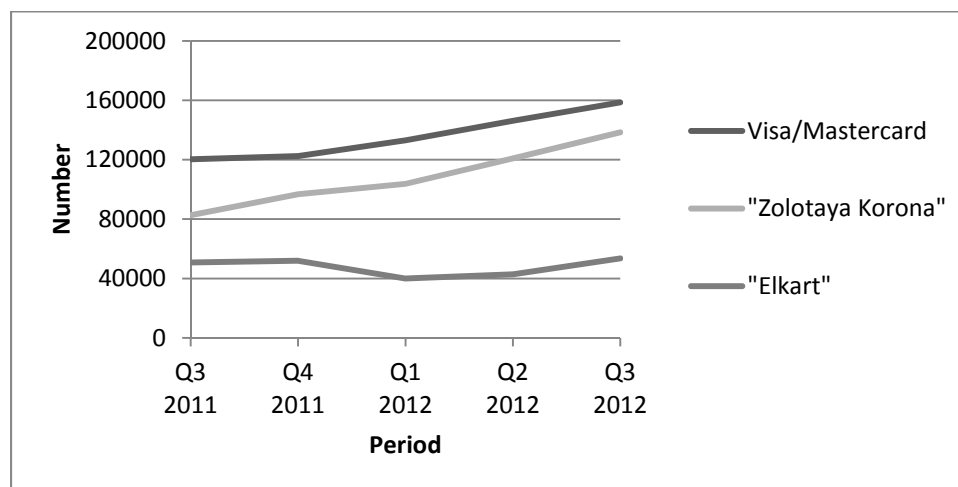
Table 1: Project activities, Outputs, Component Outcomes and Project Outcomes

Project Objectives (Revised)	Outcome Indicators or proxies for outcomes (Revised RF)	Objectives of the component (intermediate outcomes)	Component	Sub-components (Outputs)	Activities (Inputs)
The objectives of the project are to assist the Borrower in the implementation of the national payments system modernization program and banking system reform.	Total value of transactions channeled through and processed by the national payments system. Total number of bank accounts.	Increase in the total number of batches processed through the national payments system. Increase in the number of total bank accounts. Increase in the total number of cards. Increase in the average monthly volume of transactions processed with bank cards compatible with the shared system.	Payments System Infrastructure.	Establishment of a Bulk Clearing System (BCS).	Preparation, evaluation of bidding documents (\$92,970). Supply and Implementation of Bulk Clearing System of Low value Retail and Recurring Payments (\$1.404m).
				Establishment of a Card Processing Center (CPC).	Supply and Implementation of a CPC (\$2.064m). Preparation, evaluation of bidding documents (\$64,101).
				Establishment of a Real Time Gross Settlement System (RTGS).	Preparation, evaluation of bidding documents (\$80,743). Supply and Implementation of RTGS (\$842,500).
				Project Management Support.	Project management support (\$399,743).
(The objectives of the project are to assist the Borrower in the implementation of the national payments system modernization program).	Total value of transactions channeled through and processed by the national payments system. Total number of bank accounts. General ledger of the NBKR automated and integrated with RTGS and BCS.	Increase in the total value of transactions processed through the RTGS. Integration and adaption of the NBKR's accounting, treasury and financial information systems to accommodate increased flows and volumes. Increase in SSC's operating efficiency. (Provide technical assistance to the privatization process of Aiylbank).	General Ledger of the NBKR.	Full automation of the GL and interface with RTGS.	Preparation, evaluation of bidding documents (\$112,926). Supply and Implementation of the General Ledger.
			Banking Sector Reform.	Institutional and operational strengthening of SSC (revised to Support privatization of Aiylbank).	Support international audits of SSC's financial statements.

Table 2: PHRD GRANT #TF 056725 activities and Outputs

	Project Activity (goods)	Total Costs US\$
1	Marketing and project management consulting assistance for providing effectiveness of PBSM Project.	308,100.00
2	Assistance on bid documents with component General ledger.	50,710.33
3	a. Workshop for local counterparts on PBSM project. b. Translation of workshop materials, presentations and speeches for the seminar. c. Advertisements on TV (to create and broadcast the informational commercials on TV). d. Publications of advertising articles in newspapers. e. Publications of brochures and posters.	21,983.72 1,500.00 21,749.59 2,236.57 1,915.00
4	Consultant services. Marketing and project management consulting assistance for providing effectiveness of PBSM. Assistance on bid documents and component General Ledger.	308,100.00 \$50,710.33

Figure 1: Number of Cards in Use (Source: NBKR)



Annex 3. Economic and Financial Analysis

As mentioned in the body of this ICR report, the efficiency of the project in achieving its objectives is difficult to estimate with exacting precision, but from a cost effectiveness perspective, the project was a major achievement due to more efficient and cheaper technologies as well as the upgrade of IT systems. The project reached its primary objectives of implementing the national payments system modernization program. As noted in Table 3 in the report, the percentage achievements of each target under the original and revised development objectives, indicators and outcomes, reflect financial transaction cost savings as well as financial earning by customer/savers and banks, respectively, that will more than offset in the medium and long term, the overall costs of the project.

Annex 4. Bank Lending and Implementation Support/Supervision Processes

(a) Task Team members

Names	Title	Unit	Responsibility/ Specialty
Lending			
Aghdaye, Hormoz	Lead Financial Analyst	ECSPF	
Akerova, Anarkan	Counsel	LEGEC	
Garrigues, Charlie	Sr. Payment System Specialist	OPD	
Hilton, Rochelle	Sr. Operations Officer	ECSPF	
Khan, Naushad	Lead Procurement Analyst	ECSPS	
Koiltillai, Hannah	Disbursement Officer	LOAG1	
Koshmatov, Talaibek	Operations Officer	ECCKG	
Kurmanaliev, Nurbek	Procurement Analyst	ECCKG	
Ogallo, John	Sr. Financial Management Specialist	ECCKG	
Segni, Carlo	Consultant	ECSPF	
Soubbotin, Nikolai	Sr. Legal Counsel	LEGEC	
Supervision/ICR			
Bossoutrot, Sylvie K.	Sr. Operations Officer	ECSPF	Team Leader
Costantino, Lorenzo	Consultant	FRUWB	
Garrigues, Charlie	Consultant	AFTPR-HIS	
Goncharova, Irina	Procurement Specialist	ECSO2	
Kay, Lawrence	Financial Analyst	ECSF1	
Keppler, Robert	Consultant	FFIFI	
Kurmanaliev, Nurbek	Procurement Specialist	ECSO2	
Segni, Carlo	Lead Financial Officer/Deriv&F	CMD	
Tegin, Suerkul Abdybaly	E T Consultant	ECSPF	
Tynaev, Nurlanbek	Consultant	FRUWB	
Zekri, Sarah	Financial Analyst	ECSF2	

(b) Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending		
FY02	32.10	320.08
FY03	49.42	254.89
FY04	39.36	199.25
FY05	0.18	0.60
Total	121.06	774.82
Supervision/ICR		

FY02		
FY03		
FY04	6.2	5.23
FY05	24.04	134.94
FY06	53.45	100.36
FY07	19.57	78.96
FY08	17.66	102.31
FY09	23.62	100.47
FY10	28.97	107.37
FY11	24.20	133.63
FT12	11.16	89.5
FY13	8.47	40.8
Total	217.34	893.57

Annex 5. Beneficiary Survey Results

Annex 6. Stakeholder Workshop Report and Results

Annex 7. Summary of Borrower's ICR and/or Comments on Draft ICR

THE NATIONAL BANK OF THE KYRGYZ REPUBLIC

Ref. 143-5/2640

April 24, 2013

To: Ms. D. Djoldosheva
Acting Country Director
World Bank Country Office in the Kyrgyz Republic

Re: PBSM Implementation Completion and Results Report

The National Bank of the Kyrgyz Republic hereby expresses its respect and appreciation for the preparation of a detailed Implementation Completion and Results Report for the Payments and Banking System Modernization Project.

Upon consideration of this report, we would like to inform you that we have no substantive comments. Our comments on the text of the report made in the change-tracking mode edits will be emailed ntynaev@worldbank.org.

In addition, we would like to thank you for your assistance in implementation of the national payment system modernization and the banking system reform project aimed at improving the efficiency of banking and payment services.

The project was technically sound and met requirements of the National Bank, commercial banks and other stakeholders. The project components were based on the best international principles and standards, as well as local realities.

As a result of the project, offer of new services and modern non-cash payment and settlement methods and modes has been secured on a national scale.

Sincerely,

Vice-President

B. J. Dzhehenbayeva

*Prepared by S. Z. Ibraghimova
phone 66 91 42
Payment Systems Analysis and Development Unit
Payment System Department, NBKR*

Annex 8. Comments of Cofinanciers and Other Partners/Stakeholders

Annex 9. List of Supporting Documents

Aide-memoires, implementation status reports, terms of reference, financial management supervision reports, procurement reports and reports of consultants

The National Poverty Reduction and Strategy (NPRS) for the period of 2003-2005

Joint IDA-IMF Staff Advisory Note on the Poverty Reduction Strategy Paper for the period of 2007-2010

The Interim Strategy Note (ISN) for the period of FY2012-FY2013

Project summary of the Financial Sector Development Project 2012



KYRGYZ REPUBLIC

- SELECTED CITIES AND TOWNS
- ⊙ OBLAST CAPITALS
- ⊕ NATIONAL CAPITAL
- ~ RIVERS
- MAIN ROADS
- RAILROADS
- OBLAST BOUNDARIES
- - - INTERNATIONAL BOUNDARIES

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