Report Number: ICRR0022996

1. Project Data

Project ID	Project Name
P125689	KG Financial Sector Development Project
Country	**Practice Area(Lead)**
Kyrgyz Republic	Finance, Competitiveness and Innovation

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
IDA-50670,IDA-H7600	30-Jun-2017	8,270,729.90
Bank Approval Date	**Closing Date (Actual)**	
08-Mar-2012	30-Jun-2021	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	13,000,000.00	0.00
Revised Commitment	8,938,016.07	0.00
Actual	8,270,729.90	0.00

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2. Project Objectives and Components

a. Objectives

The Project Development Objectives (PDOs) as stated in the Financing Agreement for the Kyrgyz Republic (Schedule 1, page 5) and the Project Appraisal Document was (PAD, page 5):

(i) To enhance financial sector stability; and (ii) To increase access to financial services.

b. Were the project objectives/key associated outcome targets revised during implementation?
Yes

Did the Board approve the revised objectives/key associated outcome targets?
Yes

Date of Board Approval
21-May-2013

c. Will a split evaluation be undertaken?
Yes

d. Components
There were five components (PAD, pages 10 - 15).

1. Strengthening the legal, regulatory and supervisory framework for banks, microfinance organizations (MFOs) and credit unions. The estimated cost at appraisal was US$1.50 million. The actual cost was US$0.33 million. This component supported measures for improving the legal, regulatory and supervisory frameworks of the banking sector and capacity building of the National Bank of the Kyrgyz Republic (NBKR). Activities in this component: (i) strengthening the legal framework; (ii) improving the regulatory framework; (iii) strengthening the supervisory framework; (iv) improving NBKR's human resource management policies; and (v) improving its Information and Communication Technology (ICT) infrastructure.

Three of the five activities in this component were dropped through the second level 2 restructuring (discussed in section 2e). The dropped activities included strengthening NBKR's legal, regulatory and supervisory frameworks. However, some of these activities were completed by the NBKR with support from the complementary World Bank Technical Assistance (TA) funded by the Swiss Secretariat for Economic Affairs (SIDA) and the International Monetary Fund (IMF). The activity associated with improving NBKR's ICT was cancelled (discussed in section 2e). With these changes, the scope of this component was restricted to solely improving the NBKR's human resources management capacity.

2. Enhancing financial services via the state-owned Kyrgyz Post Office (KPO) network. The estimated cost at appraisal was US$5.55 million. The actual cost was US$6.60 million. Activities included: (i) strengthening KPO's financial management capacity; (ii) modernizing KPO's business processes; and (iii) support for expanding the range of financial services provided by KPO and piloting new financial services.

3. Supporting the state-owned Ayil Bank for privatization and deposit mobilization. The estimated cost at appraisal was US$4.15 million. The actual cost was US$0.00 million. This component planned to support Ayil by providing: (i) TA for deposit mobilization; (ii) TA for finalizing an action plan for privatization; (iii) TA for implementing the action plan; and (iii) credit line for liquidity needs to the Bank. This component was dropped through the first project restructuring (discussed in section 2e).

4. Modernizing the secured transactions and debt resolution regime. The estimated cost at appraisal was US$1.00 million. The actual cost was US$0.8 million. This component planned to strengthen the regime for moveable collateral registration and execution through: (i) improvements in the legal and regulatory framework; (ii) modernization of the collateral registry; and (iii) capacity building of stakeholders.

5. Project coordination and monitoring. The estimated cost at appraisal was US$0.80 million. The actual cost was as estimated. Activities in this component aimed to support project management in the areas of fiduciary management and monitoring and evaluation.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project cost. The estimated cost at appraisal was US$13.00 million. The revised estimate was US$8.93 million. The actual cost was US$8.27 million.

Project financing. The project was financed by an IDA credit of US$7.15 million and an IDA Grant of US$5.85 million. With this the Bank financing for the project was US$13.00 million. Financing allocated to component three activity (US$4.15 million) was cancelled. With this, the revised estimate was US$8.85 million. The amount disbursed was US$8.27 million (US$3.63 million of the IDA Credit and US$4.63 million of the IDA Grant). The difference between the revised estimate and amount disbursed was due to exchange rate changes during implementation.

Recipient contribution. Recipient contribution was not planned at appraisal. There was no recipient contribution during implementation.

Dates. The project approved on March 8, 2012, became effective on December 25, 2013, and was scheduled to close on June 30, 2017. However, the project closed four years behind schedule on June 30, 2021.

Other changes. There were four Level 2 restructurings.

The Bank supported the following changes made through the f**irst restructuring on May 18, 2013.**

- The activity of privatizing the Ayil Bank was dropped even before the project became effective due to the opposition within the Parliamentary Budget and Finance Committee and certain members of parliament after the election. Funds allocated to this component were cancelled and indicators for monitoring this activity were removed. This activity had triggered the safeguards category " Financial Intermediary and Environmental Assessment". Following the cancellation of this activity, the project was reclassified as a Category C project.
- The closing date was extended by an year from June 30, 2017, to June 30, 2018, for completing the ongoing activities.

The changes made t**hrough the second restructuring on June 29, 2018** are as follows:

- Three component one activities were dropped. The fourth component one activity (NBKR's ICT infrastructure) was cancelled. The Bank declared "mis procurement without cancellation" for this activity, on grounds that the client did not award the contract from a competitive process. Funds allocated to this activity were reallocated to component two and three activities.
- The closing date was extended by two years from June 30, 2018 to June 30, 2020 for completing the ongoing activities.

Funds were reallocated between project components **through the third restructuring on February 18, 2019.**

The changes made through the **fourth project restructuring on July 10, 2020** are as follows:

- The target value for the PDO 2 indicator (expanding financial services via the KPO network) was revised downwards. The volume of KPO's financial services declined from ten million at the baseline in 2011 to 8.6 million in December 31, 2019, due to changes in market conditions and increased competition. More adults were switching to cashless payments due to factors such as increased access to infrastructure via the Automated Teller Machine (ATMs) or e-wallets to receive money. This caused decline in the cash delivery of pensions by postal authorities, especially in urban areas. Hence, the original target was deemed to be unrealistic.
- New intermediate indicators were added.
- The closing date was extended by one more year from June 30. 2020 to June 30, 2021 due to the delays in completing the activities following the restrictions imposed in the wake of the COVID - 19 pandemic.

Split rating. Although the PDOs did not change, the project scope was drastically reduced through the second project restructuring. Therefore, this assessment is based on a split rating of objectives, when 34.2% (US$3.03 million) was disbursed before restructuring, and the balance 65.8% (US$5.85 million) after restructuring.

3. Relevance of Objectives

Rationale

Country and sector context. At appraisal in 2011, Kyrgyz Republic was recovering an economic crisis following political instability in 2010. The Kyrgyz financial system is dominated by the banking sector (with 22 banks, of which three are state-owned), MFOs and credit unions, and the state-owned Kyrgyz Republic Post Office (KPO) providing a limited range of financial services (ICR, paragraph 5). The political upheavals of 2010, led to significant financial sector instability with large and immediate deposit outflows.

The challenges faced by the NBKR in resolving problem banks following the political upheaval, highlighted deficiencies in the bank's resolution legal framework. The framework was fragmented and the gaps and inconsistencies across several laws undermined NBKR's ability to address problem banks. The banking crisis highlighted weaknesses in the supervisory framework in the areas of contingency planning and crisis management. The deficiencies were exacerbated by an outdated ICT system and shortcomings in NBKR's human resource management policies. Financial intermediation in Kyrgyz Republic was limited, with credit and deposit penetration about 17% and 20% of Gross Domestic Product (GDP), as compared to an average of 55% and 33% in Europe and Central Asia (ECA) countries in 2008 (ICR, paragraph 9). The supply of financial services to micro, small and medium enterprises (MSMEs) was limited and deposit services were virtually non-existent in rural areas.

While there were many constraints on access to finance, the following measures were regarded as likely to have the most impact: (i) reforming and investing in KPO to expand its financial services through its large network of branch offices; (ii) privatizing the state-owned Ayil Bank and expanding its deposit services in rural areas; and (iii) modernizing the moveable collateral and debt resolution regimes.

Government strategy. The coalition government that came into power in 2010 developed a one-year Action Plan for 2011, highlighting financial sector development as a key area of reform. Kyrgyz Republic's Medium Term Development Strategy for 2012-2014 articulated the need for reforms in bank resolution, deposit insurance system and bank supervision. The PDOs also supported the governments Banking Sector Development Strategies of 2009-2011 and 2012-2015.

Bank strategy. At appraisal, the PDOs were consistent with the high-level objectives of the Bank's Interim Strategy Note (ISN) for 2011 - 2013: (i) improving governance, effective public administration and reducing corruption; (ii) economic stabilization to support recovery and sustained growth; and (iii) social stabilization through social services and community infrastructure. The Bank's current Country Partnership Framework (CPF) for 2019 - 2022 highlighted the need for financial sector strengthening including through improving bank supervision, modernizing payment systems, enhancing sectoral upgrading financial infrastructure (such as credit registries and secured transactions), and increasing financial inclusion.

Previous Bank experience. The Bank has extensive experience with previous and ongoing lending projects, TA and analytical work aimed to support financial sector reforms in the Kyrgyz Republic. These include; (i) the ongoing payment and banking system modernization project; (ii) the 2002 Financial Sector Assessment Program (FSAP) and the FSAP follow-up TA project; (iii) a feasibility study of KPO potential in expanding access to financial services (May 2008); and (iv) a vulnerability assessment of the banking sector (June 2010). The scope of this project included institutional strengthening of the NBKR, expanding the range and scope of activities provided by the KPO and modernizing the moveable collateral and debt resolution regimes.

The PDO 1 statement "enhancing financial sector stability" was however broad, especially given that many component one activities were dropped with the project restructuring. The PDO 1 statement remained the same. although the scope of component one activities was drastically reduced. Given this, the PDO 1 statement could have been revised to align it with the actual project scope. Therefore, the relevance of the PDO is assessed as substantial.

Rating

Substantial

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

To enhance financial sector stability.

Rationale

Theory of change. The project activities aimed at the intended outcome of enhancing financial sector stability of NBKR. Strengthening the legal, regulatory and supervisory framework of NBKR, replacing NBKR's ICT system for on-site and off-site supervision and improving its human resources capacity, would contribute to realizing the intended outcome. One key shortcoming of the theory of change was that four of the component one activities were dropped during implementation. Given this, the PDO should have been revised to better reflect the reduced scope of project activities.

Outputs. (ICR, pages 26 -27)

- 71 NBKR supervisory staff were trained, exceeding the target of 25 in areas of liquidity risk, derivates, Information Technology (IT) security, operational risk, stress testing of credit systems, preparing International Financial Reporting System (IFRS) evaluations, systemic risk and consolidated supervision.
- Average years of experience of NBKR supervisors when the project closed was six as compared to two at the baseline. This exceeded the target of 4.5 years.

Outcomes.

The outputs described above were expected to enhance NBKR's financial sector stability by enabling the authorities to adopt new major regulations. However, with the dropping of major activities from the project, attribution of outcomes to project activities was not entirely possible.

The NBKR adopted two major regulations for improving its human resources management as per the revised target. This was far short of the original target of 12. These regulations were:

- The regulation facilitating NBKR's transition to risk-based supervision from compliance- based supervision. This regulation was amended by NBKR (outside the project activities) on August 14, 2019 and November 25, 2020, to include sections related to anti-terrorist financing, money-laundering, and responsibilities of curators/institutional inspections.
- The NBKR adopted the regulation on "Approval of the Provision on Certification of NBKR Staff" on May 22,2012. This regulation specified minimum qualifications and requirements for NBKR's supervisory staff. This regulation was amended on August 2, 2017, to add the requirement of certification of the supervisory staff.
- The team clarified that the NBKR also developed various legal acts during the course of the project. The team clarified that it was hard to delineate what reforms (change in legal, regulatory and supervisory frameworks) was done precisely under the project, since the component one activities intended to support the overall objectives in conjunction with a parallel TA.

Of the five intended activities, three (strengthening NBKR's legal, regulatory and supervisory frameworks) were dropped and one (improving NBKR's ICT) was cancelled. The project eventually completed only one activity. In addition, attribution to the project activities was only partial. Therefore, efficacy is assessed as negligible before restructuring.

Rating
Negligible

OBJECTIVE 1 REVISION 1

Revised Objective

The PDO was not revised. However, the project scope was drastically reduced with the second project restructuring.

Revised Rationale

Outcomes.

The outputs described above were expected to enhance NBKR's financial sector stability by enabling the authorities to adopt new major regulations. However, with the dropping of major activities from the project, attribution of outcomes to project activities was not entirely possible.

- The NBKR adopted two major regulations for improving its human resources management as per the revised target.

The project restructuring did not significantly change the outcomes. The project eventually completed only one activity. While the revised targets were met, they were not entirely attributable to the project. This review concludes that the restructuring was not sufficient for realizing the development objective. Therefore, the efficacy of this objective is modest after restructuring.

Revised Rating

Modest

OBJECTIVE 2

Objective

To increase access to financial services.

Rationale

Theory of change. The project activities aimed to address some of the constraints to accessing financial services particularly by rural beneficiaries. Activities supporting KPO, such as connecting ICT-equipped post offices to central terminals, installing centralized online accounting system, assistance for improving KPO's accounting practices and training KPO staff, were likely to help KPO provide ICT based financial services in rural and remote areas via agreements with utility companies and banks. Activities aimed at improving the legal and regulatory framework for secured lending and debt resolution, modernizing the collateral registry and capacity building of stakeholders were likely to strengthen the regime for registering moveable collateral and thereby increase the access to credit for small and medium size enterprises with moveable collateral.

One shortcoming of the results framework was that the PDO remained unchanged, although the project was left only with the KPO part and the Ayil Bank part of the project (which was also relevant for increasing to financial services, particularly savings and loans) was dropped. It is not clear why the PDO was not made more project-specific to reflect the actual scope of project activities.

Outputs. (ICR, page 28 - 33).

- The KPO adopted a centralized digitalized financial management system as targeted for transitioning from paper-based processing practices. 388 post offices were equipped with IT system exceeding the target of 360. According to the additional information provided by the team, the post offices were all connected to the KPO's central hub by project closure. With this, around 664 post offices (representing 72% of Kyrgyz Republic's total postal network) were providing ICT-based financial services. 518 of the post offices were in rural areas with limited banks and ATMs.
- The KPO developed a new methodology for costing KPO's products and services as targeted. Based on this methodology, a software module was installed to enable KPO generate consolidated financial reports for accounting and costing, and filtering calculations by separate post offices for assessing the comparative effectiveness of its units.
- KPO developed an internal audit methodology and a three-year audit plan and published audited financial statements for four years from 2016-2019 (exceeding the target of three) and two financial audits (for 2019 and 2020) that were consistent with the International Financial Reporting Standards (IFRS).
- The project aided in creating KPO's own server infrastructure through the Data Processing Center and backup center (previously KPO had only a server with limited capacity).The KPO procured internet services with adequate bandwidth for post offices in the regions.
- 1,700 KPO staff were trained, exceeding the target of 1,200. Twenty KPO staff were trained as trainers and four dedicated regional training centers were constructed under the project.
- A survey of KPO employees was conducted in September 29, 2021, on a sample of 100 employees. The sample included 9.1% frontline KPO employees directly involved in servicing retail customers. 88% of the interviewees were women and 68% were working in rural areas. The main findings of the survey are: 80% of the interviewed had access to training courses under the project and 92% of them were satisfied with the course quality; 92% were satisfaction with the changes in their daily life due to the project interventions (including the new systems introduced by the project); and 63% of those interviewed considered that the number of clients served in their offices had increased by 20% compared to the previous year.
- KPO's global ranking in the Universal Postal Union (UPU) improved. The UPU launched a Postal Development Index, which measures four dimensions of postal development: reliability, reach, relevance and resilience. KPO's initial ranking was 129th out of 170 countries in 2016, dropped in 2017 to 135th, improved to 106 in 2018 and further improved to 98th in 2019. The ranking for 2020 was not available.
- KPO signed agreements with banks and utilities. The team clarified that these agreements referred to the KPO's processing of banks and utility companies' transactions on their behalf. These agreements benefitted customers in rural areas with no bank branches. The agreements also reduced the costs and time of rural households, who previously had to travel outside their villages to make a basic banking transaction (such as a regular credit service payment).
- Revenues from non-governmental financial service transactions to the KPO increased from 15% at the baseline to 24.70%, exceeding the target of 20%.
- The market share of KPO in total remittance inflow increased to 0.01% as compared to 0% at the baseline, but short of the target of 2%.
- The Ministry of Justice adopted amendments to four laws (The Law of the Kyrgyz Republic on Pledges, Civil Code, The Code of the Kyrgyz Republic on Violations and The Code of Administrative

Responsibility of the Kyrgyz Republic) and issued nine regulations, including two ministerial orders on operations of the central collateral registration office and moveable property.
- The 'online collateral registration system' was developed as targeted to ensure registration of collateral and transactions in real time. This system was upgraded in 2020 to perform additional functions such as uploading data, based on personal Identification number (PIN) for individuals, for legal entities, uploading data based on Vehicle Identification System and uploading data based on PIN for MFOs and other financial and lending institutions.
- The Ministry of Justice staff were trained on digitalization technologies. Sixteen public awareness campaign were held for financial institutions on compliance requirements and on the online system and secured lending methods far exceeding the target of three.

Outcomes.

As indicated earlier, the activity of privatizing the Ayil bank was dropped and the range of financial services supported by the project were confined mainly to the financial services provided by the KPO. The outputs were intended to have two outcomes: (i) increase the number of financial services provided by KPO; and (ii) increase the number of annual registrations using moveable capital as collateral.

- The number of financial services provided by the KPO was 9.8 million per year in June 2021 (the figures for 2021 were annualized based on the data for the first six months). This was less than 10 million at the baseline and far short of the revised and original targets of 11 million and 17 million. The ICR states that the integration of the new IT system in KPO's branch offices with the relevant systems of commercial banks enabled the general public (including the unbanked individuals in rural areas) better access to financial services (such as for making payments, and repaying loans). According to the clarifications provided by the team, the shortfall in target was partly attributable to the COVID - 19 pandemic which affected demand for payments, credit and other services.
- The team clarified that 3,575 new annual registrations were made through the secured transactions registry, using moveable assets as collateral when the project closed. This was short of the target of 5,000.
- While the project made positive contributions via supporting the range of financial services provided by the KPO in remote rural areas with limited financial institutions, the number of financial services provided by KPO were less than at the baseline. The new annual registrations made through the secured transactions registry using moveable assets as collateral was short of the target of 5,000. Thus, achievement of this objective before restructuring is rated as modest.

Rating
Modest

OBJECTIVE 2 REVISION 1

Revised Objective
The PDO was not revised with the second project restructuring.

Revised Rationale

Outputs.

The outputs described above were also relevant after project restructuring.

Outcomes.

The only PDO indicator target that was revised was the number of financial transactions by KPO, which was revised as 11 million, and the actual achievement was less than the revised target and even the baseline as mentioned above. Further, it is not clear if the increase in access to finance was due to the project or due to the private sector. In sum, given that the realized outcomes were much less than the targets, this review concludes that the project made a modest contribution to the PDO of increasing access to financial services.

Revised Rating
Modest

OVERALL EFFICACY

Rationale
Overall efficacy is modest. Efficacy of PDO 1 - enhancing financial sector stability - is rated as negligible before restructuring and modest after restructuring. Efficacy of PDO 2 - enhancing financial sector stability - is rated as modest before and after restructuring.

Overall Efficacy Rating	**Primary Reason**
Modest	Low achievement

5. Efficiency

Economic benefits. The project benefits were expected to come from: (i) to the implementing agencies due to the increased effectiveness of the collateral registry (reducing its operating costs), improvements in KPO's financial performance and improved effectiveness of the NBKR supervision; (ii) to clients due to the increased access to financial services, reduced transaction costs and increased return on savings; and (iii) benefits to economic development through three channels. first, the regulatory and supervisory reforms would enhance financial stability and thereby contribute to the country's sustainable economic growth. second, expansion of the KPO's network would improve access to financial services to the underserved households in rural areas, and third, a modern moveable collateral registry would contribute to credit expansion and lowering the cost of credit.

Economic analysis. Economic analysis was conducted for activities associated with establishing the collateral registry and the ICT infrastructure in the KPO that supported both back office and front office functions. These components accounted for 95% of the cost (ICR, paragraphs 82-84).

Investments in Collateral registry. The main tangible benefit from the collateral registry came from the steady growth in lending secured with moveable collateral. The stock of outstanding loans almost doubled over the 2015-2021 period reaching US$45 million. The Net Present Value (NPV) at 12% discount rate estimated at US$2.6 million at closure was comparable to the NPV at appraisal. The ex-post Economic Internal Rate of Return (EIRR) was 10% (The EIRR was not calculated at appraisal).

KPO ICT Infrastructure investments. The main benefit from the collateral registry came from the steady growth in lending secured with moveable collateral. The NPV of costs and benefits associated with these agreements facilitated by the ICT investments in KPO was positive at closure. The ex post EIRR was 10% (the ex-EIRR was not calculated at appraisal).

Administrative and operational issues. The project approved on March 8, 2012, became effective only on December 25, 2013, due to the protracted delays in implementing the component three (privatization of Ayil bank) activity. This activity accounted for over a quarter of the Bank financing (27%) for this project. Eventually this activity was cancelled even before the project became effective. Likewise, the scope of the component one activity (strengthening the legal, regulatory and supervisory framework for banks) was drastically reduce through the second project restructuring. The project faced challenges at the outset outset due to the limited implementation capacity and uneven commitment from stakeholders, including the Parliament. Implementation was extremely slow in the early years and disbursements remained low (with only a third of the financing disbursed more than five years into implementation). These were mainly due to the procurement delays, exacerbated by factors over which the project had no control such as frequent changes in leadership and restrictions due to the COVID 19 pandemic in the final years. The repeated extension of the closing date by four years raised supervision costs.

Taking these factors into account, efficiency is assessed as modest, due to the administrative and operational issues during implementation which resulted in the project size being much smaller, with many of the originally planned activities dropped during implementation.

Efficiency Rating

Modest

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐ Not Applicable
ICR Estimate	✓	10.00	0 ☑ Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

Relevance of the PDOs is substantial both before and after project restructuring. Overall efficacy is modest. Efficacy of the first objective - enhancing financial sector stability - is negligible before restructuring and modest after restructuring. Efficacy of the second objective - to increase access to financial services - is modest before and after restructuring. Efficiency is rated as modest due to the administrative and operational shortcomings during implementation, which resulted in the non-completion of many of the planned activities at appraisal. This review concluded that there were significant shortcomings in the project's achievement of its objectives and efficiency. The project's overall outcome is therefore rated as moderately unsatisfactory.

Table. Outcome ratings

	Before Restructuring	After restructuring
Relevance of Objective	Substantial	
Efficacy Objective One	Negligible	Modest
Efficacy Objective Two	Modest	Modest
Efficiency	Modest	
Overall Outcome	Moderately Unsatisfactory	Moderately Unsatisfactory

a. Outcome Rating

Moderately Unsatisfactory

7. Risk to Development Outcome

Political risk. The ICR (paragraph 127) notes that political environment is still volatile and frequent changes in governments pose threats to the sustainability of project achievements. For instance, repeated changes in KPO's parent ministry undermined the Ministry's oversight of project activities. Likewise, the Collateral Registry Office unexpectedly came under the mandate of the Ministry of Justice. Such changes could hamper the institutional stability of of public sector entities such as the KPO with weak capacity and political weight and hence need political support at the higher level to sustain their reform momentum.

Economic risk. According to the team there is considerable risk as evidenced by the rising share of commercial banks' Non Performing Loans (NPLs), due to a combination of factors including the pro-longed COVID- pandemic and the war in Ukraine which is having a direct impact on Kyrgyz republic's banking system.

Financial risk. The ICR (paragraph 128) notes that sustainability of project achievements at KPO depends on institutional capacity at the KPO headquarters. Expanding the financial services and improving its revenue base is required for its financial sustainability in the long-run. The ICR notes that KPO's corporate culture needs to shift towards commercial-orientation, through establishing a marketing department and strengthening its internal M&E arrangements. Likewise, the outcomes of activities associated with modernizing the Central Registry Office could be undermined by inadequate funding for maintaining and upgrading the IT system.

8. Assessment of Bank Performance

a. Quality-at-Entry

The analytical underpinnings of the project were sound (discussed in section three). The preparation of this project drew on the Bank's previous experiences with similar projects aimed at improving the legal framework, supervision and regulation of the financial sector in Europe and Central Asia (such as the Azerbaijan Financial Services Project, which aimed to expand the financial services provided by the Azeri post and the Kosvo Business Environment TA project which aimed to modernize its collateral registry). The lessons incorporated at design included: (i) focusing on strengthening the legal, regulatory and supervisory framework for financial sector stability; (ii) working closely with the IMF given the nature of financial sector activities of the project; (iii) TA for ICT procurement given the weak implementation capacity (although this activity was no addressed well in the project): and (iv) modernizing the postal system recognizing that a modern postal system could be an effective instrument for enhancing financial services in underserved rural areas in the country context. The arrangements made at appraisal for fiduciary compliance were appropriate (discussed in section 10).

There were significant shortcomings in Quality-at-Entry. The project was over-ambitious and even though the activity of privatizing the Ayil Bank which accounted for over a quarter of the Bank financing for this project was dropped before effectiveness, the PDO was not modified to reflect the reduced project scope. The project risks were significantly underestimated at appraisal. Several risk such as the overall implementation risk, stakeholder and governance risks and the weak implementation capacity were assessed as moderate at appraisal. This assessment was inappropriate as the weak implementation capacity, political commitment and significant lack of ownership by the project counterparts in the initial years contributed to the long gap between project approval and effectiveness and cancellation of the activity (privatization of Ayil bank). Weak capacity of KPO undermined project performance for most of the project period. These factors suggest that there was not enough consultation with stakeholders when this project was prepared. There were also significant M&E shortcomings (discussed in section 9).

Quality-at-Entry Rating

Moderately Unsatisfactory

b. Quality of supervision

Eighteen Implementation Status Results (ISR) reports were filed over the project lifetime. Supervision missions were conducted twice a year. The task team switched to virtual meetings/missions after the onset of the COVID-19 pandemic. The ICR (paragraph 119) notes that the supervision team included financial and private sector specialists and fiduciary specialists and many of the supervision team were based in Bishkek. Given the project delays in the initial years, during the final year of the project, the Bank intensified its supervision effort by holding weekly technical and bi-weekly management meeting with the counterpart and provided day-to-day support in the final months. This helped in addressing most of the challenges and helped in completing most of the activities in the final years. The support provided by the Bank's procurement specialist in the country office helped in addressing the procurement challenges. The Bank appropriately restructured the project to address the challenges on the ground and helped in addressing the deficiencies in the M&E framework (although this was made only in the final years).

There were moderate shortcomings in Bank supervision. The ICR (paragraph 122) notes that the quality of Bank supervision was uneven. The ICR also notes that at times, the Bank supervision seemed to lose focus on the project's primary objectives and activities, skipped regular monitoring of progress towards key targets and was slow in strengthening country-based support for implementation. The continuity of leadership was undermined, especially in the early years. Further, the PDO was not modified and the M&E indicators were not revised adequately.

Bank performance at Quality-at-Entry was moderately unsatisfactory and at supervision was moderately satisfactory. Since overall outcome is in the unsatisfactory range, overall Bank performance is assessed as moderately satisfactory.

Quality of Supervision Rating

Moderately Satisfactory

Overall Bank Performance Rating

Moderately Unsatisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The key outcome indicators for monitoring PDO 2 (increasing access to financial services) - the number of financial transactions by KPO and the number of new annual registrations in the secured transactions registry) - were adequate.

However there were significant weaknesses in M&E design. The PDO 1 statement (enhancing financial sector stability) was too broad and lacked specificity. The intermediate indicator used for monitoring the quality of NBKR supervisory staff (number of years of professional experience) was inadequate. A more appropriate indicator would have been to monitor the number of the supervisory staff who were certified by an accreditation agency. Likewise, the number of (bank) card payment terminals connected to the KPO's new central IT system was inappropriate, given that the market had shifted from card-based payment methods to mobile money-based methods. The indicator to measure access to financial services was inadequate, since the indicators were confined to the services provided by KPO.

The ICR (paragraph 105) noted that there was no reliable base line and targets for several indicators, and that the PDO did not clearly spell out the responsibilities of the various stakeholders for collecting the data for monitoring project performance.

b. M&E Implementation

The ICR (paragraph 106) notes that the M&E design weaknesses, including specification of indicators remained during most of the implementation period. Despite the significant of the project scope regarding the financial stability of the NBKR, the indicators were not modified. The Bank did not revise the targets for several indicators. The ICR notes that the baseline figure for the number of financial transactions provided by KPO was overestimated. A validation of the baseline figure would have provided a more realistic picture of the project's achievements. The ICR notes that a limited amount of data was collected and disclosed in the initial years.

However, M&E implementation improved from 2020, after a M&E specialist was hired by the Project Management Unit and the Bank team more active in addressing the M&E weakness, especially pertaining to data collection and reporting.

c. M&E Utilization

The M&E framework was utilized to assess progress towards PDO achievement and to address implementation challenges.

In sum, M&E is assessed as modest, given the shortcomings in M&E design and issues in M&E implementation during the initial years.

M&E Quality Rating

Modest

10. Other Issues

a. Safeguards

The project was classified as a Category F (Financial Intermediary Assessment) project under the World Bank safeguard policies. As discussed in section 2e, following the cancellation of the component three activity, the project was reclassified as a category c project. No assessment was required.

b. Fiduciary Compliance

Financial management. The Bank conducted a financial management (FM) assessment of the Credit Line Management Unit (CLMU) and the Project Implementation Unit (PCU) of the NBKR at appraisal. The assessment concluded that FM arrangements were adequate (PAD, paragraph 52). The ICR (paragraph 112) notes FM was satisfactory since December 2014. Throughout the project lifetime, the PCU submitted annual audited financial statements and interim unaudited financial reports that were acceptable to the Bank in a timely fashion, and that there were no significant FM issues during implementation. The ICR (paragraph 135) notes that although the project provided for modernization of the entire financial management in the KPO, the country office-based Bank financial staff were not initially involved in advising the client on this issue. According to the additional information provided by the team, the country-based Bank financial staff advised the KPO in the final phase of the project.

Procurement management. The Bank conducted a procurement assessment at appraisal (PAD, paragraph 59). The assessment concluded that the procurement risk was high, due to the low capacity in KPO and limited competition in procurement in the country context. The mitigation measures, included hiring additional staff and more direct support from the Bank's procurement expert stationed in the country office.

The ICR (paragraph 114) notes that procurement management was rated as moderately satisfactory during implementation. However there were procurement delays during implementation, and as discussed in section 2e, there was one case of mis procurement without cancellation for an activitiy associated with installing ICT infrastructure in NBKR (This activity was cancelled later).

c. Unintended impacts (Positive or Negative)

The ICR (paragraph 95) notes that there were no unintended impacts.

d. Other

The ICR does not mention any unintended consequence due to the project activities.

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Unsatisfactory	Relevance of the PDO was substantial. Overall efficacy is modest. Efficiency is modest.
Bank Performance	Moderately Satisfactory	Moderately Unsatisfactory	There were significant shortcomings at Quality at Entry.
Quality of M&E	Modest	Modest	
Quality of ICR	---	Substantial	

12. Lessons

The ICR draws the following main lessons from the experience of implementing this project, with some adaptation of language.

1. A careful design and adjustment of the development objectives helps in better monitoring of project performance. In this project, the project scope was drastically reduced following the second project restructuring. However the Project Development Objective (PDO) was not revised to align it with the actual scope of the project. This negatively impact ratings as the project outcomes were assessed against bigger objectives than what could be achieved through the project interventions.

2. A comprehensive approach may be required for modernizing a state-owned enterprise. This project broadly aimed at modernizing the state-owned Kyrgyz Republic Post Office (KPO) and expanding the range of financial services provided by KPO. However, the project e project activities were confined to improving the ICT infrastructure of KPO. The lesson is that reforms needed a major change in the corporate culture and institutional structure that were well beyond the scope of this project.

3. Securing and institutionalizing high-level political commitment can help in overcoming delays during implementation. In this project, the Project Coordination Unit (PCU) did not have sufficiently high administrative profile and leverage. The lesson from this project is that when several government agencies and ministries are involved in project implementation, forming a steering committee headed by a senior official at the Prime Minister's office would signal a high-level political commitment and facilitate resolving implementation issues more efficiently.

4. A careful consideration of the full array of Bank instruments is required for a sector reform. In this project, the project activity of privatizing the state-owned Ayril Bank was cancelled even before the project became effective due to political resistance. On hind sight it might have been useful for the Bank to support a measure on privatization of state-owned banks with a robust 'Advisory Services and Analytics (ASA) program and a specific prior action under a Development Policy Financing.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR is clear. It candidly discusses the issues during implementation, the shortcomings with the monitoring and evaluation and Bank supervision. The ICR draws good lessons from the experience of implementing this project.

However, there were some shortcomings. The theory of change however could have explicitly stated the assumptions. The evidence provided in the text for the ratings is not adequate. The split rating was not conducted in line with the Bank Guidance. The project achievements before the restructuring should be assessed for the entire duration of the project, not partially before and after the restructuring.

a. Quality of ICR Rating

Substantial