



KG Financial Sector Development Project (P125689)

EUROPE AND CENTRAL ASIA | Kyrgyz Republic | Finance, Competitiveness and Innovation Global Practice | IBRD/IDA | Investment Project Financing | FY 2012 | Seq No: 18 | ARCHIVED on 28-Jun-2021 | ISR47450 |

Implementing Agencies: Ministry of Economy and Finance, Kyrgyz Post Office, National Bank of the Kyrgyz Republic, Ministry of Justice

Key Dates

Key Project Dates

Bank Approval Date: 08-Mar-2012

Effectiveness Date: 25-Dec-2013

Planned Mid Term Review Date: 31-Mar-2016

Actual Mid-Term Review Date: 31-Mar-2016

Original Closing Date: 30-Jun-2017

Revised Closing Date: 30-Jun-2021

Project Development Objectives

Project Development Objective (from Project Appraisal Document)

Project Development Objectives are to: (i) enhance financial sector stability, and (ii) increase access to financial services.

Has the Project Development Objective been changed since Board Approval of the Project Objective?

No

Components Table

Name

Strengthen Institutional capacity of the NBKR:(Cost \$0.33 M)
Enhancing financial services via KPOs network:(Cost \$6.60 M)
Modernizing the secured transactions and debt resolution regime:(Cost \$1.12 M)
Project coordination and monitoring:(Cost \$0.80 M)

Overall Ratings

Name	Previous Rating	Current Rating
Progress towards achievement of PDO	<input type="checkbox"/> Moderately Unsatisfactory	<input type="checkbox"/> Moderately Satisfactory
Overall Implementation Progress (IP)	<input type="checkbox"/> Moderately Satisfactory	<input type="checkbox"/> Moderately Satisfactory
Overall Risk Rating	<input type="checkbox"/> Moderate	<input type="checkbox"/> Moderate

Implementation Status and Key Decisions

The project implementation is successfully completed. The project contributed to strengthening legal and regulatory frameworks, building centralized and automated technology infrastructure, and strengthening institutional capacity towards enhancing financial sector stability and increasing access to financial services.

PDO 1 indicator (changes to the legal, regulatory and supervisory framework) has been met, along with two intermediate indicators for Component 1. While the project had limited activities (2 percent of the project funding), it provided solid training for bank and non-bank supervisors in the NBKR. Many related TA activities have been funded by the parallel FSDP Technical Assistance project under the BETF (SECO funding) that aims at enhancing financial sector stability in the Kyrgyz Republic.



PDO 2 indicator for increased financial transactions (with the target of 11 million) has steadily increased over the past year to reach 9.8 million on May 31, 2021. The recent increase in volume from 8.6 million transactions in 2019 to 9.3 million transactions in March 2021, and at 9.8 million transactions in May 2021, reflects the visible progress in the implementation of Component 2 - in particular, the introduction of the centralized and automated financial management system (1C) and digitized and automated front-office functions in post offices (BAIP system). The enhanced technology allowed KPO to partner with commercial banks as their agent. A total of seven agency agreements has been signed over the past year thanks to the enhanced IT capabilities of KPO, without which commercial banks would not have had the confidence to establish partnerships with the KPO. The 1C system ensures transparent accounting and front office technologies enable post offices to process financial transactions reliably. This has increased customer satisfaction and is contributing to expanding the customer base. The project built an important technology infrastructure that greatly expands KPO's opportunity to provide modern financial services on competitive terms. In addition, KPO accumulated the necessary managerial and technical skills needed to operate and constantly upgrade its IT systems. KPO is planning to expand the roll-out of the technology solutions building on the infrastructure implemented under the project. This will enable KPO to further expand access to financial services, especially in rural areas.

The PDO 3 indicator (5,000 new registrations of movable collaterals per year) was almost met but the COVID-19 pandemic affected the trend. There were 4,461 new registrations in 2019. However, the pandemic has slowed down new lending, and lending against movable assets was particularly affected. Since the pandemic, the rate of release of the pledges (de-registration) has been faster than the new registration. The first 5 months in 2021 showed a sign of recovery with the annualized growth of 3,204 new registrations, but growth is not yet at the level seen in 2019. It is expected that once the economy recovers, lending against movable assets would also increase. This project component contributed to strengthening the enabling environment for secured lending and helped operationalize the on-line collateral registry, which is connected to other asset registration systems, bringing efficiencies in registration and ensuring real-time transactions.

Accordingly, the progress towards achievement of the PDO is upgraded to Moderately Satisfactory.

Risks

Systematic Operations Risk-rating Tool

Risk Category	Rating at Approval	Previous Rating	Current Rating
Political and Governance	--	<input type="checkbox"/> Moderate	<input type="checkbox"/> Moderate
Macroeconomic	--	<input type="checkbox"/> Moderate	<input type="checkbox"/> Moderate
Sector Strategies and Policies	--	<input type="checkbox"/> Moderate	<input type="checkbox"/> Moderate
Technical Design of Project or Program	--	<input type="checkbox"/> Moderate	<input type="checkbox"/> Moderate
Institutional Capacity for Implementation and Sustainability	--	<input type="checkbox"/> Substantial	<input type="checkbox"/> Moderate
Fiduciary	--	<input type="checkbox"/> Moderate	<input type="checkbox"/> Moderate
Environment and Social	--	<input type="checkbox"/> Low	<input type="checkbox"/> Low
Stakeholders	--	<input type="checkbox"/> Substantial	<input type="checkbox"/> Moderate
Other	--	<input type="checkbox"/> Substantial	--
Overall	--	<input type="checkbox"/> Moderate	<input type="checkbox"/> Moderate

Results

PDO Indicators by Objectives / Outcomes



Strengthening legal, regulatory and supervisory framework for banks, MFOs and credit unions.

► Number of changes to the legal, regulatory and supervisory framework are implemented (Number, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	2.00	2.00	2.00
Date	30-Jun-2018	13-Apr-2021	24-Jun-2021	30-Jun-2021
Comments:	This target was achieved on January 13, 2020, when NBKR adopted the new risk-based supervisory approach that included revised human resources policies and procedures.			

Enhancing financial services via KPO network

► Number of financial services transactions going through KPO (Number, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	10,000,000.00	9,300,000.00	9,800,000.00	11,000,000.00
Date	08-Mar-2012	13-Apr-2021	24-Jun-2021	30-Jun-2021
Comments:	The target of the PDO indicator, the number of financial services transactions going through KPO, is 11 million per year. Meeting this target may be a challenge before the closing of the Project due to the delays in the implementation of the Project (IT system, Financial Management System, training KPO Staff, and bank agency agreement). The implementation is nearing completion but the results may not reflect in the transaction volume before the Project closure. The volume of transactions went down in recent years because of the increased competition by banks and payments service providers, growing access infrastructure via ATMs and POS terminals, delays in implementation of access infrastructure by KPO, and the decline in cash delivery of pensions, especially in urban areas.			

Modernizing secured transactions and debt resolution regime

► Number of new annual registrations in the secured transactions registry, using moveable assets as collateral (alone or in combination with immovable collateral) (Number, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	1,354.00	1,652.00	1,696.00	2,500.00
Date	31-Dec-2017	13-Apr-2021	24-Jun-2021	30-Jun-2021
Comments:	The target of the PDO indicator, number of new annual registrations in the secured transaction registry, is 5,000 on an annual basis (i.e., 2,500 per half-year). MOJ measured 4,461 new registrations (89 percent of the target) at the end of 2019. However, the pandemic has slowed down new lending and lending against movable assets was particularly affected: only 2,576 new registration of movable collaterals was registered in 2020. The first 5 months in 2021 showed a sign of recovery with the annualized growth of 3,204 new registrations, but growth is not yet at the level seen in 2019. Compared month to month, 1,335 new movable collaterals were registered in the first 5 months of 2021, compared to 924 in 2020, and 1,966 in 2019. Semi-annual (Dec 2020-May 2021) is 1,696.			

Intermediate Results Indicators by Components



Strengthening Institutional Capacity of the NBKR				
► Improved staff capacity, measured in terms of number of years of staff experience in supervision departments (Number, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	2.00	6.90	6.00	4.50
Date	15-Jan-2012	13-Apr-2021	24-Jun-2021	30-Jun-2021
Comments:	The NBKR reported the average years of supervisory staff experience of 6.0 years in June 2021. This is a decrease from 6.9 years in April; however, this is still above the target..			
► Supervisory staff conducted spacialist training (Number, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	0.00	71.00	25.00
Date	30-Jun-2018	13-Apr-2021	24-Jun-2021	30-Jun-2021
Comments:	The training for 71 bank and non-bank supervisors was organized and offered virtually, covering areas including liquidity risk, derivatives, IT security, operational risk, stress testing of credit risk, IFRS 9 evaluation, risk-based supervision, systemic risk, and consolidated supervision, among others.			

Enhancing financial services via KPOs network				
► Number of ICT-equipped Post Offices (with installed, operational front office cash terminals) connected to the central hub (Number, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	388.00	388.00	360.00
Date	01-Jan-2012	13-Apr-2021	24-Jun-2021	31-Dec-2020
Comments:	388 post offices (more than 360 in the target) are fully equipped with the new IT and connected to Internet.			
► Revenues from non-government financial services transactions (payment, remittances, bank) as a share of total KPO revenues from financial services (including also pension pay out and social allowances (Percentage, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	15.00	21.00	44.50	20.00
Date	15-Jan-2012	13-Apr-2021	24-Jun-2021	30-Jun-2021
Comments:	Revenue diversification in financial services increased to 44.5 percent for the first 5 months of 2021, compared to 21 percent in 2020 (reported in March 2021) and against the target of 20 percent. This shows a promising trend of growing revenues from financial services in the increasingly competitive market, an objective of the project, and KPO's decreased dependency on the revenues for distribution of cash for pensions and social allowances.			



► Improved quality, reliability and cost-efficiency of small value payments operations, measured in terms of same day Straight Through Processing as a share of total transactions to&from bank accounts (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0%	38%	63%	>30%
Date	15-Jan-2012	13-Apr-2021	24-Jun-2021	30-Jun-2021
Comments:	63% of KPO's financial service operations such as bill payments, water and utility payments, repayments of loans, is transacted through newly installed technology solutions (BAIP system) in 295 out of 388 locations that are fully operational. This is a rapid increase from 40% in March 2021 and a further rapid increase is expected once full utilization of the technology is achieved. Internet connectivity with adequate stability and bandwidth remains a challenge in some remote and mountainous areas.			
► Enhanced transparent financial performance (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	No	Financial audit reports published for 2016, 2017, 2018 and 2019.	Financial audit reports published for 2016, 2017, 2018 and 2019.	Annual audited statements 2016, 2017, and 2018.
Date	15-Jan-2012	13-Apr-2021	24-Jun-2021	30-Jun-2020
Comments:	This indicator has already been meet. 2016 and 2017 were audited by Deloitte Touche, and 2018 and 2019 by BDO Armenia, published in January 2021. The final audited financial statements of 2020 are due by December 2021.			
► Introduction of performance measurement, in terms of accounting reports with separated profitability and risk analysis for financial services and postal services (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	KPO is working together with a consultant on piloting financial reports. To this end, KPO commenced data entry into the new FM application. This will enable KPO to do financial performance assessments.	Periodic reports with separated accounting per business line, product and branch	Monthly financial reports
Date	15-Jan-2012	13-Apr-2021	24-Jun-2021	31-Dec-2020
Comments:	Completed; periodic reports with separated accounting per business line, product and branch can be now produced.			
► Number of cashiers, tellers, postmasters and other operational staff completed NBKR training to operate financial services at KPO (Number, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	1,206.00	1,695.00	1,200.00
Date	15-Jan-2012	13-Apr-2021	24-Jun-2021	31-Dec-2020



Comments:	<p>Nearly 1,700 of the KPO staff were extensively trained Additional 500 staff have been trained between April-June 2021. In total, nearly 1,700 KPO staff have been extensively trained including in the areas of financial management, anti-money laundering and provision of payment services. More than 20 people were trained as trainers and 4 regional training centers were equipped with training materials and new technology services provided under the project. Further, specialized IT and financial management staff, among others, have been extensively trained online and abroad to ensure maintenance and further expansion of the technology infrastructure built under the project.</p>			
▶ Enhanced competitive outreach for last mile delivery of remittances, measured in terms of market share of KPO in total remittances (Percentage, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	0.07	0.01	2.00
Date	15-Jan-2012	13-Apr-2021	24-Jun-2021	30-Jun-2021
Comments:	<p>KPO launched together with Pochta Rossii in Dec 2020 Postransfer on the corridor with Russia, as an electronic, instant and low-cost service. In response to this Western Union, a partner of the Russian Post, already lowered its rates with nearly 50%. UPU, the UN agency behind Postransfer has entered into talks to connect Western Union and RIA Money Transfer to the same system. Alternative option for KPO remains to launch remittances as part of agency banking. Migrant remittances are a life line for many poor, rural Kyrgyz households. Data is based on those of KPO and NBKR for April 2021.</p>			
▶ Implementation of bank agency agreement in post offices (Number, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	8.00	9.00	3.00
Date	10-Apr-2020	13-Apr-2021	24-Jun-2021	31-Dec-2020
Comments:	<p>KPO rapidly expanded its agreements with banks for provision of agency services and started with operations in post offices while some are still at an early stage. The total of 8 agency agreements in place in April 2021. One additional agreement reached in May 2021.</p>			
▶ Number of ICT-equipped Post Offices that is connected to (bank) card payment terminal (Number, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	0.00	0.00	360.00
Date	15-Jun-2020	13-Apr-2021	24-Jun-2021	30-Jun-2021
Comments:	<p>393 rural post offices have bank card terminals, of which 150 also are fully ICT equipped but not yet connected to the Central Hub. This is work in progress. It is hoped that this is completed by June 30, 2021 but it also depends on the installment of internet infrastructure which KPO is currently working with the Kyrgyz Telecom.</p>			
Modernizing the secured transactions and debt resolution regime				
▶ Amended legal framework for moveable collateral and debt resolution regimes (Number, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target



Value	0.00	2.00	4.00	2.00
Date	15-Jan-2012	13-Apr-2021	24-Jun-2021	30-Jun-2021
Comments:	In total, 4 laws have been amended (the Law of the Kyrgyz Republic «On Pledge», the Civil Code of the Kyrgyz Republic, the Code of the Kyrgyz Republic on «Violations», and Code of Administrative Responsibility of the Kyrgyz Republic). See details in the Aide Memoire (June 2021).			
► Issued regulations for the well-functioning of the collateral registry (Number, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	3.00	9.00	4.00
Date	08-Mar-2012	13-Apr-2021	24-Jun-2021	30-Jun-2021
Comments:	Total of 9 regulations including 2 ministerial orders. See details in the Aide Memoire (June 2021).			
► Online system for registering collateral is operational and connected to other assets registrations (for example (registration of vehicle registration) (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	No online system	Online registration system is operational and connected to vehicle registration system.	Online registration system is operational and connected to vehicle registration system.	On-line registration system is operational and at least connected to another asset registration system (for example system of vehicle registration)
Date	15-Jan-2012	13-Apr-2021	24-Jun-2021	30-Jun-2021
Comments:	The collateral registry system is operational and connected to the vehicle registration system, as well as to the registration system of natural persons, and the registration system of legal entities.			
► Number of dissemination and capacity-building and training events held (Number, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	16.00	16.00	6.00
Date	15-Jan-2012	13-Apr-2021	24-Jun-2021	30-Jun-2021
Comments:	The Collateral Registry Department of the Ministry of Justice organized 3 additional events over the past 6 months, in addition to 13 events previously organized in different regions of the country.			
► Increase in the debt recovery rate for creditors (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	zero	40.60	40.60	30 cents on the dollar of 4% of insolvent companies
Date	15-Jan-2012	13-Apr-2021	24-Jun-2021	30-Jun-2021



Comments:

The recovery rate is recorded as cents on the dollar recovered by secured creditors through judicial reorganization, liquidation, or debt enforcement (foreclosure or receivership) proceedings. The recovery rate is calculated by the WB doing business team by taking into account the time, cost, and outcome of the recovery process. The recovery rate increased from 36.2 cents on a dollar at the end of 2018 to 40.6 cents on a dollar at the end of 2019.

Performance-Based Conditions

Data on Financial Performance

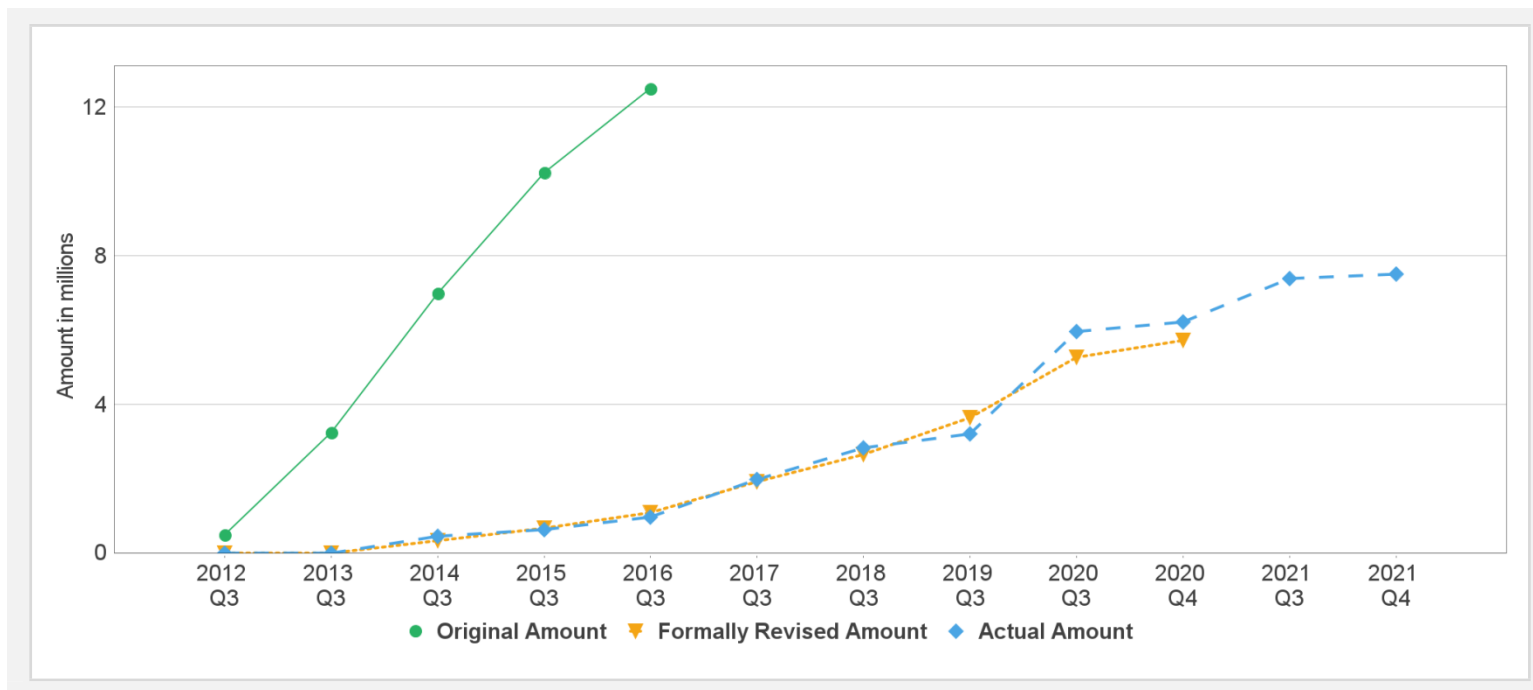
Disbursements (by loan)

Project	Loan/Credit/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed
P125689	IDA-50670	Effective	USD	7.15	4.03	3.12	2.99	0.65	82%
P125689	IDA-H7600	Effective	USD	5.85	4.92	0.93	4.53	0.11	98%

Key Dates (by loan)

Project	Loan/Credit/TF	Status	Approval Date	Signing Date	Effectiveness Date	Orig. Closing Date	Rev. Closing Date
P125689	IDA-50670	Effective	08-Mar-2012	11-Jul-2013	25-Dec-2013	30-Jun-2017	30-Jun-2021
P125689	IDA-H7600	Effective	08-Mar-2012	11-Jul-2013	25-Dec-2013	30-Jun-2017	30-Jun-2021

Cumulative Disbursements





PBC Disbursement

PBC ID	PBC Type	Description	Coc	PBC Amount	Achievement Status	Disbursed amount in Coc	Disbursement % for PBC
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Restructuring History

Level Approved on 21-May-2013 ,Level 2 Approved on 29-Jun-2018 ,Level 2 Approved on 18-Feb-2019 ,Level 2 Approved on 10-Jul-2020

Related Project(s)

There are no related projects.
