Report Number : ICRR0021447

1. Project Data

Operation ID	Operation Name
P148099	Governance and Competitiveness DPO
Country	**Practice Area(Lead)**
Kyrgyz Republic	Macroeconomics, Trade and Investment

L/C/TF Number(s)	Closing Date (Original)	Total Financing (USD)
IDA-58660,IDA-D1240	01-Sep-2017	23,174,775.00
Bank Approval Date	**Closing Date (Actual)**	
07-Jul-2016	01-Sep-2017	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	24,000,000.00	0.00
Revised Commitment	24,000,000.00	0.00
Actual	23,174,775.00	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Policy Areas

a. Objectives

The Development Policy Operation's (DPO's) objectives, as stated in the Program Document (PD, p. i), were to support the Government of the Kyrgyz Republic in: (1) **improving public sector governance** through reforms aimed at enhancing public sector integrity, increasing the quality of public services, and enhancing energy sector governance; and (2) **strengthening private sector competitiveness** through measures to facilitate trade, improve the business environment, and promote greater connectivity.

b. Pillars/Policy Areas

The DPO contained two pillars (PD, p. 12). The first pillar, **Improving Public Sector Governance**, was expected to address key sources of both grand and petty corruption, and to contribute to an environment more conducive to private sector investment and growth. It focused on the introduction of conflict of interest legislation to improve the integrity of government decisions, implementation of an earlier-passed law on public procurement to enhance public procurement practices, adoption of public service standards to increase the quality of public services, and a number of measures to increase the transparency, accountability, and rules-based governance of the energy sector.

The second pillar, **Strengthening Private Sector Competitiveness**, was expected to enable Kyrgyz businesses to grow and create jobs by improving the business climate, enhancing connectivity, and boosting exports by capitalizing on the country's membership in the Eurasian Economic Union.

c. Comments on Program Cost, Financing, and Dates

The DPO was supported by an IDA credit of US$ 13.2 million and an IDA grant of US$ 10.8 million, all of which disbursed in a single tranche. According to the ICR (p. 17), all the required Prior Actions were satisfied in a timely manner, and there were no delays in effectiveness or disbursement. The operation was approved on July 7, 2016, became effective on September 1, 2016, and closed as scheduled on September 1, 2017. It was intended to be the first in a two-part series, but the second part (DPO2), anticipated for mid-2017, was cancelled as its indicative triggers were not satisfied (ICR, p. 12). The ICR does not state whether the indicative triggers were translated into prior actions for DPO2.

3. Relevance of Objectives & Design

a. Relevance of Objectives

At appraisal, weak governance and rule of law were perceived as the most binding constraints to growth and investment in the Kyrgyz Republic (PD, p. 2). Domestic political upheaval in 2010, followed by economic contraction in Russia and a slowdown in Kazakhstan (the two principal destinations for Kyrgyz exports), had adversely impacted the Kyrgyz economy. Remittance flows were also affected; the Kyrgyz economy is one of the most remittance-dependent in the world (remittances comprised over 35% of gross domestic product in 2017), with Russia and Kazakhstan the primary sources of remittances. The share of the Kyrgyz population living below the poverty line had been largely stable since 2012 at around 35%, with the poor reportedly bearing a disproportionate share of the cost of corruption. Long-term growth and poverty reduction were seen as dependent on the country's ability to stimulate private sector investment and development, as well as the promotion of exports to the Eurasian Economic Union (EEU). The operation's objectives were highly relevant in this context.

The objectives were also highly relevant to government and Bank strategy, both at appraisal and closing. The operation supported the two main themes of the country's National Sustainable Development Strategy (2013-17): sustainable governance and sustainable economic development. These themes continue in the successor document, the National Development Program 2018-22. The objectives were also responsive to the government's Public Sector Reform Roadmap (2014, updated in 2015), focused on measures to improve the integrity of government decisions, increase the quality of services provided to citizens and businesses, and reduce revenue losses caused by corruption in key sectors such as energy; and the national Private Sector Development Program (2015), which focused on taxation, business inspection, and information and communications technology.

The objectives were fully aligned with the World Bank Group's Country Partnership Strategy at appraisal (FY 2014-17), which focused on reducing poverty and building shared prosperity by supporting public administration and service delivery reforms, improving the business and investment climate, and strengthening stewardship of natural resources and physical infrastructure. The Country Partnership Framework for FY 2019-22 continues to emphasize private sector-led and export-oriented growth as well as public-sector efficiency and accountability, with a particular focus on corruption and rule of law, energy, and connectivity.

Rating
High

b. Relevance of Design

The policy actions supported by the operation were mapped to achievement of the objectives, with, for the most part, the choice of specific actions on governance and competitiveness well chosen to achieve impact on those objectives. Actions such as the introduction of conflict of interest legislation, implementation of a Public Procurement Law, and the adoption of public service standards, as well as measures to increase the transparency and accountability of the energy sector, could be expected to address key sources of both grand and petty corruption, and therefore contribute to enhanced public sector governance and a more conducive environment for private sector investment and growth. Competitiveness reforms, with specific actions on promoting trade, streamlining the tax code, and improving connectivity were intended to facilitate business and job growth while capitalizing on the country's membership in the EEU to boost exports. The PD (pp. 26-27) explicitly outlined the analytic underpinnings for each prior action; for example, the second prior action, to establish an Independent Complaint Review Commission for public procurement, was based on the findings of a 2012 Country Fiduciary System Review Report and a 2014 Public Expenditure and Financial Accountability (PEFA) Assessment. The DPO was to be implemented in tandem with technical assistance (financed by several other concurrent World Bank projects) on public procurement, investment/competitiveness, tariff-setting methodologies, and public financial management capacity-building.

However, the causal link between prior actions and expected broad outcomes was not obvious for some of the planned business climate and energy sector reforms. For example, although energy tariff reform was clearly connected to financial viability of the sector, the linkages to sector governance are less apparent. Furthermore, it is not clear that amending the risk criteria for business inspections was adequate to produce significant impact. The prior action on simplifying the Tax Code introduced streamlined procedures for value-added tax (VAT) refunds for trustworthy taxpayers without adequately defining "trustworthy." Overall, the complexity of the operation far outweighed existing capacity, with the number of implementing institutions "unduly large and burdensome for coordination": the Ministry of Finance as the key counterpart, the cabinet of ministers, the Ministries of Economy, Energy, and Health, the State Personnel Service, the National Security Council, the Office of the Prosecutor-General, the Procurement Agency, the State Tax Authority, and the State Communications Agency (ICR, p. 22). This coordination burden exceeded both the technical capacity and political authority of the implementing agencies, particularly with regard to the conflict of interest and energy sector tariff reforms.

The macroeconomic policy framework was deemed to be adequate for the operation (PD, p. 10). The November 2015 International Monetary Fund (IMF) Staff Report for the 2015 Article IV Consultation was, on balance, favorable, albeit with some reservations. A satisfactory performance in the first half of 2015 under the Kyrgyz Extended Credit Facility (ECF) arrangement was followed by fiscal slippages in the run-up to the October elections and a delay in adopting the Banking Code, a key measure to strengthen central bank independence and the bank resolution framework. The combined impact of a large public investment program and currency depreciation raised the public debt ratio markedly. Depreciation posed risks for the otherwise well capitalized financial sector, though high dollarization lessened these risks. The business environment was weak. However, the ECF-supported program remained broadly on track, and according to the PD (p. 10), the Authorities were committed to consolidation in 2016 to offset the 2015 fiscal slippages and to keep debt on a sustainable path. They had also agreed to introduce compulsory measures to ensure financial sector stability until the Banking Code became operational.

Rating
Modest

4. Achievement of Objectives (Efficacy)

Objective 1
Objective
Improve public sector governance

Rationale
The results chain for this objective reasonably held that actions on public integrity and public service quality were key to improving overall public sector governance; these reforms addressed the key drivers of poor

governance in the country. Given the centrality of corruption, these focal areas were logically positioned to reduce conflict of interest. Reducing wasteful energy subsidies and increasing the transparency of the energy price-setting process were intended to ensure cost recovery and improve the financial viability of the sector. The linkages specifically between energy subsidies and governance (transparency, accountability, and rules-based decision processes), however, were not clear, and the results indicators for improved sector governance were instead focused on financial viability.

The government submitted a new Law on Conflict of Interest (prior action) to increase transparency with respect to the private interests of public officials and establish incentives to prevent conflict of interest. The law required public officials to declare personal interests together with asset and income declarations, as well as the creation of Commissions on Ethics in various ministries, departments, and agencies, and advisory mechanisms to support public officials to help prevent conflicts of interest from arising. However, the law was not approved by the Legislature until December 2017 and did not enter into force until June of 2018. A key set of secondary legislation has not yet been issued, with the exception of a law pertaining to receipt of gifts. There have been no institutional changes requiring comprehensive submission of declarations or systematic verification of declarations, with the Ministry of Economy, State Personnel Service, and Office of the Prosecutor General still discussing the details of a verification system. As a result, the percentage of declarations of personal interests of public officials that were verified by Commissions on Ethics to identify potential conflicts of interests remained at zero, not reaching the outcome target of 15% of all filed declarations (focusing on high-level officials and high-risk positions).

The government enacted implementation measures for the landmark 2015 Public Procurement Law, specifically the establishment of an Independent Complaints Review Commission for public procurement (prior action) and operationalization of the Public Procurement Department as an effective regulatory body. More broadly, public service standards (time-frame for service delivery, locations where services are delivered, standards of conduct for public officials) were introduced for at least 90 public services, including in the key areas of public education, social security and employment, and identification, passport, and registration services (prior action). As a result, the PEFA score for competition, value for money, and controls in public procurement improved from B in 2014 to B+ in 2018, meeting the target of B+. However, the last official PEFA exercise was conducted in 2014 and the next is slated for 2020, such that the 2018 achievement was derived from a self-assessment commissioned by the Ministry of Finance and undertaken by the Procurement Agency with support from Bank staff. The ICR does not provide details on the methodology used for this self-assessment, and the timing draws into question the appropriateness of using a PEFA score as a results indicator.

In addition, the Graft Index (number of reported bribes as a share of the number of reported transactions) was 21% in 2015, and the outcome target was set at 10%. The ICR reports that this Index has not been updated since 2015 but does not explain why; again, the appropriateness of the indicator is called into question. The ICR instead reports on four other indicators to capture the corruption dimension of public service quality: an index of the population's confidence in public services (increase from 22.0 in 2015 to 30.7 in 2017); an index of public views of corruption in executive government authorities and in local government (increase from 10.8 in 2015 to 20.2 in 2017); an index evaluating state executive bodies and local authorities (increase from 23.5 in 2015 to 31.1 in 2017); and an index of personal trust of citizens in the state (increase from 31.6 in 2015 to 40.6 in 2017). However, the ICR does not provide information on how these indices were constructed or the reliability of the data that fed into them, and therefore it is not possible to interpret these results.

There was partial revision of the tariff-setting methodology for heating companies as a first step toward transparent heating pricing, reflecting some cost factors (prior action). As a result, cash collections have improved. The amount of cash collected per kWh of power supplied to the domestic market rose from 0.61 KGS/kWh in 2015 to 1.06 KGS/kWh, a 74% increase that surpassed the target of a 25% increase. The amount of cash collected per Gcal of heat generated by the Bishkek Central Heating Plans increased from 394.5 KGS/Gcal in 2015 to 847.4 KGS/Gcal in 2017, an increase of 115% that surpassed the target of a 48% increase. Improvements have been made in the allocation of cash within the sector according to a rules-based framework, but there was little movement on regulatory reforms to ensure increased accountability by power and heating companies, build consumer confidence, and encourage acceptance of reforms. A new case settlement mechanism between electricity generation, transmission, and distribution companies was adopted (prior action) to ensure that cash allocations were automatic and consistent with tariffs approved by the State Regulatory Agency of the Fuel and Energy Complex. However, there have been delays in the establishment of a medium-term tariff program that would be adequate to eventually achieve financial viability of the sector; according to the ICR (p. 17), this was the principal reason that the second PDO of the series was cancelled. The new government that took office in April 2018 announced an indefinite suspension of tariff increases, signaling weakened commitment to reform (ICR, p. 18).

A performance reporting and monitoring framework (covering number of breakdowns, amount of heat generated in the districts, and number of complaints) was adopted for the heating sector (prior action). Bishkek Teposet, the largest heating company as measured by number of customers, adopted such a framework. The ICR reports that key performance indicators were disclosed quarterly, meeting the target, but it is not clear whether this achievement applies to the entire sector or just to Bishkek Teposet. The country's two other heating companies, which cover regions outside the capital, were expected to introduce the framework in 2018; it is not known whether this has taken place as planned.

In summary, while there has been some progress on the complaints review mechanism for public procurement and service delivery standards, the implementation of the conflict of interest law has been slow, with uncertain ownership of reform and insufficient effort by the government to establish procedures and clarify responsibilities, and progress on energy sector reform has been fitful. Given the centrality of corruption concerns and the energy sector to public sector governance, achievement of this objective is rated Modest.

Rating
Modest

Objective 2

Objective

Strengthen private sector competitiveness

Rationale

The results chain for this objective held that legislative and regulatory actions on export taxes, social security tax collection, food quality, and Internet connectivity would lead to gains in competitiveness. The PD (pp. 24-26) described weak information technology infrastructure and connectivity as important constraints to private sector activity, particularly in the services sector, which was seen as central to diversification efforts, increased value-added, and the creation of more productive jobs. Reducing the tax and inspection burdens on businesses was logically connected to improved business climate. For example, because of the requirement for entrepreneurs to make tax and social security (Social Fund) contribution payments separately, enterprises had been spending an average of 5.6 days per year making separate payments to the Social Fund. A pilot program for transfer of social security collections to the State Tax Service was intended to facilitate removal of this burden. Similarly, Enterprise Surveys indicated that the inspection process was unsystematic and opaque, resulting in needless additional transactions between firms and government officials and creating room for rent-seeking. The proposed reforms were intended to allow for less-frequent inspections for businesses with lower levels of risk. It is unlikely, however, that these changes in risk criteria would have been powerful enough to produce a meaningful boost in competitiveness, especially for the desired export markets, as it is unclear whether the new standards would provide sufficient meaningful information to purchasers and consumers to lower the transaction costs of purchasing Kyrgyz goods. Furthermore, 2013 Enterprise Surveys data showed that business owners and top managers were more concerned about political instability and the large number of firms choosing the informal sector than about any of the areas covered by the project (http://www.enterprisesurveys.org/data/exploreeconomies/2013/kyrgyz-republic).

Actions to improve competitiveness for exporters through the abolition of sales taxes and improved technical and safety standards in food production were achieved. The tax code was amended to abolish the sales tax for exporters (prior action), reducing compliance burdens and double taxation (in both the Kyrgyz Republic and the destination country, as the sales tax, unlike the VAT, was not refunded). Improved safety standards were intended to boost competitiveness of the food industry, with an eye toward export to the EEU and beyond. The number of firms with certified Hazard Analysis Critical Control Points, part of a systematic preventive approach to food safety oriented toward biological, chemical, and physical hazards in production processes, increased from 9 in 2016 to 43 in 2018, more than doubling the target of 20. The number of firms included in the EEU register of Food Business Operators and allowed to export to the EEU increased from 9 in 2016 to 43 in 2018, more than doubling the target of 20. The ICR does not say whether the same 9 (in 2016) and 43 (in 2018) firms were specified by these two indicators, though it is plausible that achievement of the latter indicator was predicated on achievement of the former.

Administration of the VAT was streamlined, specifically through measures to eliminate paper-based VAT invoicing and expedite VAT refund procedures through a "green channel" for trustworthy exporters (prior action). The PD (p. 23) specified only that "trustworthy taxpayers" would be "identified based on risk analysis," and the ICR offers no additional information on definition and measurement of "trustworthiness." Given the lack of specificity around this definition, significant fraud was uncovered in early 2018, involving a group of businessmen found to have created false invoices to obtain refunds. The ICR states that these procedures have therefore come under additional review, causing some delay; and no additional information is provided on these procedures or plans for their strengthening. As a result, only 20.7% of VAT refunds were processed through the green channel in 2018, not meeting the target of 25%.

A further prior action involved reducing the burden of sanitary and radiology inspections by amending the resolution "On Setting Risk Criteria for Inspections" to allow for less-frequent inspections of entities with lower levels of risk. This planned re-classification of companies to lower risk levels was more complicated and time-consuming than anticipated, revealing shortcomings in the design of the prior action and its misalignment with other government priorities. In addition, new EEU standards required a higher number of firms to undergo inspections, resulting in an ambitious target. The percentage of firms inspected annually by the Sanitary Department decreased only modestly, from 50.1% in 2016 to 49.6% in 2018, not reaching the target of 20%. In spite of a country-wide awareness campaign, businesses have not taken advantage of the newly-created inspection feedback mechanism; the ICR does not explain why. Only 45 firms in 2017 and 13 firms in 2018 received feedback on inspections, not reaching the target of 500.

The pilot program for the transfer of social security collections to the State Tax Service underwent redesign (the ICR does not provide details). The resulting delay led to a shortfall in 2018. 6.4% of firms filed reports on social contributions to the State Tax Service in 2018, not reaching the target of 50%.

New rules and procedures were adopted allowing authorized telecommunications companies to deploy cross-border cables, ensuring competition in the international connectivity market and creating time-bound and transparent procedures (prior action). The international internet bandwidth indicator used by the International Telecommunications Union increased from 5008 Mpbs in 2013 to 12,700 Mbps in 2015, exceeding the target of 6500 Mbps. The ICR (p. 10) states that the latest available figures for this indicator were for 2015, making both the target and result inapplicable to assessing achievement of this Operation (which was approved in 2016).

Overall, there was achievement in the area of food safety, but most reforms to improve the business environment were not implemented as planned. The share of VAT refunds through the green channel fell short of targets, and progress was slow in improved reporting to the tax service and decreasing the burden of sanitary inspections. The ICR does not present results on improved connectivity that could plausibly be attributed to the DPO. Given that intended outcomes were barely achieved, this objective is rated Negligible.

Rating
Negligible

5. Outcome

The operation's objectives were highly relevant to country context and to government and Bank strategy. Design was modestly relevant due to a level of complexity exceeding the technical capacity and political authority of the implementing agencies, as well as a lack of consistency between some of the proposed actions and intended outcomes. The objective to improve public sector governance was modestly achieved: although there was progress in some areas, advances towards the core outcomes were limited. The objective to strengthen private sector competitiveness was barely achieved and is rated negligible. These ratings reflect significant shortcomings in both design and implementation, leading to an overall outcome assessment of Moderately Unsatisfactory.

a. Outcome Rating

Moderately Unsatisfactory

6. Rationale for Risk to Development Outcome Rating

The ICR (p. 31) states that institutional strengthening was significant, particularly in the energy sector and for procurement, though there are still important risks around implementation capacity and quality. The cancellation of DPO2 is likely to have had a negative impact on the overall reform agenda. Political risk remains high, stemming from low levels of ownership and lack of firm commitment to reform of the energy sector, public governance, and some aspects of the business environment. Coordination challenges spanning the entire reform program remain an important concern. Economic risk is also high, stemming primarily from reduced room of maneuver in fiscal policy in view of the external shocks of the recent past (trade and remittances slowdowns in 2014-2015 due to weaknesses in the Russian and Kazakh economies) and attendant stimulatory fiscal stance (ICR, p. 31). Though the public deficit has been reduced and the debt burden stabilized across 2016-2018 -- an encouraging achievement in light of the shocks -- economic risk can be countered only by a firm adjustment effort over the medium term. The fact that a successor arrangement to the International Monetary Fund (IMF) Extended Credit Facility that expired in April 2018 was not requested has added to economic risk. The ICR does not explain why this request was not forthcoming.

a. Risk to Development Outcome Rating

High

7. Assessment of Bank Performance

a. Quality-at-Entry

The operation was based on solid analytical foundations, most notably through a set of participatory and capacity-building technical assistance activities, while a trade and competitiveness advisory program, led by the International Finance Corporation (IFC), provided the basis for the private sector reforms. Preparation built on a previous programmatic DPO series that also aimed to enhance public sector governance and improve the business environment, as well as a recent Energy Sector DPO that supported governance and financial viability reforms in the sector. Lessons cited from previous DPO series included the importance of: (i) concentrating on just a few policy areas that are fundamental to addressing key challenges and that enjoy full government ownership; (ii) complementing DPOs with other instruments of World Bank support, including investment project financing, technical assistance, and economic and sector work; and (iii) following prior actions that include legislation with triggers that hinge on the effective adoption of those legal acts, so that there are incentives for the first DPO in a series to enact legislation in a timely manner. It is not clear, however, that these lessons were fully reflected in this operation's design. Several of the prior actions did not take into account implementation capacity constraints, other government priorities, and overall political realities; there were results indicators for which no reliable data was available; and some targets did not reflect commitments under other government initiatives (notably, membership in the EEU).

The operation was prepared in coordination with other development partners, including the United Kingdom Department for International Development (supporting the World Bank's technical assistance activities in public sector governance) and an energy sector donor working group (the Asian Development Bank (ADB), European Union (EU), Japan International Cooperation Agency, Germany Development Bank, and United States Agency for International Development). IMF-supported reforms covered short- and medium-term macroeconomic stability.

Overall risk was assessed as High at the outset, with specific risks related to the political and governance environment, as well as implementation and sustainability, stakeholder (policy and inter-agency coordination), macroeconomic, and technical design risks (PD, pp. 34-36). Given the government's track record of delivery failure on energy reforms, the assessment did not probe sufficiently into commitment risk and explore adequate mitigation measures. For example, according to the ICR (p. 22), the public consultation and stakeholder analysis did not discuss energy reforms. Capacity risk, particularly for governance reforms, was also underestimated. Overall, there was inadequate assessment of the feasibility of reforms, their pace, and existing implementation capacity.

The prior actions were largely in the form of submissions to parliament, executive decisions, instructions to be issued, or resolutions to be adopted by the executive branch, rather than specific implementation-oriented actions or triggers. As a result, there were no incentives embedded in the operation to carry out the concrete measures necessary for achieving intended results (the ICR does not state whether cancellation of DPO2 was also a negative incentive). In this important regard, as well as the issues of ownership and concentration on a few key policy areas, the operation did not heed lessons from earlier DPOs.

Quality-at-Entry Rating

Moderately Unsatisfactory

b. Quality of supervision

The ICR (pp. 25, 33) describes a "strong and near-continuous" supervision process, led by the core Bank economic team with active participation of sector specialists and IFC specialists in taxation and business climate reforms (the ICR does not cite evidence, such as back-to-office reports or aide-memoires, on strong and consistent supervision). Dialogue was results-focused and supported by cooperation with other external partners providing budget support (the IMF, EU, and ADB, especially the latter's budget support for business environment and investment climate reforms). The ICR (p. 20) states that emerging implementation challenges were generally identified proactively, and candid, cooperative discussions were held with the authorities, though no specific examples or references to remedial actions are provided. The Bank team "could have been more energetic" in identifying weakness of ownership and fraying of political will on the energy sector reforms and in other areas, though the cancellation of the second operation should have "provided a strong signal to the authorities" (ICR, p. 20).

Quality of Supervision Rating

Moderately Unsatisfactory

Overall Bank Performance Rating

Moderately Unsatisfactory

8. Assessment of Borrower Performance

a. Government Performance

According to the PD (p. 28), during preparation, the government held extensive public hearings on "a number of" the prior actions and related reforms, including on conflict of interest, energy, food safety, and the budget code. The government consulted actively with civil society organizations during preparation, resulting in their engagement in the monitoring of the reforms and their results, as well as in the design of triggers for the next phase.

However, there were major shortcomings. The political environment was fragile, with three Prime Ministers in office over the two-year period following the operation's approval. Priorities shifted, and a common strategic vision was not sustained (ICR, p. 20). The ICR (p. 10) indicates that public consultations during preparation did not cover the energy reforms and their design. The discontinuity in government negatively affected ownership of, and commitment to, difficult reforms, especially in the energy sector, and there was no clear champion for reform who could have provided a clear pathway forward for the operation (the Ministry of Finance had neither the authority nor the capacity). Furthermore, there was no government institution empowered to exercise surveillance over the overall reform process with authority to intervene with course corrections as required. Implementation capacity was weak, particularly in the area of technical legislative work, and therefore timely resolution of implementation challenges was lacking. A satisfactory overarching framework for M&E was not developed (see Section 9 below), hindering effective government-wide coordination and weakening accountability.

Government Performance Rating
Unsatisfactory

b. Implementing Agency Performance
N/A

Implementing Agency Performance Rating
Not Rated

Overall Borrower Performance Rating
Unsatisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design
The Ministry of Finance was responsible for overall monitoring and evaluation and for coordinating actions among other ministries and agencies (PD, p. 34). Data were to be collected by the state statistics agency, line ministries, and other relevant agencies.

The results framework contained 14 outcome indicators. There was a clear "line of sight" between the prior actions and their associated results indicators (ICR, p. 24), though the indicators were not a complete measure of achievement, and there were several indicators for which no reliable data was available. For example, the Graft Index did not measure most of the elements originally noted for improvement in the quality of public service (timeliness, location) or their implementation within specific sectors (education, social security, employment, identification services). In addition, the target for international bandwidth appears to have been set below the baseline.

b. M&E Implementation
Monitoring was carried out at the implementing agency/ministry level. According to the ICR (p. 10), annual reports on progress in governance reforms were prepared, though the ICR does not describe their findings. The Ministry of Energy updated monitoring data on its websites every six months. The Ministry of Finance produced periodic procurement reports to assess progress with implementation of the new procurement law and practices. The Office of the Cabinet of Ministers issued periodic updates on standards in the quality of public services.

According to the ICR (p. 23), the results framework was developed not only to monitor progress under the DPO, but also as a "tool for internal review and reporting" by the principal ministries and agencies responsible for implementation. There was a missed opportunity, however, in that the operation was not used as a vehicle to put in place a unified framework to be used by the Ministry of Finance as an overall management and coordination tool. Data were not collated and studied across the matrix of reforms in the absence of a robust, operation-wide framework for M&E (ICR, p. 23).

c. M&E Utilization

Monitoring and evaluation did not lead to feedback loops that resulted in corrections to implementation. The process of utilization of M&E was not formalized and integrated across ministries.

M&E Quality Rating

Modest

10. Other Issues

a. Environmental and Social Effects

The specific policies supported by the operation were not expected to have adverse effects on the environment and natural resources (PD, p. 31). No safeguards policies were triggered.

b. Fiduciary Compliance

No issues with fiduciary compliance are reported in the ICR.

c. Unintended impacts (Positive or Negative)

None reported.

d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment

Outcome	Moderately Unsatisfactory	Moderately Unsatisfactory	---
Risk to Development Outcome	High	High	---
Bank Performance	Moderately Unsatisfactory	Moderately Unsatisfactory	---
Borrower Performance	Moderately Unsatisfactory	Unsatisfactory	Discontinuity in government negatively impacted ownership of and commitment to reform. Implementation capacity and coordination was weak.
Quality of ICR		Substantial	---

Note

When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.

The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

12. Lessons

The ICR (pp. 35-36) presented several insightful and valuable lessons, including:

When planning politically sensitive reforms, it is challenging to distinguish between genuine commitment by relevant authorities and mere lip service. Realistic, in-depth political economy analysis can help identify the key players and agencies likely to promote or resist reforms as well as potentially effective arguments and incentives to bring them on board. In this case, there was no clear, empowered champion for the overall reform process, leaving missed opportunities for forward movement in key sectors.

In a weak, uncertain reform context, success is likely to follow concentration of effort on a highly parsimonious set of prior actions and follow-up triggers. In this case, priority was spread over too many areas, leading to coordination challenges and lack of accountability in a weak-capacity environment.

Front-loading more politically sensitive reforms may help reduce stagnation and delay, flag areas where prompt intervention is required, and mitigate risks of cancelling subsequent operations. In this case, the more difficult reforms were framed in terms of submissions or instructions to be issued, putting off more specific implementation-oriented actions and allowing resistance to set in.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR is concise and candid. It provides a lucid, results-oriented account of the operation's preparation and implementation. Its explanations of the operation's shortcomings are clear and convincing. Its lessons, well supported by the operation's experience, should prove useful to future projects in the region and elsewhere in situations where commitment to politically sensitive reforms poses a challenge.

a. **Quality of ICR Rating**
Substantial