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PROJECT PERFORMANCE ASSESSMENT REPORT

KYRGYZ REPUBLIC

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The First and Second Development Policy Operations and Programmatic Governance and Competitiveness Development Policy Operation

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Report No. 169251

JUNE 7, 2022



IEG
INDEPENDENT
EVALUATION GROUP

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PROJECT PERFORMANCE ASSESSMENT REPORT

Kyrgyz Republic

**The First and Second Development Policy Operations
(IDA-54780 and IDA-52880)**

**Programmatic Governance and Competitiveness Development Policy
Operation
(IDA-58660)**

June 7, 2022

Human Development and Economic Management

Independent Evaluation Group

Abbreviations

DPO	development policy operation
EBRD	European Bank for Reconstruction and Development
FY	fiscal year
GDP	gross domestic product
IFC	International Finance Corporation
NBKR	National Bank of the Kyrgyz Republic
PDO	project development objective
PPAR	Project Performance Assessment Report
PRAF	Prompt Remedial Action Framework
SME	small and medium enterprise
STS	State Tax Service
VAT	value-added tax
WGI	Worldwide Governance Indicators

All dollar amounts are US dollars unless otherwise indicated.

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Project Data

This is a Project Performance Assessment Report by the Independent Evaluation Group of the World Bank Group on three development policy operations (DPOs). The first two operations were part of a series named the Development Policy Operation Series, DPO1 (P126034) and DPO2 (P126274). The third operation was the first in a proposed series, the Governance and Competitiveness Series (P148099). The second operation in this series was canceled. The methodology for this evaluation is discussed in appendix C. Following standard Independent Evaluation Group procedure, the final Project Performance Assessment Report was shared with relevant government officials for their review. No comments were received (see appendix E).

First Development Policy Operation (P126034)

Basic Data

Country	Kyrgyz Republic	Financing source	IDA grants
Global Practice	Macroeconomics, Trade, and Investment	First operation: IDA financing commitment	SDR 16.8 million
		Actual amount disbursed	SDR 16.8 million
Project name	First series: First and Second Development Policy Operations	Second operation: IDA financing commitment	SDR 16.18 million
		Actual amount disbursed	SDR 16.8 million
Project IDs	P126034 and P126274	First operation: IDA financing commitment	SDR 17.1 million
	Second series: Programmatic Governance and Competitiveness Development Policy Operation	Actual amount disbursed	SDR 17.1 million
Project ID	P148099	Programmatic series	Yes
Financing instrument	Development policy loan		

Note: SDR = special drawing rights.

Dates

Event	Original Date	Actual Date
Approval	07/25/2013	
Effectiveness	12/06/2013	
Closing	09/30/2014	

Key Staff Responsible

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Second Development Policy Operation (P126274)

Basic Data

Country	Kyrgyz Republic	IDA financing commitment	IDA credit: SDR 8.99 million IDA grant: SDR 7.19 million
Global Practice	Macroeconomics, Trade, and Investment	Actual amount disbursed	US\$25,924,248
Project name	Second Development Policy Operation	Programmatic series	Yes
Project ID	P126274		
Financing instrument	Development policy operation		

Note: SDR = special drawing rights.

Dates

Event	Original	Actual
Approval	06/10/2014	
Effectiveness	07/11/2014	
Closing	12/31/2015	

Key Staff Responsible

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Governance and Competitiveness Development Policy Operation (P148099)

Basic Data

Country	Kyrgyz Republic	Financing source	IDA credit: US\$13.2 million IDA grant: US\$10.8 million
		IDA financing commitment	IDA credit: US\$13.2 million IDA grant: US\$10.8 million
Global Practice	Macroeconomics, Trade, and Investment	Actual project cost	US\$24 million
Project name	Governance and Competitiveness Development Policy Operation	Expected project total cost	US\$24 million
Project ID	148099	Actual amount disbursed	US\$24 million
Financing instrument	Development policy operation	Programmatic series	Yes

Dates

Event	Original	Actual
Approval	07/07/2016	
Effectiveness	07/07/2016	
Closing	09/01/2017	

Key Staff Responsible

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Executive Summary

Overview

The World Bank approved two programmatic series of development policy operations (DPOs) from 2013 through 2016 to improve governance and private sector development in the Kyrgyz Republic. The strategic focus of both series' objectives was highly relevant to the country context: weak governance (which had become evident during the 2010 revolution) and the need to shift to a private sector-oriented model of development to increase long-term economic growth.

In 2012, when the first DPO series was being designed, the main development challenges facing the country included weak governance and the country's vulnerability to economic shocks. In mid-2010, protests overthrew the government, and ethnic violence erupted in the south of the country. More than 300 people were killed, and approximately 357,000 people were displaced. The protests were fueled primarily by perceptions of corruption, nepotism, and misuse of public assets.

The economy of the Kyrgyz Republic, a lower-middle-income country, is heavily dependent on gold mining and remittances, both of which are particularly vulnerable to external shocks (World Bank 2012c). In 2011, gold production accounted for 12 percent of gross domestic product (GDP) and 44 percent of exports. Remittances amounted to the equivalent of more than 20 percent of GDP in 2008 and increased to more than 30 percent of GDP by 2012. Productivity was generally low, and the country had high structural unemployment and a large informal sector. Financial markets were underdeveloped; the ratio of private sector credit to GDP was approximately 25 percent in 2012, and few firms financed investment through bank loans.

Design and Preparation

The first two operations were part of a programmatic series named the Development Policy Operation Series. It consisted of DPO1 (P126034) and DPO2 (P126274) for \$25 million each, approved in July 2013 and June 2014, respectively. The second series was named the Governance and Competitiveness Series (P148099). It was originally designed to include two operations, but the second operation was dropped because of a failure to satisfy the indicative triggers specified in the first operation.

The project development objective for the first series was to strengthen public sector governance and sharpen competitiveness and enhance the attractiveness for private investment. The aim was to support the government with the implementation of reforms and policy priorities highlighted in the National Sustainable Development Strategy

(2013–17) and the Medium-Term Development Program of the Kyrgyz Republic for 2012–14.

The project development objective of the first DPO of the second series was (i) strengthening governance and anticorruption efforts and putting in place enforcement, evaluation, and monitoring mechanisms; (ii) implementing key priority areas in the judicial sector to promote the rule of law; (iii) improving public sector accountability and efficiency in the management and use of public resources; and (iv) sharpening competitiveness and enhancing the attractiveness for private investment.

There was substantial commonality and overlap between the two series, as evidenced by the policy areas. Under governance and anticorruption policy, three of the four policy areas were virtually identical in the two series. They both focused on corruption, transparency in public procurement, and transparency and accountability in the energy sector. The policy areas in the private sector competitiveness pillars were less closely aligned, except for risk-based firm inspections, but the general theme of improving the business environment was common to both series. Although this was less the case for the second series, the overall objective of private sector competitiveness was continued and was the motivation for including the second series in this Project Performance Assessment Report.

The two DPOs in the first series and the DPO in the second series aimed to strengthen governance and improve the business environment in the Kyrgyz Republic. The wide range of reforms implied that the prior actions in the DPOs of both series involved many implementing institutions. These included the counterpart ministry (Ministry of Finance) and nine other ministries, plus the cabinet of ministers. This complicated the process of achieving meaningful reform, which was compounded by frequent changes in government.

The two operations of the first series contained 10 subpolicy areas and 10 prior actions. The subobjectives for the first series spanned a broad range of reform priorities and included reducing corruption, improving budget discipline, strengthening the energy sector, judicial reform, encouraging business start-ups and business operation, enhancing access to finance, improving financial sector supervision, and strengthening deposit protection.

The series aimed to address governance, electricity, property rights, and contract enforcement (through judicial reform). The reduction in reform ambitions, particularly in the energy sector as subsequent operations were designed, weakened its impact.

Results

The operations achieved some successes, but overall, their impact was low. The major positive outcome was the approval and implementation of the public procurement law, which established transparent procedures for public procurement. The World Bank continued supporting the use of the law and assisted in its provisions being maintained. Unfortunately, the reform was not sustained. In 2019, amendments to the public procurement law significantly reduced the effectiveness of the procurement framework by abolishing key provisions of the law and substantially increased the potential for corruption in the procurement process.

There was also success in improving deposit protection and transfer of responsibility for social insurance payments to the State Tax Service. However, the operations failed to make substantial improvements in governance and reducing corruption, address many of the most binding constraints to private sector development, and improve energy sector governance and bring tariffs closer to cost recovery.

A major reason for inadequate outcomes was weak commitment to reform, but this did not deter the World Bank from proceeding with successive operations. At each stage of project preparation, ambitions were reduced. The risks associated with each operation were high, especially those associated with politics, governance, and weak institutions. An important focus of the operations was to achieve reform in the energy sector, which failed. The risk mitigation measures identified were too weak and were not implemented. The cancellation of the second operation in the Governance and Competitiveness DPO series was an appropriate response to lack of progress on reform.

What Worked

Factors that drove successful reforms included their narrow focus. In the case of the procurement reform, its implications were not fully appreciated by vested interests, who could not reverse them at first. However, amendments to the procurement law in 2019 essentially eviscerated the effectiveness of the procurement processes. The reforms that were successful were supported by complementary World Bank Group interventions, primarily in-depth technical assistance.

What Didn't Work

Many of the prior actions consisted of laws submitted to parliament, action plans, and decrees, which failed to move reforms along the results chain toward development objectives. In other cases, particularly regarding corruption, the design of the two series did not attach penalties to the failure to comply with measures contained in prior

actions. This was illustrated in many instances of shortcomings characterized by slow implementation or lack of enforcement of the measures that had been passed.

Lessons

The findings of this Project Performance Assessment Report lead to several operationally relevant lessons.

In a high-risk context, DPOs that are more targeted may have a greater chance of success, with implementation supported by complementary interventions (for example, investment projects and advisory services and analytics). The scope of DPOs reviewed in this assessment was quite broad, and few results were achieved linked to the critical constraints facing the country. Furthermore, the operations required the coordination of many ministries. A more targeted approach would allow for closer follow-up through policy dialogue focusing on fewer prior actions and on the agencies that demonstrated strong reform commitment.

Discussion of risks to the success of budget support operations should reflect the compounding of risks from parallel budget support operations. Several of the reforms supported by these operations were also supported by the Energy Sector DPO and the Economic Governance DPO. Each of the operations was considered high risk. The Implementation Completion and Results Report Reviews noted that the risk to the sustainability of development outcomes was high. The mitigation measures that the teams identified in the program documents were insufficient; nevertheless, at each stage, the program documents expressed optimism that the reforms would be implemented.

Analytics that take a broader view of constraints to achieving DPO objectives (in this case, those related to private sector development) are needed to ensure relevant design; more narrowly targeted analytics help justify specific reforms. The DPO series benefited from standard Bank Group analytics to examine specific issues, but an overarching framework for identifying and prioritizing constraints to private sector development was missing, and the teams did not draw on available analytics from other donors.

The focus on governance and competitiveness was appropriate but raises questions regarding whether DPOs are the right modality in the Kyrgyz Republic to achieve reforms that frequently are slow to come to fruition. In the case of the Kyrgyz Republic, political will flagged early, but the World Bank continued to waive important

triggers to provide budget support. In both series, policy actions in the initial operation were not followed by critical next steps, which compromised achievements.

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Резюме

Обзор

Всемирный банк утвердил две программные серии операций по поддержке политики развития (ОППР/DPO) с 2013 по 2016 год для улучшения управления и развития частного сектора в Кыргызской Республике. Стратегическая направленность обеих целей серии операций была весьма актуальна для странового контекста – слабое управление (что стало очевидным во время революции 2010 года) и необходимость перехода к ориентированной на частный сектор модели развития для увеличения долгосрочного экономического роста.

В 2012 году, когда разрабатывалась первая серия ОППР, основные проблемы развития, стоящие перед страной, включали: (i) слабое управление и (ii) уязвимость страны к экономическим потрясениям. Протесты в середине 2010 года привели к свержению правительства, а на юге страны вспыхнуло этническое насилие. Более 300 человек были убиты и около 357 000 человек были перемещены. Протесты были вызваны, главным образом, восприятием коррупции, кумовства и злоупотребления государственными активами.

Экономика Кыргызской Республики, страны с уровнем дохода ниже среднего, сильно зависит от добычи золота и денежных переводов, которые особенно уязвимы к внешним потрясениям. В 2011 году производство золота составляло 12% ВВП и 44% экспорта. Денежные переводы составили в эквиваленте более 20% ВВП в 2008 году и увеличились до более чем 30% ВВП к 2012 году. Производительность, в целом, оставалась низкой, и в стране отмечался высокий уровень структурной безработицы и большой неформальный сектор. Финансовые рынки были слабо развиты; отношение кредитов частного сектора к ВВП в 2012 году составляло около 25%, и лишь немногие фирмы финансировали инвестиции через банковские кредиты.

Проектирование и подготовка

Первые две операции были частью программной серии под названием «*Серии операций в поддержку политики развития*». Они состояли из DPO-1 (P126034) и DPO-2 (P126274), по 25 миллионов долларов США каждая, утвержденных в июле 2013 года и июне 2014 года соответственно. Вторая серия была названа *серией «Управление и конкурентоспособность»* (P148099). Первоначально, при разработке, эта серия состояла двух операций, но вторая операция была отменена из-за неспособности удовлетворить индикативные триггеры, указанные в первой операции.

Целью разработки программы для первой серии было укрепление управления государственным сектором и повышение конкурентоспособности, а также повышение привлекательности для частных инвестиций. Цель состояла в том, чтобы поддержать Правительство в реализации реформ и политических приоритетов, выделенных в Национальной стратегии устойчивого развития (на 2013-17 годы) и Среднесрочной программе развития Кыргызской Республики на 2012-14 годы.

Цель разработки программы первой ОППР второй серии заключалась в следующем: (i) укрепление усилий в области управления и борьбы с коррупцией и создание механизмов правоприменения, оценки и мониторинга, (ii) реализация ключевых приоритетных областей в судебном секторе для содействия верховенству права, (iii) повышение подотчетности и эффективности государственного сектора в управлении и использовании государственных ресурсов, а также iv) повышение конкурентоспособности и повышение привлекательности частных инвестиций.

Между этими двумя сериями существует значительная общность и дублирование, о чем свидетельствуют области политики. В рамках политики в области управления и борьбы с коррупцией три из четырех областей политики практически идентичны в двух сериях. Они обе сосредоточились на коррупции, прозрачности в государственных закупках, а также прозрачности и подотчетности в энергетическом секторе. Хотя области политики в рамках компонентов конкурентоспособности частного сектора не столь тесно увязаны, за исключением проверок предприятий, основанных на оценке рисков, общая тема улучшения деловой среды является общей для обеих серий. Хотя это, в меньшей степени, относится ко второй серии, общая цель обеспечения конкурентоспособности частного сектора была сохранена и послужила стимулом для включения второй серии в эту ОППР.

Обе ОППР первой серии и ОППР второй серии были направлены на укрепление управления и улучшение бизнес-среды в Кыргызской Республике. Широкий круг реформ подразумевал, что предыдущие действия в рамках ОППР обеих серий касались значительного числа учреждений-исполнителей. К ним относились министерство-партнер (Министерство финансов) и девять других министерств, а также Кабинет министров. Это осложняло процесс достижения значимых реформ, что также усугублялось частой сменой правительства.

Две операции первой серии содержали десять подпрограммных областей и десять предыдущих действий. Подцели первой серии охватывали широкий круг приоритетов реформ и включали сокращение коррупции, улучшение бюджетной дисциплины, укрепление энергетического сектора, судебную реформу, поощрение

бизнес-стартапов и деловых операций, расширение доступа к финансированию, улучшение надзора за финансовым сектором и усиление защиты депозитов.

Эта серия была направлена на решение вопросов управления, электроснабжения, прав собственности и обеспечения соблюдения контрактов (посредством судебной реформы). Сокращение амбиций в области реформ, особенно в энергетическом секторе по мере того, как были разработаны последующие операции, ослабило её воздействие.

Результаты

Операции достигли определенных успехов, но, в целом, их влияние было низким. Основным положительным результатом стало утверждение и реализация «Закона о государственных закупках», в котором были установлены прозрачные процедуры государственных закупок. Банк продолжал поддерживать исполнение закона и содействовал сохранению его положений. К сожалению, реформа не была продолжена. В 2019 году поправки в «Закон о государственных закупках» существенно снизили эффективность системы закупок за счет отмены ключевых положений закона и существенно увеличили возможности для коррупции в процессе закупок.

Также были достигнуты успехи в улучшении защиты депозитов и передаче ответственности за выплаты по социальному страхованию Государственной налоговой службе. Однако в ходе этих операций не удалось добиться существенного улучшения в управлении и сокращении масштабов коррупции, устранить многие из наиболее серьезных препятствий на пути развития частного сектора, а также улучшить управление энергетическим сектором и приблизить тарифы к возмещению расходов.

Одной из основных причин плохих результатов была слабая приверженность реформе, но это не помешало Банку продолжать последующие операции. На каждом этапе подготовки проекта амбиции снижались. Риски, связанные с каждой операцией, были высокими, особенно те, которые были связаны с политикой, управлением и слабыми институтами. Важным направлением операций было проведение реформы в энергетическом секторе, которая так и не состоялась. Выявленные меры по снижению рисков не были достаточно решительными и не были осуществлены. Отмена второй операции в серии ОППР по вопросам управления и конкурентоспособности была адекватной реакцией на отсутствие прогресса в проведении реформ.

Что сработало

Факторы, которые привели к успешным реформам, включали в себя то, что они были узконаправленными. Что касается реформы системы закупок, то её последствия изначально не были в полной мере оценены теми, кто преследовал корыстные интересы, и поэтому они не смогли обратить её вспять. Однако уже в 2019 году поправки в закон о закупках существенно подорвали эффективность процессов закупок. Успешные реформы были поддержаны дополнительными вмешательствами Группы Всемирного банка (ГВБ), в первую очередь углубленной технической помощью.

Что не сработало

Многие из предыдущих действий состояли из законов, представленных в парламент, планов действий и указов, которые не смогли продвинуть реформы по цепочке результатов к целям развития. В других случаях, особенно в области коррупции, конструкция двух серий не предусматривала наказания за невыполнение мер, предусмотренных в предшествующих действиях. Это свидетельствует о многих случаях недостатков, которые характеризовались медленным осуществлением или недостаточным обеспечением соблюдения принятых мер.

Уроки

Выводы этой ОППР позволяют извлечь несколько важных, с операционной точки зрения, уроков.

В контексте высокого риска ОППР, которые являются более целенаправленными, могут иметь больше шансов на успех, при этом осуществление будет подкрепляться дополнительными мероприятиями (например, инвестиционными проектами и АСА). Охват ОПР, рассмотренных в ходе этой оценки, был довольно широким, и было достигнуто мало результатов, что связано с серьёзными трудностями, с которыми сталкивается страна. Кроме того, эти операции требуют координации со стороны значительного числа министерств. Более целенаправленный подход позволил бы осуществлять более тесную последующую деятельность на основе диалога по вопросам политики с уделением особого внимания меньшему числу предшествующих мер и учреждениям, которые продемонстрировали твердую приверженность реформе.

Обсуждение рисков для успеха операций по бюджетной поддержке должно отражать совокупность рисков, связанных с параллельными операциями по бюджетной поддержке. Некоторые из реформ, поддержанных этими операциями,

были также поддержаны ОППР сектора энергетики и ОППР управления экономикой. Каждая из операций считалась высокорисковой. В отчётах Всемирного банка о завершении реализации и результатах проекта (ICRR) отмечается, что риск для устойчивости результатов в области развития является высоким. Меры по смягчению последствий, которые команды определили в Программных документах, были недостаточными, тем не менее на каждом этапе Программные документы выражали оптимизм в отношении того, что реформы будут реализованы.

Для обеспечения соответствующего дизайна проектов необходим анализ, позволяющий шире рассматривать препятствия на пути достижения целей ОППР (в данном случае связанных с развитием частного сектора); более узконаправленные аналитические данные помогут обосновать необходимость конкретных реформ. Для этой серии ОППР была использована стандартная аналитика ГВБ для изучения конкретных вопросов, при этом отсутствовала всеобъемлющая структура для выявления и приоритизации препятствий на пути развития частного сектора, и команды не опирались на имеющуюся аналитику от других доноров.

Акцент на управлении и конкурентоспособности был уместным, но вызывает вопросы относительно того, являются ли ОППР подходящим механизмом для проведения реформ в Кыргызской Республике, для осуществления которых часто требуется длительное время. В случае с Кыргызской Республикой политическая воля проявилась рано, но Банк продолжал отказываться от важных триггеров в целях оказания бюджетной поддержки. В обеих сериях политические действия в ходе первоначальной операции не сопровождались критическими последующими шагами, которые ставили под угрозу достижение их целей.

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Группа независимой оценки

1. Background, Context, and Design

1.1 This Project Performance Assessment Report (PPAR) covers two programmatic series of development policy operations (DPOs) focusing on governance and competitiveness that were implemented in the Kyrgyz Republic from 2013 through 2016. The first two operations were part of a programmatic series named the Development Policy Operation Series. It consisted of DPO1 (P126034) and DPO2 (P126274) for \$25 million each, approved in July 2013 and June 2014, respectively. The second series was named the Governance and Competitiveness Series. It was originally designed to include two operations, but the second operation was dropped because of failure to meet the indicative triggers specified in the first operation. DPO1 was approved for \$24 million in July 2016 (P148099) and closed in September 2017. This PPAR evaluates the first two operations of the first series and the first operation of the second series.

1.2 The DPOs were designed and implemented after a period of political upheaval and ethnic violence. In mid-2010, protests had overthrown the government, and ethnic violence had erupted in the south of the country. More than 300 people were killed, and approximately 357,000 people were displaced. The protests were fueled primarily by perceptions of corruption, nepotism, and misuse of public assets.

1.3 A government was formed in September 2012 under a new constitution that reduced the power of the presidency and established a parliamentary republic. In 2012, when the first operation of the first DPO series was being designed, the main development challenges facing the country were to improve governance and to reduce the country's vulnerability to economic shocks (World Bank 2012c).

1.4 The economy of the Kyrgyz Republic, which is a lower-middle-income country, is heavily dependent on gold mining and remittances, sectors that are particularly vulnerable to external shocks. In 2011, gold production accounted for 12 percent of gross domestic product (GDP) and 44 percent of exports. Remittances amounted to the equivalent of more than 20 percent of GDP in 2008 and increased to more than 30 percent of GDP by 2012. Productivity is generally low, and the country has high structural unemployment and a large informal sector. Financial markets were underdeveloped; the ratio of private sector credit to GDP was approximately 25 percent in 2012, and few firms finance investment through bank loans (IMF 2019).

1.5 The Kyrgyz Republic's informal sector is large, estimated by the International Monetary Fund to account for 26 percent of GDP (IMF 2011), employing 37 percent of the labor force. The distribution of companies by size is uneven. There are 1,800 large companies, mostly owned by the state, but only 800 privately owned, formal medium-

size companies. There are an estimated 15,000 small businesses operating informally and more than 400,000 individual entrepreneurs operating under the patent regime.¹

1.6 In response to these challenges, the government's 2012–14 Medium-Term Development Program aimed to increase living standards of the population and alleviate poverty. It was to occur through economic growth resulting from an improved business environment and governance. The program's objectives were to (i) reform the public administration and rationalize the governance system; (ii) reduce government expenditures and increase revenue; (iii) accelerate economic development; (iv) manage public assets effectively; (v) reform licensing, permitting, and inspection systems; (vi) reform social sectors (education, health care, social protection) and security; and (vii) reform the judicial system. Although the Medium-Term Development Program was finalized in April 2012 under an interim government, a new government took office in September 2012 and promised to continue the focus on anticorruption reforms, public finance management, strengthening the business environment and investment climate, energy reform, and development of the financial sector (World Bank 2012c).

Design and Preparation

1.7 To support the government of the Kyrgyz Republic in its reform agenda, the World Bank prepared two programmatic series of two DPOs each. The project development objectives (PDOs) of DPO1 and DPO2 of the first series were to strengthen public sector governance and sharpen competitiveness and enhance the attractiveness for private investment.² The aim was to support the Kyrgyz government in implementing reforms and policy priorities highlighted in the National Sustainable Development Strategy (2013–17) and the Medium-Term Development Program of the Kyrgyz Republic for 2012–14.

1.8 The PDOs of the first DPO of the second series were (i) strengthening governance and anticorruption efforts and putting in place enforcement, evaluation, and monitoring mechanisms; (ii) implementing key priority areas in the judicial sector to promote the rule of law; (iii) improving public sector accountability and efficiency in the management and use of public resources; and (iv) sharpening competitiveness and enhancing the attractiveness for private investment. The first three PDOs can be grouped under a strengthening public sector governance objective, similar to that in the first series.

1.9 The operations supported several policy areas relevant to their objectives, which are summarized in table 1.1.³ There was much commonality and overlap between the two series, as evidenced by the policy areas. Under governance and anticorruption policy, three of the four policy areas were virtually identical in the two series. They both

focused on governance and dealing with corruption, transparency in public procurement, and improving transparency and accountability in the energy sector. The policy areas in the private sector competitiveness pillars were less closely aligned, except for risk-based firm inspections, but the general theme of improving the business environment was common to both series. Although this was less the case for the second series, the overall objective of private sector competitiveness was continued and justifies including the second series in this PPAR.

Table 1.1. Pillars and Policy Areas Supported in the Two DPO Series

Pillars	Policy Areas	
	Series 1, DPO1 and DPO2	Series 2, DPO1
Governance and anticorruption	<ul style="list-style-type: none"> • Governance and anticorruption • Budget discipline and transparency • Transparency in public procurement • Increasing energy sector transparency, governance, and accountability 	<ul style="list-style-type: none"> • Governance and anticorruption • Transparency in public procurement • Increasing energy sector transparency, governance, and accountability • Public sector service delivery standards
Private sector competitiveness	<ul style="list-style-type: none"> • Judicial reform • Starting a business • Corporate governance • Risk-based firm inspections • Banking sector supervision • Deposit protection 	<ul style="list-style-type: none"> • Risk-based firm inspections • Tax policy for exporters • Tax administration • Cross-border telecommunications

Source: Independent Evaluation Group staff.

Note: DPO = development policy operation.

The Causal Chain

1.10 To strengthen public sector governance, policy actions were directed at reducing corruption; increasing budget discipline and transparency; making public procurement more transparent; and improving governance, transparency, and accountability in the energy sector. The causal chains underlying the DPOs of both series were complex, involving numerous subpolicy areas (10) and prior actions (30) that were intended to lead to the achievement of the PDOs.

1.11 The anticorruption component of the objectives was to adopt an Anticorruption Program and Action Plan (DPO1), complete a first round of asset verification of asset declarations by government officials, and establish a framework for monitoring these (DPO2). In the second series, a draft law on conflict of interest would be submitted to parliament. However, there were no penalties for noncompliance or for any follow-up actions if questions were raised about the veracity of the declarations. There was also no requirement that family members submit asset declarations. Thus, with no penalties

attached to this component, the causal chain between the policy actions and reducing corruption was weak.

1.12 Under budget transparency and discipline, the causal chain was that cooperation between the Ministry of Finance and the National Bank of the Kyrgyz Republic (NBKR) would determine the respective roles of each, that an Internal Audit Council would be established (DPO2), and that ethical standards would be adopted. In addition, accounting practices would be strengthened and there would be a revised budget code to strengthen controls and eliminate nontransparency in the use of reserve funds. The causal chain was also weak because these were all inputs rather than outputs that contributed to transparency and discipline.

1.13 Under DPO1 of the second series, the government was to adopt a set of public service standards for a minimum of 90 public services, including education, social security, and employment. However, the mechanism for translating standards to actual improvements in the quality of service was unspecified. There was no clear causal chain.

1.14 Under the transparency in public procurement subobjective, a report on the use of the 2011 budget would be adopted, a draft law on public procurement would be submitted to parliament, and the role of the public procurement regulatory body would be strengthened. Under the second series, a public procurement strategy would be adopted, and reports on the use of procurement in the budget would be issued. In addition, an Independent Complaint Review Commission would be established with the power to investigate abuse of procurement procedures. All transactions had to be transparent; all procuring firms would be entered into an electronic procurement system. All procurement had to take place through this framework, which provided publicly available information on current and past procurement. The system was decentralized and included 4,000 procuring entities and more than 20,000 suppliers. The causal chain for this set of policy actions is clear, particularly with respect to the establishment of the Independent Complaint Review Commission, which strengthened the procurement framework.

1.15 Energy sector governance was to be improved by the adoption of an action plan to enhance transparency, accountability, and governance in the sector. Measures in the action plan included carrying out annual audits of the financial statements of energy companies and making them public; establishing websites for the Ministry of Energy, the Energy Regulatory Department, and energy companies; ensuring competitive procurement of fuel resources; maintaining sector accounts for power export revenues for the National Electric Grid of Kyrgyzstan Joint Stock Company and the Power Plants Joint Stock Company; and selecting directors and executive bodies of the energy companies through a transparent and competitive process. Under the second series,

energy sector governance would be strengthened by the government adopting a tariff-setting methodology for heating sector companies; the adoption of a resolution instituting cash settlement mechanisms among electricity generation, transmission, and distribution companies; and the State Regulatory Agency adopting a performance monitoring and reporting framework for the heating sector.

1.16 The causal chain for energy sector reform is unconvincing. The vast majority of measures involved plans, the adoption of methodologies, and the development of frameworks. There were few concrete measures that would result in improved performance of this important sector of the Kyrgyz Republic economy, which has been responsible for a significant portion of the public sector debt.

1.17 Under Pillar II of DPO1, enhancing the business environment, a council was to be established that would identify priorities for judicial reform. Under DPO2, judicial reform was to be achieved by submitting to parliament a proposal to increase the financial independence of the sector. There were no policy actions related to judicial reform in the second series. Although identifying priorities for judicial reform is a first step in reforming the dispute mechanism process for the private sector, without implementation of reforms, there is no clear causal connection between the policy action and reform of the business environment.

1.18 Under the business start-up component of enhancing the business environment in the first series, under DPO1, a checklist was issued to business registry offices to clarify on what basis a business registration application would be rejected. For business inspections, the government introduced a resolution establishing transparent criteria for conducting business inspections and the development of a risk-based inspection module. In the second operation of the first series, a consolidated inspection database was developed, followed in the first operation of the second series by rationalizing risk criteria for inspections that would allow for fewer inspections of businesses that had lower levels of risk. If these are implemented, the causal chain regarding inspections is clear.

1.19 Financial markets were to be strengthened in DPO2 of the first series by the strengthening of bank reporting requirements, the establishment of the new credit registry, and the strengthening of the deposit protection program. There were no policy actions related to financial market development in the second series. However, although deposit protection is important for building confidence in the financial system, the establishment of a credit registry does not necessarily increase access to finance for the private sector.⁴ The causal chain is therefore incomplete.

1.20 In DPO1 of the second series, the government submitted to parliament amendments to the tax code that abolished sales tax for exporters, and the value-added tax (VAT) system was modernized through eliminating paper-based VAT invoicing and the introduction of simplified procedures for VAT refunds. Here, the causal connection is clear.

1.21 Additionally, in DPO1 of the second series, telecommunication connectivity was to be improved by allowing telecommunications companies to deploy cross-border telecommunications cables to promote competition in the international connectivity market.

1.22 Tables D.1, D.2, and D.3 in appendix D show the prior actions and details on the results indicators, the baseline and target values, and the actual outcomes and whether they were achieved.

Context during Project Implementation

1.23 The first DPO series was implemented in an unpredictable political environment. The Kyrgyz Republic's parliamentary democracy was embryonic, having just been established in the 2010 constitution. There was substantial political instability over the whole period during which the two series were being implemented. From the time of the DPO1 concept review meeting in April 2012 until the cancellation of DPO2 of the second series in September 2016, the Kyrgyz Republic had eight prime ministers. Furthermore, in view of the rapid turnover of high-level political actors, identifying reform champions was difficult, especially given that political considerations played an important role in promoting reform. Political parties have been described as clan and personality based (Kamp 2008), without clear policy ideologies. Furthermore, the president and cabinet had little influence on parliament, often making it difficult to pass laws and sustain reforms. Although competing political alliances agreed that reform was necessary, there was no consensus regarding priorities and the pace of reforms, which led to ongoing clashes among the most important parliamentary groups and which weakened reform commitment through time.

1.24 Governance and the need to find more sustainable sources of growth remained major challenges throughout the implementation of both series and beyond. As of 2020, the Kyrgyz Republic remained within or near the bottom third of countries on the Worldwide Governance Indicators;⁵ for the corruption component of the index, it was in the bottom 15 percent of all countries.⁶ In 2021, the Kyrgyz Republic ranked 144th out of 180 countries in the Corruption Perception Index, a deterioration from 2003, the first year that it was included in the index, when it ranked 118th.⁷

1.25 In the 2013 Enterprise Survey,⁸ the top constraint to operations identified by formal firms was competition from the informal sector. In the Kyrgyz Republic, a significant number of large informal businesses are not registered under company legislation, do not observe labor laws, and operate outside the tax system.

1.26 The DPO of the first series attempted to address this issue by focusing on improving the time and cost for starting a formal business. However, interviews with the private sector in the Kyrgyz Republic indicated that incentives to be formal were weak, particularly because formal businesses were subject to high taxation and frequent inspections. As a result, informality remained pervasive.

1.27 During implementation of the series, deficits in the budget and balance of payments were significant. However, debt sustainability analysis by the World Bank and the International Monetary Fund judged the risks as moderate (IMF 2011). In the face of shocks, macroeconomic policies sustained both a manageable level of debt and a budget deficit that could be financed, albeit with the support of donors. The very large inflow of remittances supported financing the external deficit. However, the energy sector presents an ongoing and significant potential risk to long-term macroeconomic stability. It is notable that one of the reasons cited for the cancellation of the fourth operation was lukewarm government commitment to far-reaching reforms in the energy sector. These reforms are necessary to both fund much-needed investment and reduce the drain on the economy, which would allow the reallocation of scarce funds to more productive uses.

2. What Worked, What Didn't Work, and Why

Overview

2.1 The wide range of reforms necessarily implied that the prior actions in the DPOs of both series involved many implementing institutions. These included the counterpart ministry (Ministry of Finance) and nine other ministries, plus the cabinet of ministers. This complicated the process of achieving meaningful reform, which was also compounded by frequent changes in government.

Pillar I. Improving Public Sector Governance

Public Sector Integrity and Reducing Corruption

The First Series

2.2 Pillar I of the first DPO series aimed to improve public sector governance through reforms aimed at improving public sector integrity, increasing the quality of

public services, and enhancing energy sector governance. The objectives of Pillar I were also relevant to those of Pillar II on private sector competitiveness because analytical work identified corruption, the legal system, property rights, and electricity access as major impediments to the functioning of the private sector.

2.3 Corruption in the Kyrgyz Republic was and continues to be a major issue and one of the most significant constraints faced by the private sector. To address corruption, the series supported an action plan and a framework for monitoring its implementation. The prior actions required the verification of asset declarations by high-level politicians, high-level government officials, and those public officials in positions where opportunities for rent seeking were high. The prior actions also required the government to submit to parliament a draft law on conflict of interest.

The Second Series

2.4 The second series contained reforms to strengthen governance and reduce corruption. These reforms included putting in place enforcement, evaluation, and monitoring mechanisms for services supplied by the public sector; implementing reforms in the judicial sector to promote the rule of law; improving public sector accountability and efficiency in the management and use of public resources; further strengthening the procurement framework; and adding more measures to reduce corruption through verifying the assets of politicians and senior civil servants. Politically, however, corruption was a very sensitive topic. According to World Bank staff interviewed, the anticorruption efforts were supported at the presidential level, but this support was not strongly evident at the cabinet and bureaucratic levels, an issue that raised the risks of this component of the operations because it suggested that commitment to reform was weak.

What Worked and Why

The First Series

2.5 The prior action under DPO1 of the first series was to adopt an Anticorruption Program and Action Plan for 2012–14 and establish a framework for monitoring its implementation. Under DPO2 of the first series, the State Personnel Service completed the first round of asset declarations of civil servants and shared this information with the government.

The Second Series

2.6 Under DPO1 of the second series, the prior action was to submit the Conflict of Interest Law to parliament, which occurred. It entered into force in 2018. Although passing the law can be considered a success, this was not due to any measures

undertaken in the second series. It became a prior action under the Economic Governance DPO.⁹

What Didn't Work and Why

The First Series

2.7 In several areas, measures to reduce the prevalence of corruption that had been implemented through the prior actions failed to have the desired results. Under DPO1, the anticorruption program, including the establishment of an anticorruption forum through the participation of civil society in anticorruption efforts, was expected to improve the ability of law enforcement to prosecute corrupt activities. The prior action for DPO2 was that the State Personnel Service complete verification of asset declarations of high-level politicians and civil servants in political functions. However, although the asset declarations did occur, they were never verified, and the data were never used to investigate conflicts of interest and unreasonable accumulation of assets. As a result, asset declarations were not an effective instrument in reducing the amount of corruption.¹⁰ This is an example of many instances of shortcomings characterized by slow implementation or lack of enforcement of the measures that were passed and legislation that did not include penalties for noncompliance.

Increasing the Quality of Public Services and Strengthening Accountability

The First Series

2.8 Strengthening the quality of public services and accountability was a consistent theme of both series and complemented the goal of reducing corruption. Under both operations of the first series, the focus of prior actions was on improving budget discipline and transparency and on increasing transparency in public procurement. To increase the transparency of public procurement, the prior actions of DPO1 required (i) the Ministry of Finance to publish a public procurement report on the use of the 2011 budget, and (ii) the government to adopt a public procurement development strategy that would align with international best practice. Under DPO2, the government submitted a public procurement law to parliament that met international standards of good practice.

Second Series

2.9 The reforms under DPO1 of the second series that related to governance aimed to improve public sector integrity, improve public services, and strengthen the governance of the energy sector. The prior actions that would achieve these goals were the following:

- Submitting a draft law on conflict of interest to parliament

- Adopting service standards for at least 90 public services
- Operationalizing an Independent Complaint Review Commission for public procurement
- Adopting a tariff-setting methodology for heating companies
- Adopting a cash settlement mechanism between electricity transmission and distribution companies to reduce arrears
- Adopting a performance reporting and monitoring framework for the heating sector

2.10 Indicative triggers for DPO2 were issuing additional legislation to implement the law on the conflict of interest, issuing guidance notes regarding instructions, and standardizing procurement documents. An additional indicative trigger for DPO2 was the government's adoption of service delivery standards for a further 120 public services. Key areas selected for these standards included education, social security, and employment.

2.11 The design of these prior actions supported the reform goals to some degree. However, of those regarding improving budget discipline, tax reform, and transparency, many consisted of submitting laws and regulations to parliament without any guarantee that they would be adopted, and many were not.¹¹ The same applied to setting standards for public services.

What Worked and Why

The First Series

2.12 The public procurement law was passed in 2015, updating a 2004 law. The law, which aligned with good practice in other countries, provided specific procurement rules for all levels of government, public institutions, and state-owned enterprises. A notable feature of the law was the establishment of a public portal where all bidding documents and details on the results of winning bids were displayed, which achieved the outcome indicator that required the demonstration of increasing compliance with the law.

2.13 World Bank assistance was provided in the form of a procurement assessment, assistance with the drafting of the law, and ongoing dialogue with the government. Support was also provided by other donors, in particular the European Bank for Reconstruction and Development (EBRD). Both the World Bank and the EBRD played a role in lobbying for the passage of the law and have supported civil society in resisting

its rollback. The in-depth engagement of the World Bank in this area provides a notable example of how such support achieved results.

2.14 Interviews with World Bank staff indicated that nongovernmental organizations consistently monitor the portal and report possible transgressions to the Independent Complaint Review Commission, which investigates the complaints. This was a significant success of the program. However, interviews revealed that there are ongoing attempts to weaken the provisions of the law.¹² This in fact occurred over 2019–20 (World Bank 2021). The passage of amendments to the public procurement law removed the obligation to limit procurement to documents submitted through the e-portal. It reintroduced paper procurement and substantially increased the ceilings on public procurement that were exempted from best practices. In addition, best practice standard bidding documents were abolished.

The Second Series

2.15 A prior action under DPO1 was the establishment of an Independent Complaint Review Commission for procurement. This was achieved, and interlocutors in the Kyrgyz Republic indicated that it was functioning effectively. The effectiveness of the procurement reform was further strengthened by a trigger for DPO2, which defined procurement methods and standardized bidding documents and allowed the work of the Independent Complaint Review Commission to be operationalized. However, these reforms were reversed during 2019–20.

What Didn't Work and Why

The First Series

2.16 Although an anticorruption plan was adopted and a framework for monitoring progress was established, the fact that the framework had no penalties for noncompliance rendered the reform ineffective. Interviews confirmed that corruption continued to be widespread and these measures, which consisted mainly of inputs, had little impact.

2.17 With regard to budget processes, the accuracy of fiscal projections, as measured by the actual outcome of the composition of budget spending, showed little improvement. In contrast to overall macroeconomic policy, fiscal issues remained a problem. The impact of prior actions related to the roles and responsibilities of the treasury, the unified chart of accounts, controls of nonallocated funds, and sovereign guarantees. These inputs had little impact on improving budget forecasting. As a result, the coherence of spending, the tax structure, and public sector personnel management remained problematic, and budgeted and actual spending frequently diverged significantly (IMF 2019), although the effectiveness of internal audits improved.

2.18 The successes of the new procurement framework were transitory. Amendments to the procurement law in 2019 removed its most important provisions and reopened significant scope for corruption. These developments demonstrated the Kyrgyz Republic government's weak commitment to reform.

The Second Series

2.19 Submitting a draft law on conflict of interest was a prior action for DPO1, which was achieved. However, a trigger for DPO2 was that secondary legislation would be issued to implement the law on conflict of interest, and this did not occur. There is no evidence regarding whether the issuing of standards for 120 additional services had any impact.

Enhancing Energy Sector Governance

2.20 The energy sector imposes a large drag on the economy and requires ongoing transfers from the budget to finance its losses. The Kyrgyz Republic has the cheapest consumer electricity prices in the region, and costs exceed revenues by a large margin. By 2016, the accumulated debts of energy sector companies equaled 20 percent of GDP and represented a significant contingent liability for the government (World Bank 2017). Furthermore, although there was substantial investment in the sector, primarily from China, World Bank staff indicated that much of it was of low quality. There was also inadequate maintenance in many parts of the generation and distribution network, leading to unreliable power supplies, particularly to businesses, which identified this as a major operating constraint (World Bank and IFC 2013).

The First Series

2.21 Under DPO1 of the first series, an action plan was adopted. Its main provisions were to enhance transparency, accountability, and governance in the sector, including through annual audits of energy companies, competitive procurement, and transparent selection of directors and executive bodies. Originally, under DPO2 of the first series, a trigger had been an increase in electricity prices, but this was dropped and replaced by a prior action that required the Ministry of Energy and Industry to issue an order aimed at further increasing transparency by requiring energy companies to publish details of special accounts, operational and technical information on performance, and annual audited accounts.

The Second Series

2.22 There were three prior actions under DPO1 of the second series. They consisted of the State Regulatory Agency adopting a tariff-setting methodology for heating sector companies, the introduction of a new cash settlement mechanism among generating

companies and transmission and distribution companies, and the adoption of a monitoring framework for the heating sector.

2.23 The indicative triggers for DPO2 of the second series were that the government would adopt a revised Medium-Term Tariff Policy for 2014–17 that was consistent with restoring the sector to financial viability. A second trigger was this policy being extended into 2018. The government would also adopt a resolution establishing the governance and financial structure for the State Regulatory Agency of the Fuel and Energy Complex with a view to increasing its autonomy and financial independence.

What Worked and Why

The First Series

2.24 Before the reforms supported by the DPO series, there had been large outstanding arrears among companies that made up different components of the electricity system. According to an interview with World Bank staff, the cash settlement mechanism, which was supported by World Bank technical assistance, contributed to substantially reducing these arrears, although by exactly how much is difficult to determine.

The Second Series

2.25 Under DPO1 of the second series, a performance monitoring framework for the heating sector was adopted, which allowed for measuring its effectiveness and quality of services. However, there is no record of it having had an impact, although its use could bring future benefits.

What Didn't Work and Why

The First Series

2.26 The failure of energy sector reform was a defining characteristic of the first DPO series. The proposed increase in electricity prices for DPO2 of the first series and the adoption of a new electricity law proved to be infeasible. There was a lack of consensus regarding tariff increases among the Ministry of Finance, the sector regulator, and the energy company. According to an interview with World Bank staff, the failure of the power station in Bishkek in the middle of the 2015 winter turned the public against any possible price increase. As a result, the triggers were dropped in DPO2 and replaced by prior actions that required the publishing of the financial accounts of the energy companies.

The Second Series

2.27 Under DPO1 of the second series, a tariff-setting methodology was adopted, as was a performance reporting and monitoring framework for the heating sector.

However, neither was used effectively, and the measures essentially constituted inputs that did not result in any improvement in energy sector performance. This outcome raises the question of whether the operation should have been terminated when the energy sector triggers in DPO2 of the first series were not met.

Judicial Sector

2.28 DPO1 and DPO2 each had one prior action to promote judicial reform. Under DPO1, the prior action was the establishment of a Judicial Reform Council; judicial sector reform was not addressed in the second series. Under DPO2, the council would approve a Strategic Action Plan on reforming the judicial system. Under both DPOs, the courts were given substantial increases in financial resources, with budgets of the judicial sector nearly doubling between 2014 and 2016, to make the court system more independent of the government.

2.29 The EBRD took the lead in developing the reform action plan with some participation from the World Bank. However, interviews with World Bank staff and the EBRD suggested that success was limited. Although there was a substantial output of laws (the EBRD suggested that these exceeded 25), the impact was minimal. The courts were still characterized by arbitrary decisions, corruption, and cronyism. Interviews with the EBRD revealed that there had been no improvement in the institutional structure of the judicial system over the past 25 years. The EBRD survey reported that only 41 percent of respondents had a positive opinion of the courts (EBRD 2018). The 2019 EBRD country diagnostic states that judicial impartiality continues to be a major issue, with many court decisions favoring the government (Holzhacker and Skakova 2019).¹³

Pillar II. Private Sector Competitiveness

The First Series

2.30 Pillar II of the first series aimed to sharpen competitiveness. It was to do this through improving the business environment, thereby enhancing the attractiveness of the Kyrgyz Republic for private investment. This included making the judiciary more effective, improving the environment for development of private business, and undertaking reforms in the financial sector.¹⁴

The Second Series

2.31 In the first operation in the second series, the objective was to strengthen private sector competitiveness through measures to facilitate trade, improve the business environment, and promote greater connectivity.

Financial Sector Stability

2.32 The 2010 crisis revealed substantial weaknesses in the bank resolution legal framework and the supervisory and regulatory framework for the banking sector (World Bank 2013b). During the crisis, deposits fell by 30 percent, nonperforming loans increased rapidly, and banks incurred significant losses. Seven banks, accounting for 45 percent of the financial sector's assets, were put under administration, and the largest bank was nationalized, declared bankrupt at the end of 2010, and restructured.

2.33 The first DPO series sought to improve financial sector stability by strengthening the NBKR's ability to address banking sector vulnerabilities and resolve problem banks. The first DPO series aimed to strengthen banking sector supervision and regulation and to improve deposit protection.

2.34 In parallel to the DPO, the World Bank Group had a strong complementary engagement on various aspects of the financial sector and contributed to improving risk-based supervision of banks. This included the Kyrgyz Republic Financial Sector Development Project (P125689, \$8.95 million International Development Association loan, 2012), and six International Finance Corporation (IFC) interventions, some of which were part of regional initiatives.¹⁵ The Bank Group supported NBKR introducing risk-based supervision of banks and strengthening other aspects. The assistance involved inputs into strengthening the banking law and regulations and was conducted in close collaboration with the International Monetary Fund. According to World Bank staff, the new risk-based supervisory approach for banks was adopted on January 30, 2020. It reduces the possibility of systemic meltdown, which would have had a severely adverse impact on the economy and the private sector.

2.35 DPO1 had a DPO2 trigger of revising regulations on the Prompt Remedial Action Framework (PRAF) for banking supervision. This would enhance the NBKR's capacity to supervise and regulate the banking sector, address vulnerabilities in a timely manner, and resolve problem banks efficiently. However, when the trigger was converted to a prior action, it was substantially narrowed to focus on the establishment of a credit registry as a supervisory tool at NBKR. According to World Bank staff, this change was made because the PRAF was delayed and because staff ultimately determined that a PRAF along the lines described in the trigger was too ambitious.

What Worked and Why

2.36 The amendments to the Deposit Protection Law that were supported by the series increased protection of depositors and improved governance and procedures in the Deposit Protection Agency. These measures included clarifying (i) powers and qualifications of its management, (ii) requirements to coordinate with other entities, and

(iii) definition of an insurance event and timing of paying depositors. Thus, the operation aimed to increase confidence in banks by increasing the ratio of deposits to GDP.

2.37 Design of DPO2 triggers as described in the DPO1 program document were appropriate. The World Bank team found that (i) the bank resolution framework was fragmented with gaps, overlaps, and inconsistencies across several laws; (ii) there were weaknesses in on-site and off-site supervision, stress testing, contingency planning, and crisis management; and (iii) there were weaknesses in several aspects of the regulatory framework, including those related to managing credit risk, liquidity risk, and exchange rate risk. In addition, “There are no regulations on electronic banking, business continuity planning, outsourcing, new products and related risks, Basel II, Basel III, consolidated supervision, and risk-based supervision” (World Bank 2013b). Improving deposit protection was also relevant.

What Didn’t Work and Why

2.38 The move away from the PRAF and related aspects to focus narrowly on NBKR’s credit registry missed an opportunity to address a fundamental weakness in financial sector supervision and regulation. Issues with bank resolution persist. Rosinbank was taken over by NBKR in 2018, and issues related to its resolution remain. The 2020 Kyrgyz Republic Comprehensive Private Sector Diagnostic noted weaknesses in the bank resolution regime. As of October 2020, interviews with World Bank staff indicated a need for critical amendments of the banking law and other legislation on bank resolution and crisis preparedness; NBKR representatives acknowledged that they needed more assistance with the framework for bank resolution.

2.39 Improving the use of NBKR’s credit registry, which was the revised prior action from DPO2, aimed to address a narrow aspect of these challenges, but the registry was not working as of the end of 2021. Before the DPO, NBKR did not have ready access to information on banks’ individual loans. The prior action was meant to enhance NBKR’s supervisory abilities by getting it access to this information and enabling it to track parallel loans. However, NBKR representatives stated that as of December 2020, they were not using the registry for bank supervision and could not track parallel loans.

Access to Finance

2.40 DPO1 of the first series aimed to address access to finance through triggers that were dropped in DPO2 because of lack of progress in meeting associated prior actions. The triggers that were removed were (i) improving the legal framework for secured transactions, and (ii) submitting to parliament amendments to the insolvency law

consistent with the 2011 Insolvency and Creditor Rights Report on the Observance of Standards and Codes recommendations.

What Didn't Work and Why

2.41 Since the time of the DPOs, the Bank Group has worked on secured transactions, although this has had little impact on overall access to finance. The Kyrgyz Republic Financial Sector Development Project (P125689; World Bank 2012b) has supported transforming the collateral registry from paper based to online. Interviews suggested that this appears not to have made a major difference in enterprises' access to finance. As of December 2020, 17 banks and microfinance institutions were using the collateral registry. However, the use of movable assets as collateral in the financial system remains limited.

2.42 The Bank Group's program and the DPO reflect a strong focus on financial sector stability rather than access to finance. Access to credit in the Kyrgyz Republic is severely constrained. The ratio of private sector credit to GDP was 13 percent in 2012, compared with an average ratio for lower-middle-income countries of 39 percent.¹⁶ Analytical work identified access to finance as a critical constraint to private sector development. A 2010 policy note on access to finance identified the importance of access to finance.¹⁷ It therefore is a significant weakness that an operation that aimed to strengthen private sector competitiveness did not address access to finance issues.

Risk-Based Inspections

The First Series

2.43 Both operations in the first series had prior actions related to inspections. These included (i) under DPO1, introducing transparent, risk-based criteria for planning and conducting business inspections and developing a risk-based inspections coordination module;¹⁸ and (ii) under DPO2, operationalizing a single automated database for business inspections in the Ministry of Economy and six inspectorates in Bishkek.

The Second Series

2.44 Under DPO1, the prior action required amending the Resolution on Improving Risk Criteria for Inspections to allow for less frequent inspections for entities with lower levels of risk.

What Worked and Why

2.45 The design of the triggers was informed by analytics that identified frequent and intrusive inspections, many of which involved rent seeking on the part of inspectors, as a significant constraint to doing business. This information was obtained from business

surveys, the Bank Group's investment climate assessment from the mid-2000s (World Bank 2005), and analytics from other donors. The total number of inspections per year and the average number of days spent by enterprises dealing with inspections were found to be considerably above those reported in several other countries in the region. In a national survey, 51 percent of firms said that reducing the number of inspections would be "very important," placing it fifth in priority out of 18 possible policy actions (PROMA and IBC 2006). The 2010 investment climate assessment for small and medium enterprises (SMEs) found that 46 percent of SMEs said that inspections were "very" or "rather" difficult, placing the issue as the third priority among permits, licenses, inspections, registration, and technical regulations (IFC 2010). Furthermore, inspections were a source of corruption, so including them as a prior action was consistent with the anticorruption goal of both series. One-third of SMEs said that they made unofficial payments during the process of inspections.

2.46 Advisory services from IFC provided input into DPO prior actions and supported the authorities in implementing reform of business inspections. IFC and World Bank teams indicated that they worked smoothly together, with the World Bank appreciating IFC inputs into the prior actions and implementation support and IFC appreciating the DPO as a way of making progress on the reforms. IFC had had ongoing projects on business inspections since 2008.¹⁹ The first project helped the government improve the Inspections Law adopted in 2007, reduce the number of inspectorates from 21 to 12, pilot risk-based inspections in two inspectorates in Bishkek, and introduce information technology tools. The second project, which ran in parallel to the DPO series, supported the government in amending the Inspection Law and related bylaws; enhancing the web-based inspection management system; improving inspections checklists and a mobile app; and establishing an online inspection feedback mechanism between government and businesses.

2.47 Some inspection-related reforms appear to have been successful, such as consolidating the number of inspectorates. The IFC projects supporting inspection reforms claimed substantial results between 2011 and 2017. These reforms included decreasing the share of businesses inspected per year from 73 percent to 45 percent and reducing the annual number of inspections per business from 2.7 to 1.5, leading to estimated savings of more than \$5 million in compliance costs. Furthermore, all inspections were suspended in 2018, so currently the issue regarding whether risk-based inspections are being used is moot. However, this could become an issue in the future.

What Didn't Work and Why

2.48 Claims regarding improvement in business inspections are not supported by evidence. Despite assistance from the Bank Group over 10 years, through both IFC

projects and the DPO series, the policy support and in-depth technical assistance for introducing risk-based inspections did not bring about substantial change in the authorities' approach to inspections. The 2020 Country Economic Memorandum states that business inspections remain among the top constraints to doing business, and risk-based inspections are not being implemented. It further notes that "there is little incentive for the state inspectorate to move away from a penalty-based approach to a compliance and awareness-building approach" (World Bank 2020a, 8), since government support for doing so was weak. Furthermore, the inspections management portal (<http://proverka.gov.kg>) and the public-private dialogue platform are not currently operational. Interviews with private sector representatives confirmed that inspections remain a serious issue for doing business in the Kyrgyz Republic.

Tax Administration

2.49 A 2006 national business survey identified tax issues as the third most important constraint facing companies, with 36 percent of businesses citing it as a major problem (PROMA and IBC 2006). The Social Fund contributions were identified as the fifth most important tax to reform out of 13 taxes. The survey also identified Social Fund inspections as the third most difficult (behind those for tax and for sanitation and epidemiology). Bank Group analytics calculated that in 2014, reporting to the Social Fund was the most complicated of seven tax-related activities.²⁰ Additionally, levying sales taxes on exports was viewed as a constraint to promoting exports. Both series contained prior actions related to improving the business environment through reforms to tax administration.

2.50 Tax reform was concentrated in the second series. These measures were elimination of paper-based VAT invoices in favor of electronic invoices, establishing an accelerated VAT refund process for trustworthy taxpayers, abolishing sales taxes on exports, and transferring responsibility for social insurance payments from the Social Fund to the State Tax Service (STS).

What Worked and Why

The Second Series

2.51 Under DPO1, the government would submit to parliament amendments to the tax code to abolish sales taxes for exporters. Additionally, the government would submit to parliament amendments to the tax code to streamline VAT administration through the elimination of paper-based VAT invoicing and streamlining VAT refund processes for trusted taxpayers.

2.52 The transfer of responsibility for social insurance payments from the Social Fund to the STS addressed an important issue for the private sector, although it was not

among the most critical issues. Before the reform, companies had to report on taxes to the Social Fund and the STS, each of which required in-person visits, had different rules of administration, and carried out its own inspections. Administrative matters related to social insurance payments to the Social Fund were unclear since they were not included in the legislation on social insurance or in the tax code. A relevant private sector association had been lobbying for this change since 2010.

2.53 The reform was accomplished. Pilots in two districts were carried out and supported by the IFC Central Asia Tax Project (597327). The full transfer of social insurance payments from the Social Fund to the STS became operational on January 1, 2019, through administrative changes.²¹ Relevant legal changes were approved in May 2020. The reform was made possible by pressure from taxpayers; high-level dialogue enabled by the preparation of the second series; in-depth analytics and support from IFC; and an opportune political situation, in which the chair of the Social Fund became first vice prime minister. The Economic Governance DPO of 2018 supported establishing a deadline for nationwide rollout of this transfer.

2.54 The reform is expected to save businesses time, and it could plausibly reduce discretion and therefore corruption. IFC found that the average total time for tax accounting in the districts implementing the pilot was 21.4 business days, whereas in other areas, it was 24 business days. Visits to the Social Fund took 3.6 days in nonpilot areas, compared with 0.8 days in pilot areas. It is estimated that this reform would reduce tax compliance costs by about 10 percent (IFC 2017).

2.55 The elimination of paper-based VAT invoices and their replacement with a range of invoice numbers was implemented. Tax administration was the seventh most difficult issue out of 16 possible constraints to doing business in the 2008 and 2013 Enterprise Surveys. The 2012 IFC *Investment Climate in the Kyrgyz Republic as Seen by Businesses* survey found that VAT and common tax declarations were virtually tied as the most difficult taxes for SMEs to report; 20–25 percent of SMEs having turnover of more than 1 million (just under \$22,000) cited them as difficult (IFC 2013). Companies frequently needed to interact with STS in person, and all these documents were eligible for inspection by STS. The system was “cumbersome and complicated,” according to a representative of the private sector.

2.56 After the reform, companies can file an application without the need to visit a tax office. From 2017, the service has been available as an e-service through the taxpayer portal. The reform reduced the time and marginally reduced the already low cost related to these invoices.

2.57 The sales tax on exports was a clear case of double taxation, and the private sector had been vocal in requesting its removal. This occurred but made little difference in the private sector's capacity to export. The 2020 Bank Group Country Private Sector Diagnostic identifies lack of export competitiveness as one of the main challenges for the private sector (IFC 2020).

What Didn't Work and Why

2.58 DPO1 in the second series supported the establishment of simplified procedures for VAT refund for trustworthy taxpayers; however, the implementation status of this reform is unclear. According to IFC, VAT refunds were particularly problematic and a major issue raised by investors as an obstacle to their operations in the Kyrgyz Republic. The reform was intended to authorize businesses for simplified procedures based on risk analysis. According to interviews with IFC and World Bank staff, the system is being implemented but is limited to larger companies based in Bishkek and continues to be paper based.

2.59 More support is needed to fully roll out electronic VAT invoicing, the next step toward completing the process of reforming VAT invoices. As of January 1, 2020, the first 200 taxpayers started using the electronic VAT invoicing system, and it was extended to 500 taxpayers on July 1, 2020. The next steps are to extend the system to all exporters and importers, then all taxpayers, and finally to have a "virtual warehouse" to track movement of goods electronically, but as of mid-2021, this had not been implemented.

Cross-Border Telecommunications

2.60 Although telecommunications issues had not been identified as a binding constraint, development of the telecommunications sector was viewed as having broader benefits. World Bank staff working on telecommunications in the Region identified and addressed a practical problem raised by the private sector.

What Worked and Why?

2.61 The second DPO series supported cross-border telecommunication reform. A prior action of DPO1 of the second series established a framework for introducing additional cross-border telecommunications cables. At the time the DPO was prepared, the Kyrgyz Republic had one cable coming from Kazakhstan, controlled by the state-owned telecommunications operator, Kyrgyz Telecom. Other operators were interested in developing the market using their own infrastructure as an alternative. The legal and regulatory framework governing additional cross-border cables was unclear because it was by nature a construction code but also a sectoral issue. World Bank staff engaged in dialogue with the government on how to address this through missions, written

outputs, consultations with the private sector, and sharing relevant international experience to address specific questions and issues. An appropriate solution was found and implemented.

2.62 Furthermore, although DPO2 of the second series did not move forward, the trigger to improve the framework for dispute resolution among private operators in the sector was implemented, supported by similar engagement with the authorities. This was important in providing a predictable business environment for firms to expand telecommunications connections. The work was supported by the sectoral advisory services and analytics World Bank 2013a.

Other Prior Action Areas

Starting a Business

What Worked and What Didn't

The First Series

2.63 DPO 1 supported an action to clarify on what basis a registration application for the establishment of a business could be rejected and to issue instructions to applicants on the information required. The program document justified the prior action as removing one of the causes of informality. However, the limited focus on administrative steps is unlikely to make a material difference in an entrepreneur's decision and ability to start a formal business because the prior action did not address the fact that incentives for formality are low. Informality remains a substantial economic and social protection issue in the Kyrgyz Republic.

Corporate Governance

What Worked and What Didn't

2.64 Measures to address weak corporate governance were included in DPO2 of the first series. The prior action focused on strengthening the responsibilities of members of management bodies. This is a subcomponent of the Protecting Investors indicator on *Doing Business*. However, protection of minority shareholders did not appear to be an issue; in the 2012 *Doing Business* report, the Kyrgyz Republic ranked 13th in the world on protection of minority shareholders, although the accuracy of this measure could be questioned (World Bank 2012a). The extent of directors' liability was rated 7 on a scale of 1 to 10. This reform was expected to improve this rating marginally, from 7 to 8. Furthermore, parliament decided not to legislate corporate governance reforms directed at strengthening the responsibilities of members of management bodies of companies, since other corporate governance reforms were considered more salient.

Implementation and Monitoring

What Worked and What Didn't

2.65 There were sound analytical foundations for both series. The first pillar of the two operations in the first series was based on a Public Expenditure and Financial Accountability analysis and reviews of procurement processes. The competitiveness pillar was based on advisory services undertaken by IFC on the business environment, a judicial reform diagnostic, a Financial Sector Assessment Program, and a report on the observance of standards and codes to identify corporate governance issues. The second series was based on analytical work on capacity-building technical assistance covering governance and an IFC trade and competitiveness advisory program.

2.66 In both series, government commitment to several of the reforms was lukewarm. In particular, the progressive weakening of prior actions regarding the energy sector reduced the impact of the program and ultimately led to the cancellation of the second operation of the second series.

2.67 Risks to the series were underestimated. The risks of commitment failure and those arising from limited implementation capacity were not fully considered in the design of the program. Furthermore, several interlocutors, both inside and outside the World Bank, pointed to the limited authority of the Ministry of Finance, which was responsible for coordinating reforms in critical areas. Macroeconomic risks were substantial, at least partly because of the large contingent liabilities incurred through energy companies, which the operations failed to address.

3. Lessons

3.1 The findings of this PPAR lead to several operationally relevant lessons.

3.2 **In a high-risk context, DPOs that are narrower and more targeted may have a greater chance of success, with implementation supported by complementary interventions** (for example, investment lending and advisory services and analytics). The scope of the DPOs reviewed in this assessment was quite broad, and few results were achieved linked to the critical constraints facing the country. Furthermore, the operations required the coordination of many ministries. A more targeted approach would allow for closer follow-up through policy dialogue focusing on fewer prior actions and on the agencies that demonstrated strong reform commitment.

3.3 **Discussion of risks to the success of budget support operations should reflect the compounding of risks from other, parallel budget support operations.** Several of the reforms supported by these operations were also supported by the Energy Sector

DPO and the Economic Governance DPO. Each of the operations was considered high risk. The Implementation Completion and Results Report Reviews noted that the risk to the sustainability of development outcomes was high. The mitigation measures that the teams identified in the program documents were insufficient; nevertheless, at each stage, the program documents expressed optimism that the reforms would be implemented. This suggests that a closer examination of the compounding of risk could have resulted in the cancellation of the second operation of the first series.

3.4 Analytics that take a broader view of the constraints to achieving a DPO’s objectives (in this case, those related to private sector development) are needed to ensure a relevant design, and more narrowly targeted analytics can help justify specific reforms. The DPO series benefited from some standard Bank Group analytics to examine specific issues, but an overarching framework for identifying and prioritizing constraints to private sector development was missing, and the teams did not draw on available analytics from other donors.

3.5 The focus on governance and competitiveness was appropriate but raises questions regarding whether DPOs were the right modality in the Kyrgyz Republic to achieve reforms that frequently are slow to come to fruition. In the case of the Kyrgyz Republic, political will flagged early, but the World Bank continued to waive important triggers to provide budget support. In both series, policy actions in the initial operation were not followed by critical next steps, which compromised achievements.

¹ A simplified business registration and taxation regime. See OECD (2020).

² This Project Performance Assessment Report utilizes the objective that appears in the Independent Evaluation Group’s Implementation Completion and Results Report Review, which is consistent with development policy operation (DPO)1 and DPO2. The specific project development objectives of each of the operations are available in appendix A.

³ Appendix D presents a detailed table of prior actions.

⁴ For a description of the necessary set of reforms associated with secured transactions and credit registries that are necessary to increase access to finance, see Asian Development Bank (2014).

⁵ The Worldwide Governance Indicators (WGI) are a research data set summarizing the views on the quality of governance provided by a large number of enterprises, citizens, and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, nongovernmental organizations, international organizations, and private sector firms. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

⁶ These measures for the Kyrgyz Republic were in the following percentiles in the WGI, where the lower the percentile, the lower the rankings: Voice and accountability, 32nd percentile; political stability, 32nd percentile; government effectiveness, 33rd percentile; regulatory quality, 38th percentile; rule of law, 13th percentile; and control of corruption, 13th percentile.

⁷ See the Transparency International Corruptions Perception Index, <https://www.transparency.org/en/cpi/2021>.

⁸ <https://microdata.worldbank.org/index.php/catalog/1963>

⁹ The law on conflict of interest unified other relevant legislation and introduced mechanisms for its identification and resolution. The World Bank provided technical support in the drafting of the law.

¹⁰ By the closure of DPO1 of the second series, no verification had occurred, and according to World Bank staff and to Kyrgyz interlocutors interviewed, this verification was not still not occurring as of mid-2020.

¹¹ Some examples are the prior actions in DPO1 of the first series, which included that a revised draft of the budget code be submitted to parliament, that the government submit to parliament a program on the development of the judicial sector, and that the government submit to parliament a law on joint stock companies of the Kyrgyz Republic.

¹² Interviews with World Bank staff and nongovernmental organizations indicated that there are ongoing attempts by interested parties to roll back the transparency of public procurement.

¹³ In the 2020 WGI, for rule of law, the Kyrgyz Republic is ranked in the bottom quintile.

¹⁴ This statement combines the way in which the pillar was described in DPO1 and DPO2. DPO1 had included the energy sector within the second pillar, and DPO2 included it within the first pillar. The Independent Evaluation Group has included this within the first pillar because the issues are directly related to overall governance in the country.

¹⁵ FY09–18; Central Asia Financial Inclusion Project, 602131, FY19–23; Kyrgyz Housing Microfinance Project, 585907, FY12–22; Central Asia Agri-Finance, 599521 and 601612, FY13–20; Electronical and Digital Financial Services, 601347, FY16–21.

¹⁶ See <https://data.worldbank.org/indicator/FS.AST.PRVT.GD.ZS>.

¹⁷ The policy note identified policy actions to improve access to finance as “(i) improving loan conditions via increased competition in the financial sector, improved collateral registration and execution, adoption of good accounting practices, use of scoring models, and improved operation of the credit bureau; (ii) enlarging and diversifying the supply of financial services by undertaking legal, tax, and other reforms to facilitate new financing products such as leasing and factoring, as well as removing legal and regulatory obstacles to NBFIs [nonbank financial institutions] growth; (iii) providing assistance to small firms to increase their technology and management skills and their knowledge on financial products; and (iv) considering the use of the Kyrgyz Post as an alternative distribution channel for certain financial products especially in remote areas” (World Bank 2010, 9).

¹⁸ Business inspections are defined as on-site visits by government agencies to enforce compliance with laws and regulations.

¹⁹ The Kyrgyzstan Business Enabling Environment Project (561496, 2008–13) and Kyrgyz Investment Climate Project (599486, 2013–18).

²⁰ In 2012, 24 percent of respondents said that reporting to the Social Fund was complicated or extremely complicated. In 2014, this number dropped to 16 percent (World Bank 2017a).

²¹ Prime Minister Order 523-b, dated November 23, 2017, established December 31, 2018, as a deadline for countrywide transfer of the administration of social contributions.

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Appendix A. Ratings

Kyrgyz Republic First and Second Development Policy Operations (P126034 and P126274) and the Governance and Competitiveness Development Policy Operation (P148099).

Table A.1. ICR, ICR Review, and PPAR Ratings

Indicator	ICR	ICR Review	PPAR
Series 1 DPOs 1 and 2			
Outcome	Moderately satisfactory	Moderately satisfactory	Moderately unsatisfactory
Risk to development outcome	High	High	High
Bank performance	Moderately satisfactory	Moderately satisfactory	Moderately unsatisfactory
Series 2 DPO 1			
Outcome	Moderately unsatisfactory	Moderately unsatisfactory	Moderately unsatisfactory
Risk to development outcome	High	High	High
Bank performance	Moderately unsatisfactory	Moderately unsatisfactory	Moderately unsatisfactory

Sources: World Bank 2017, 2018.

Note: The Implementation Completion and Results Report (ICR) is a self-evaluation by the responsible Global Practice. The ICR Review is an intermediate Independent Evaluation Group product that seeks to independently validate the findings of the ICR. DPO = development policy operation; PPAR = Project Performance Assessment Report.

1. Relevance of Objectives and Design

Series 1: DPOs 1 and 2

The project development objectives (PDOs) of development policy operation (DPO)1 were (i) strengthening governance and anticorruption efforts and putting in place enforcement and evaluation and monitoring mechanisms, implementing key priority areas in the judicial sector to promote the rule of law, and improving public sector accountability and efficiency in the management and use of public resources, and (ii) sharpening competitiveness and enhancing the attractiveness for private investment through improving transparency and governance in the energy sector, reforms in the financial sector, and improving the environment for development of private business. For DPO2, the two pillars, which were also the PDOs, were (i) improving public sector governance and (ii) enhancing the business environment.

Series 2: DPO1

The PDOs of DPO1 of the second series were (i) improving public sector governance through reforms aimed at improving public sector integrity, increasing the quality of public services, and enhancing energy sector governance; (ii) and strengthening private sector competitiveness through measures to facilitate trade, improve the business environment, and promote greater connectivity.

The PDOs of the two series are essentially the same. In both series, the pillars and the PDOs were closely aligned.

Relevance of Objectives

The causal chain underlying the series is discussed in the Causal Chain section in chapter 1. The discussion points out that the link between prior actions and the PDOs is generally weak, with causal chains being generally unconvincing, outside of a few reforms.

Relevance of Prior Actions and Results Indicators

There were 30 prior actions in the two operations of the first series and the first operation of the second series. In terms of their relevance, half were rated moderately unsatisfactory (14) or unsatisfactory (1; table A.1), with 8 prior actions being rated satisfactory and 7 moderately satisfactory. The prime factor in determining these ratings was the large number of prior actions that constituted such measures as the adoption of resolutions or the submission of legislation to parliament; in many cases, there were weak links between prior actions and the PDOs.

Progress in achieving PDO outcomes was measured by 26 results indicators—12 for the first series and 14 for the second series.

The relevance of half of the prior actions was rated as moderately unsatisfactory or unsatisfactory. Even in cases where the prior actions were relevant, the fact that they ranged across numerous ministries and embraced many different policy areas meant that in an environment where capacity was weak, fulfilling the PDOs was a major challenge. In many areas, the prior actions were inconsistent with the desired results. For example, it is difficult to relate strengthening investor protections with the goal of improving access to finance. Many of the prior actions consisted of measures such as adopting resolutions, submitting legislation to parliament, or formulating action plans. There was no focus on follow-up actions that would lead to the achievement of the intended results. The overall rating of the prior actions is **moderately unsatisfactory**.

The cancellation of the second operation of the second series raises the question of whether that series should have proceeded at all, given the weak achievements of the first series.

2. Efficacy

In the first series, 6 of 11 results indicators were achieved, and in the second series, 9 of 14 results indicators were achieved. However, the doubtful relevance of the prior actions, with more than half of the prior actions rated moderately unsatisfactory or unsatisfactory, diminishes the impact of their achievement. The overall efficacy rating is **moderately unsatisfactory**.

3. Outcome

The outcome rating is derived from the relevance of prior actions (rated moderately unsatisfactory) and efficacy (rated moderately unsatisfactory). There were significant design flaws. Many of the prior actions did not relate to the results indicators. In addition, not all prior actions addressed the main binding constraints to achievement of the objectives. Outcome is therefore rated as **moderately unsatisfactory**.

4. Bank Performance

Design and Preparation

The First Series

The objectives of the operations in the first series were directed at designing reforms that focused on many of the priorities of the National Sustainable Development Strategy and were also aligned with the World Bank Country Partnership Strategy. They were based on a solid foundation of analytical work in the reform areas incorporated in the operations.

The design of the prior actions focused too much on issues such as legislation being submitted to parliament, action plans, issuing instructions, or adoption of resolutions, which made compliance simple but which did not necessarily lead to the so-called reforms advancing along the results chain. In some cases, these did not result in achieving the intended outcomes. For example, such prior actions as improving the investor protection index had no more than a tenuous relationship to increasing access to finance. In other cases, particularly those related to the energy sector, policy actions and outcomes were virtually indistinguishable. In addition, policy actions that were triggers in the first operation were weakened in the second operation without sufficient

justification. Furthermore, the monitoring and evaluation framework of the two DPOs of the first series did not effectively measure the achievement of the desired outcomes.

Several risks were identified for the series, including political, social, macroeconomic, and governance and institutional risks. The assessment was based on the fragility of the political situation and the introduction of a new parliamentary system, regarding which there was no evidence of how it would function. In particular, there was no strong presumption that legislation presented to parliament by the executive branch would be enacted into law, an issue that led to policy uncertainty that delayed the implementation of the World Bank program in a number of cases.

Although the risk assessment was comprehensive, it did not fully take into account the limited results from earlier operations that arose from weak commitment on the part of the government in pursuing a comprehensive reform agenda, particularly in the energy and financial sectors. Bank performance in design and preparation in the first series is therefore rated **moderately unsatisfactory**.

The Second Series

The objectives of the second series focused on selective key elements of the National Sustainable Development Strategy and, as in the first series, were aligned with the World Bank Country Partnership Strategy for fiscal years 2014–17. As in the first series, the objectives were based on solid foundations of economic and sector work that were undertaken in all of the key reform areas, including the energy sector. A substantial weakness of the reform program was the failure of the design to consider the political economy issues associated with the reforms, particularly in the energy sector. Although the government appeared to have expressed support for the reforms, a genuine commitment to undertaking fundamental policy actions was absent. In particular, a number of politically sensitive reforms were back-loaded, especially in the energy sector, and the failure to implement these reforms led to the cancellation of the second operation of the second series. As in the first series, many of the prior actions consisted of submissions to parliament, executive decisions, or action plans. In many cases, this did not result in necessary reforms because there were no requirements that follow-on actions occur.

The risk assessment failed to take into account the experience from the first series, particularly with regard to the energy sector, where risks of policy actions not being implemented were high. Although the failure of the power plant in Bishkek in 2015 continued to influence public support for energy sector reforms, public information campaigns and programs to help impoverished and vulnerable people cope with the higher energy prices resulting from the reforms would at least somewhat have ameliorated negative attitudes toward reform.

A further weakness of the program was the low quality of the monitoring and evaluation system. The fragmentation of the program across a significant number of ministries limited its effectiveness, which was compounded by the low quality of many of the indicators.

Implementation

The First Series

The Implementation Completion and Results Report and interviews with World Bank staff indicated that there was strong and ongoing dialogue with country counterparts. Several supervision missions monitored progress and identified issues related to implementation. Furthermore, an Implementation Status and Results Report was prepared between the two operations. Although the Implementation Completion and Results Report states that “emerging problems in implementation were identified proactively and in cooperation with the authorities in a candid manner” (World Bank 2017, 26), it is difficult to reconcile the statement with the limited outcomes of the program.

However, the amendments to the legal and administrative framework for procurement demonstrated the difficulties of dealing with weak reform commitment on the part of the government and the legislature. Despite intensive consultation by World Bank staff and supporting technical assistance, progress on procurement was entirely reversed during 2020–21.

Implementation of the two operations of the first series is rated **unsatisfactory**.

Overall Bank performance for the first series is rated **moderately unsatisfactory**.

The Second Series

As with the first series, the Implementation Completion and Results Report states that there were strong ongoing consultations between the World Bank economic team and the government (World Bank 2017, 20). However, the close relationship that appears to have developed failed to identify the government’s lack of enthusiasm for energy sector reforms, the failure of which ultimately led to the cancellation of the second operation of the series.

Implementation of the first operation of the second series is rated **moderately unsatisfactory**.

Overall Bank performance for the second series is rated **moderately unsatisfactory**.

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Appendix B. Fiduciary, Environmental, and Social Aspects

Fiduciary Risks

Financial management was satisfactory, and there were only moderate fiduciary risks related to the program, which was audited regularly by the controller and auditor general.

Environmental and Social Safeguards

The development policy operations had positive effects on poverty and social development through the channel of increased fiscal stability and improved public services.

There were no expected adverse impacts on poverty or gender arising from the development policy operations.

There were no negative environmental impacts.

Appendix C. Methods and Evidence

This report is a Project Performance Assessment Report (PPAR). This instrument and its methodology are described at <https://ieg.worldbankgroup.org/methodology/PPAR>. The methods and evidence used in this report were as follows:

- The PPAR team interviewed key World Bank personnel in Washington, DC, and in the Kyrgyz Republic. The interviews were undertaken remotely because of coronavirus (COVID-19) pandemic restrictions.
- The PPAR team interviewed stakeholders in the private sector, including business association representatives.
- The PPAR team undertook an extensive review of World Bank documents that are listed in the bibliography.

Appendix D. Prior Actions—Additional Data

Table D.1. Prior Actions, Results Indicators, Achievements, and Ratings

Prior Actions		Rating of Relevance of Prior Actions	Results Indicators and Their Achievement	Relevance of Results Indicator
Anticorruption				
Series 1	DPO1, PA1: The adoption of an Anticorruption Program and Action Plan for 2012–2014 and established a framework for monitoring its implementation DPO2, PA2: State Personnel Service has completed the first round of verification of asset declarations of civil servants in political functions and submitted the summary results to the government.	The PAs had no mechanisms or penalties for enforcement, and simply submitting a draft law on conflict of interest achieves little in reducing corruption. Rating PA1: MU Rating PA2: MU Rating PA3: U	Series 1, RI1: Worldwide Governance Indicator for Control of Corruption Rating: MS Results: Percentile rank: Baseline (2011): 9.95 Target: (2014): 15 Actual: (2014): 11.5 Not achieved	International indexes are only available after a lag and so do not effectively measure implementation progress, although comparisons with other countries could be useful. However, the depth of corruption in the Kyrgyz Republic is already known. Rating: Series 1, RI1: MU
Series 2	DPO1, PA3: Government submits the draft law on conflict of interest to parliament		Series 2, RI1: Percentage of personal interest declarations verified Target: 15% Actual: 0% Not achieved	Although the verification was carried out, it was not followed up by a requirement that the verifications be undertaken systematically and, nor with any penalty for incorrect submissions. Rating Series 2, RI1: MU
Budget transparency and discipline				
Series 1	DPO1, PA4: A protocol of cooperation was adopted between the MoF [Ministry of Finance] and the NBKR outlining the responsibilities of each. DPO2, PA5: The government approved a regulation on an Internal Audit Council.	All the PAs were inputs into the administrative and budget processes. PA7 and PA8 were submissions to parliament. Rating PA4: MU Rating PA5: MU Rating PA6: MU Rating PA7: MU	Series 1, RI2: PEFA scores on the composition of actual expenditure relative to the budget Results: PEFA score for PI-2 Baseline (2009): C Target (2014): B Actual: D+	PEFA scores measured budget achievements. The ICR reports that the effectiveness of internal audits increased substantially. There were no measures to determine whether PAs 3 through 5 had an impact. Rating Series 1, RI2: MS Rating Series 1, RI3: MS

Prior Actions		Rating of Relevance of Prior Actions	Results Indicators and Their Achievement	Relevance of Results Indicator
	DPO1, PA6: Government delegated authority to approve a Unified Chart of Accounts to the Ministry of Finance DPO1, PA7: The government submitted to parliament a revised draft budget code DPO1, PA8: The prime minister requested an amendment to the proposed budget code re sovereign guarantees.	Rating PA8: MU	Not achieved Series 1, RI3: An increase in the effectiveness of internal audits PEFA score for PI-21 Baseline (2009): D Target (2014): C Actual (2014): C Achieved	
Transparency in public procurement				
Series 1	DPO1, PA9: The Ministry of Finance published a public procurement report on the use of the 2011 allocated budget. DPO1, PA10: Government adopted the Public Procurement Development Strategy for 2012–14 in line with international best practice. DPO2, PA11: The government has submitted to parliament a draft of the public procurement law and has strengthened the role of the public procurement regulatory body within the Ministry of Finance.	Previously, no information was available on public procurement. A first step in improving procurement was to publish information. Rating PA9: MS Adopting the strategy strengthened the procurement framework. Rating PA10: MS Strengthening the role of the public procurement body provided a framework for procurement. Rating PA11: S	Series 1, RI4: Public Procurement Report shows increased compliance with the public procurement law through information provided Baseline: 2014: No information 2016: Information was made public Achieved	Making information available and providing a framework for procurement led to nongovernmental organizations monitoring public procurement, and the commission gave teeth to the complaints in the event of them being justified, although the RI did not measure the effectiveness. Rating Series 1, RI4: MS
Series 2	DPO2, PA12: The government issues a regulation establishing an Independent Complaint Review Commission for public procurement.	The establishment of a commission provided a public forum for complaints. Rating PA12: S	Series 2, RI2: PEFA score for value for money, competition, and procurement controls increases Baseline (2014): B Target (2018): B+ Actual (2018): B+ Achieved	The establishment of the Independent Complaint Review Commission for public procurement led to further improvements in the procurement framework and significantly moved along the results chain. Rating Series 2, RI2: S

Prior Actions		Rating of Relevance of Prior Actions	Results Indicators and Their Achievement	Relevance of Results Indicator
Public sector service delivery standards				
Series 2	DPO1, PA13: Adopt service delivery standards for at least 90 public services, including in the key areas of public education, social security and employment, and ID services	Without measurement and developing specific success criteria for all 90 public services, the service delivery standards are not meaningful. Rating PA13: MU	Series 2, RI3: Graft Index. The number of reported bribes as a share of transactions Baseline (2014): 21% Target (2018): 10% This was not calculated beyond 2015. Four alternative indicators were calculated and showed improvement. ^a The substitute was the index of the trust of the citizens in the state. Actual: 30.7% Achieved (as measured by indicators in note a)	The indicator only measured a reduction in the taking of bribes by government officials. The indicator was too narrowly focused to measure delivery standards. The substitute indexes were not directly comparable. Rating Series 2, RI3: U

Prior Actions		Rating of Relevance of Prior Actions	Results Indicators and Their Achievement	Relevance of Results Indicator
Increasing energy sector transparency, governance, and accountability				
Series 1	DPO1, PA14: Government adopted an action plan to enhance transparency, accountability, and governance in the energy sector. DPO2, PA15: The Ministry of Energy and Industry has issued an order, which aims to increase the transparency of the energy sector by requiring energy companies to regularly publish information.	Simply formulating an action plan and publishing information did not provide sufficient impetus to reform the sector and to reduce losses and did not necessarily make progress in moving along the results chain. Rating PA14: U Rating PA15: U	Series 1, RI5: Key performance indicators and decisions of the power sector are disclosed regularly Baseline: (2014): No disclosure Actual: (2016): Partially disclosed Fully disclosed as of 2017 Partially achieved	Although disclosure was a first step, much more was necessary to improve the performance of the energy sector. Rating Series 1, RI5: U
Series 2	DPO1, PA16: Adopt a tariff-setting methodology for heating sector companies DPO1, PA17: Adopt a resolution that institutes a new cash settlement mechanism among electricity generation, transmission, and distribution companies DPO1, PA18: The State Regulatory Agency of the Fuel and Energy Complex adopts a Performance Reporting and Monitoring Framework for the heating sector.	A tariff-setting methodology was needed but needed to be linked to cost recovery. Rating PA16: MU A cash settlement mechanism was necessary to reduce arrears. Rating PA17: S A performance monitoring framework was needed in the heating sector, but further actions were necessary to improve performance. Rating PA18: MU	Series 2, RI4: Cash collected per kWh of power supplied to the domestic market Baseline (2015): 0.61 som/kWh Target (2017): 0.97 som/kWh Actual End (2017): 1.06 Achieved Series 2, RI5: Cash collected per Gcal of heat generated by the Bishkek Central Heating Plant Baseline (2015): 394.5 som/Gcal Target (2017): 584 som/Gcal Actual (2017): 847.4 Achieved Series 2, RI6: Disclosure of quarterly key performance indicators for the heating sector Achieved	The increase in cash collected (RIs 3 and 4) represented a significant improvement in cash collections. However, even with the increase, this represents only a fraction of the sector's costs. Rating Series 2, RI4: MS Rating Series 2, RI5: MS The disclosure of key data for the heating sector was a first step toward reform, but there was no indication that the reform was going to occur, so the RI did not measure its achievement. Rating Series 2, RI6: MU

Prior Actions	Rating of Relevance of Prior Actions	Results Indicators and Their Achievement	Relevance of Results Indicator
Tax reform to facilitate trade and tax administration			
<p>Series 2 DPO1, PA19: Submit to parliament amendments to the tax code abolishing sales taxes for exporters</p> <p>DPO1, PA20: Submit to parliament amendments to the tax code to streamline VAT administration by eliminating paper-based VAT invoicing and assigning a range of numbers for invoicing and introduce simplified procedures for VAT refund for trustworthy taxpayers</p>	<p>Abolishing sales taxes for exporters eliminated double taxation.</p> <p>Rating PA19: S</p> <p>Amendments to VAT administration and improving VAT invoicing reduces transactions costs, but this was only a first step in fully implementing the system.</p> <p>Rating PA20: MS</p>	<p>Series 2, RI7: Export sales tax rate</p> <p>Baseline 2014: 2% on goods: 3% on services</p> <p>Target (2017): 0%</p> <p>Actual (2017): 0%</p> <p>Achieved</p> <p>Series 2, RI8: The number of firms with Hazard Analysis Critical Control^b</p> <p>Baseline (2016): 9</p> <p>Target (2018): 20</p> <p>Actual (2018): 43</p> <p>Achieved</p> <p>Series 2, RI9: The number of firms included in the EEU register of Food Business Operators and allowed to export to the EEU</p> <p>Baseline (2016): 9</p> <p>Target (2018): 20</p> <p>Actual (2018): 43</p> <p>Achieved</p> <p>Series 2, RI10: Share of VAT refunds processed through the "green channel"</p> <p>Baseline (2016): 0%</p> <p>Target (2018): 25%</p> <p>Actual (2018): 20.7%</p> <p>Partially achieved</p> <p>Series 2, RI11: Share of firms filing reports on social contributions to the State Tax Service</p> <p>Baseline (2014): 0%</p>	<p>The sales tax rate was the appropriate indicator.</p> <p>Rating Series 2, RI7: S</p> <p>The results indicators measured improvements in administrative procedures for exporters of food products, although the limited number of firms reduced the impact.</p> <p>Rating Series 2, RI18: MS</p> <p>These indicators measured the administration of tax procedures, although the extent to which they were used was limited.</p> <p>Rating Series 2, RI19: MS</p> <p>This indicator measured the progress in accelerating VAT refunds, delays in which had been flagged as a problem.</p> <p>Rating Series 2, RI10: MS</p> <p>This indicator measured how many firms were filing reports on social security contributions to the Tax Service to improve tax administration.</p> <p>Rating Series 2, RI11: MS</p>

Prior Actions		Rating of Relevance of Prior Actions	Results Indicators and Their Achievement	Relevance of Results Indicator
			Target (2018): 50% Actual (2018): 6.4% Not achieved	
Judicial reform				
Series 1	DPO1, PA21: A presidential decree has established the Judicial Reform Council and identified priorities for judicial reform. The Judicial Reform Council under the president approved a Strategic Action Plan on reforming the judicial system. DPO2, PA22: The government submitted to parliament the draft of the program, which aims to increase the financial independence of the judicial sector.	Although identifying reform priorities is necessary, undertaking the reforms themselves are more important. Rating PA21: MU Increasing the budget of the judiciary does not guarantee independence or improved functioning of the judiciary. Rating PA22: MU	Series 1, RI6: Increase in the budget of the judiciary Target: 10% annual increase Actual: Between 2014 and 2016, the budget of the judicial sector was close to doubled. Achieved	The results indicator did not measure judicial independence or the transparency and accountability of the judicial system, which as of 2019 continued to be a significant problem. Rating Series 1, RI6: U

Prior Actions		Rating of Relevance of Prior Actions	Results Indicators and Their Achievement	Relevance of Results Indicator
Business start-up and operations				
Series 1	DPO1, PA23: Government containing: (i) a checklist for registry offices to clarify on what basis a registration application for the establishment of a business can be rejected, and (ii) instructions that applicants will receive on the first submission of all requests identifying what additional information is required	Although it marginally increases transparency, establishing a checklist on why an application was not approved does nothing to reform the business start-up framework. However, other changes in the Ministry of Finance reduced the time necessary for business registration. Rating PA23: MS	Series 1, RI7: Reduction in the DBI baseline (2011): 20 days Target (2014): Decline of 10 days Actual: Decline of 14 days Achieved	The change in the number of business registrations would have provided a more accurate measure of the reform. Rating: Series 1, RI7: MU
Access to finance				
Series 1	DPO2, PA 24. The government, through "On Draft Law of the Kyrgyz Republic on Introducing Amendments to the Law on Joint Stock Companies of the Kyrgyz Republic," has submitted to parliament a draft of the law that aims to strengthen the responsibilities of members of management bodies.	Although this might improve corporate governance of companies in the Kyrgyz Republic, it is difficult to see how this PA would improve access to finance, particularly given the small number of medium-size companies in the Kyrgyz Republic. Rating PA24: U	Series 1, RI8: Strength of investor protection index in the DBI baseline (2014): subindicator score of 7 Target (2016): subindicator score of 8 Actual (2017): 6.3 Not achieved	The relevance of the indicator is of doubtful value in measuring access to finance. Rating Series 1, RI8: U

Prior Actions	Rating of Relevance of Prior Actions	Results Indicators and Their Achievement	Relevance of Results Indicator
Business inspections			
<p>Series 1 DPO1, PA25: Government introduced transparent, risk-based criteria for planning and conducting business inspections and has developed a risk-based inspections coordination module (Kontr Pro 3) within the MoE [Ministry of Economy], including a database of businesses subject to inspection.</p> <p>DPO2, PA26: The government has operationalized the single automated database for inspections of businesses (Kontr Pro 3) in the Ministry of Economy and six inspectorates in the city of Bishkek that aims to reduce the burden of inspections on businesses.</p>	<p>Although this PA moves toward formalizing the business inspection framework, without close supervision, it does little to reduce the number of inspections, which are identified by businesses as one of the most binding constraints to the private sector.</p> <p>Rating PA25: MU</p> <p>This PA does not necessarily reduce the number of inspections, although having a database does provide a managerial instrument for determining how many inspections have taken place, if it is used.</p> <p>Rating PA26: MU</p>	<p>Series 1, RI9: Risk-based inspection by Ministry of Economy and pilot agencies reduce inspection burden</p> <p>Baseline (2014): Inspections not risk based</p> <p>Target (2017): Inspections are risk based</p> <p>Actual (2017): Risk-based inspections are countrywide</p> <p>Achieved</p>	<p>The inspection reforms have improved the business climate, and opportunities for corruption have fallen, although they continue to be a problem.</p> <p>Rating Series 1, RI9: MS</p>
<p>Series 2 DPO1, PA27: Amend the Resolution on Improving Risk Criteria for Inspections to allow for less frequent inspections for entities with lower levels of risk.</p>	<p>The key to the relevance of this PA is whether the risk criteria are actually applied.</p> <p>Rating PA27: MU</p>	<p>Series 2, RI12: Share of firms inspected annually by the Sanitary Department</p> <p>Baseline (2014): 50%</p> <p>Target (2018): 20%</p> <p>Actual (2018): 49.6%</p> <p>Not achieved</p> <p>Series 2, RI13: The number of firms providing feedback on inspections</p> <p>Baseline (2016): 0</p> <p>Target (2018): 500</p> <p>Actual (2018): 45 in 2017 and 13 in 2018</p> <p>Not achieved</p>	<p>This indicator was meant to measure a reduction in sanitary inspections. It is only tangentially related to the overall problem of inspections.</p> <p>Rating RI12: MS</p> <p>This RI appears to have been directed at a survey of firms with respect to inspections. However, formal mechanisms were not put in place to obtain the information.</p> <p>Rating Series 2, RI13: U</p>

Prior Actions		Rating of Relevance of Prior Actions	Results Indicators and Their Achievement	Relevance of Results Indicator
Reinforcement of the NBKR supervisory function and enhancing financial sector stability				
Series 1	DPO2, PA28: The National Bank of the Kyrgyz Republic has strengthened bank reporting to support the functions of the NBKR's newly established credit registry.	The key to this PA is whether the reports to the credit registry are checked and used as a regulatory instrument. Rating PA28: MS	Series 1, RI10: NBKR regularly collects credit information from banks and microfinance institutions and which enhances supervision Baseline (2014): No information collected Target (2017): Information collected Actual (2017): Some information tracked Partly achieved	Not only would it be important to collect the credit information, but it is also necessary to use it, which began to occur. Rating Series 1, RI10: S
Strengthening of the Deposit Protection System legal framework				
Series 1	DPO2, PA29: The government has approved and submitted to parliament a draft of said law that aims to strengthen governance, coordination, and operations of the deposit protection scheme.	Deposit protection is an important characteristic that will strengthen confidence in the banking system. However, effectiveness will depend on implementation. Rating PA29: MS	Series 1, RI11: Increased confidence in banks as evidenced by an increase in the ratio of deposits to GDP Baseline (2013): 16% Target (2014): (Nov.) 20% Actual (2014): (Dec.) 25% Achieved	This is an inadequate indicator because many factors outside the control of banking supervision affect the demand for money and therefore the ratio of deposits to GDP. Rating Series 1, RI11: U
Telecommunications				
Series 2	DPO1, PA30: Adopt regulations setting out rules and procedures for authorized telecommunications companies to deploy cross-border telecommunications cables, to ensure competition in the international connectivity market and create time-bound and transparent procedures.	Improving telecommunications is important, but these regulations are only a very first step. Rating PA30: MU	Series 2, RI14: International internet bandwidth indicator used by the International Telecommunications Union Baseline (2013): 5,008 Mbps Target (2018): 6,500 Mbps Actual (2015): 12,700 Mbps Achieved	The indicator of internet bandwidth measures neither access nor price. However, it is a first step in improving service. Rating Series 2, RI14: MU

Source: Independent Evaluation Group analysis.

Note: The DBI indicator was the number of days to register a business; DPO = development policy operation; EEU = Eurasian Economic Union; Gcal = gigacalorie; GDP = gross domestic product; ICR = Implementation Completion and Results Report; kWh = kilowatt-hour; Mbps = megabits per second; MS = mostly satisfactory; MU = mostly unsatisfactory; NBKR = National Bank of the Kyrgyz Republic; PA = prior action; PEFA = Public Expenditure and Financial Accountability; PI = performance indicator; RI = results indicator; S = satisfactory; som = Kyrgyz som (currency); U = unsatisfactory; VAT = value-added tax.

a. Index of the public's view on corruption in public services; index of public's views of executive government and local government corruption; evaluation of state executive and local bodies; and an index of the trust of citizens in the state.

b. A system for assessing food safety.

Table D.2. Prior Actions

Pillar	Prior Actions for Series 1 DPL1	Prior Actions for Series 1 DPL2	Prior Actions for Series 2 DPL1
Pillar A: Improving Public Sector Governance			
Anticorruption	PA1: The adoption of an Anticorruption Program and Action Plan for 2012–14 and established a framework for monitoring its implementation	PA1(A): State Personnel Service has completed the first round of verification of asset declarations of civil servants in political functions and submitted the summary results to the government.	PA1(c): Submits the draft law on conflict of interest to parliament
Budget transparency and discipline	PA2: A protocol of cooperation was adopted between the MoF [Ministry of Finance] and the NBKR outlining the responsibilities of each with respect to the treasury, banking, and accounting functions and the oversight of payments/settlements, including the financial and information security controls for operation of the treasury single account at the NBKR. PA3: Government delegated authority to approve a Unified Chart of Accounts to the Ministry of Finance of the Kyrgyz Republic, and the Ministry of Finance of the Kyrgyz Republic approved a Unified Chart of Accounts.	PA2(A): The government approved a Regulation on Internal Audit Council establishing the said council, adopted a regulation on Financial Management and Control in Budget Organizations, and adopted ethical standards for internal auditors in public agencies of the Kyrgyz Republic.	

Pillar	Prior Actions for Series 1 DPL1	Prior Actions for Series 1 DPL2	Prior Actions for Series 2 DPL1
Transparency in public procurement	PA4: The government submitted to parliament a revised draft budget code to strengthen controls over nonallocated funds in the treasury, eliminate nontransparent reserve funds, and advance the introduction of internal audits and medium-term budgeting.		
	PA5: The prime minister requested an amendment to the proposed budget code that would require prior parliamentary approval of the issuance of sovereign guarantees.		
	PA6: The Ministry of Finance published a Public Procurement Report on the use of the 2011 allocated budget.	PA6(A): The government has approved and submitted to parliament a draft of the public procurement law, and through the Resolution "On Public Procurement Department under the Ministry of Finance of the Kyrgyz Republic," has strengthened the role of the public procurement regulatory body within the recipient's Ministry of Finance.	PA6(B): Issues a regulation establishing an Independent Complaint Review Commission for public procurement
	PA7: Government adopted the Public Procurement Development Strategy for 2012–14 in line with international best practice		

Pillar	Prior Actions for Series 1 DPL1	Prior Actions for Series 1 DPL2	Prior Actions for Series 2 DPL1
Increasing energy sector transparency, governance, and accountability	PA8: Government adopted an action plan to enhance transparency, accountability and governance in the energy sector, including through: (i) carrying out annual audits of financial statements of energy companies following international accounting practices and making the audit reports public; (ii) setting up and maintaining websites for the Ministry of Energy, the Energy Regulatory Department, and the energy companies; (iii) ensuring transparent and competitive procurement of fuel resources; (iv) maintaining escrow accounts for power export revenues for the National Electrical Grid of Kyrgyzstan Joint Stock Company and the Power Plants Joint Stock Company; and (v) selecting the general directors and executive bodies of the energy companies based on transparent and competitive procedures	PA8(A): The Ministry of Energy and Industry has issued an order, which aims to increase the transparency of the energy sector by requiring energy companies to regularly publish on their respective websites the following information: (i) monthly balances of the special accounts of EPP and NEGK and transit accounts of Severelectro, Vostokelektro, Oshelectro, and Jalalabatelectro; (ii) quarterly operational and technical performance data of the energy companies; and (iii) annual financial statements together with audit reports.	PA8(B): Adopt a tariff-setting methodology for heating sector companies PA8(C): Adopt a resolution that institutes a new cash settlement mechanism among electricity generation, transmission, and distribution companies, which ensures that cash allocations are automatic and consistent with the tariffs approved by the Regulatory Agency of the Fuel and Energy Complex PA8(E): The State Regulatory Agency of the Fuel and Energy Complex adopts a Performance Reporting and Monitoring Framework for the heating sector
Public sector service delivery standards	No prior actions	No prior actions	PA14: Adopt service delivery standards for at least 90 public services, including in the key areas of public education, social security and employment, and ID services
Judicial reform	PA9: A presidential decree has established the Judicial Reform Council and identified priorities for judicial reform. The Judicial Reform Council under the president approved a Strategic Action Plan on reforming the judicial system.	PA9(A): The government has submitted to parliament the draft of said program, which aims to increase the financial independence of the judicial sector.	

Pillar	Prior Actions for Series 1 DPL1	Prior Actions for Series 1 DPL2	Prior Actions for Series 2 DPL1
Pillar B: Private Sector Competitiveness			
Business start-up and operations	PA10: Government containing: (i) a checklist for registry offices to clarify on what basis a registration application for the establishment of a business can be rejected, and (ii) instructions that applicants will receive on the first submission of all requests identifying what additional information is required	No prior actions	
Access to finance	No prior actions	PA12: The government, through "On Draft Law of the Kyrgyz Republic on Introducing Amendments to the Law on Joint Stock Companies of the Kyrgyz Republic," has submitted to parliament a draft of said law that aims to strengthen the responsibilities of members of management bodies.	
Business inspections	PA11: Government introduced transparent, risk-based criteria for planning and conducting business inspections and has developed a risk-based inspections coordination module (Kontr Pro 3) within the MoE [Ministry of Economy], including a database of businesses subject to inspection	PA11(A): The government has operationalized the single automated database for inspections of businesses (Kontr Pro 3) in the Ministry of Economy and six inspectorates in the city of Bishkek that aims to reduce the burden of inspections on businesses.	PA11(B): Amend the Resolution on Improving Risk Criteria for Inspections to allow for less frequent inspections for entities with lower levels of risk
Reinforcement of the NBKR supervisory function and enhancing financial sector stability		PA12: The National Bank of the Kyrgyz Republic has strengthened bank reporting to support the functions of the NBKR's newly established credit registry.	
Strengthening of the Deposit Protection System legal framework	No prior actions	PA13: The government has approved and submitted to parliament a draft of said law that aims to strengthen governance, coordination, and operations of the deposit protection scheme.	

Pillar	Prior Actions for Series 1 DPL1	Prior Actions for Series 1 DPL2	Prior Actions for Series 2 DPL1
Tax administration and policy	No prior actions	No prior actions	<p>PA15: Submit to parliament amendments to the tax code abolishing sales taxes for exporters</p> <p>PA16: Submit to parliament amendments to the tax code to streamline VAT administration by eliminating paper-based VAT invoicing and assigning a range of numbers for invoicing and introduce simplified procedures for VAT refund for trustworthy taxpayers</p>
Telecommunications	No prior actions		<p>PA17: Adopt regulations setting out rules and procedures by which authorized telecommunications companies can deploy cross-border telecommunications cables, to ensure competition in the international connectivity market and create time-bound and transparent procedures</p>

Sources: World Bank 2013b, 2014d, 2016.

Note: DPL = development policy loan; EPP = electric power plants; NBKR = National Bank of the Kyrgyz Republic; NEGK = National Electric Grid of Kyrgyzstan; PA = prior action; VAT = value-added tax.

Table D.3. Results Indicators and Associated Prior Actions

Results Indicators	Associated PA	Baseline/Target	Actual	Outcome
Pillar A: Improving Public Sector Governance: Series One, DPO1 and DPO2				
RI1: Worldwide Governance Indicator for control of corruption	PA1, PA1(A), PA1(B), IT1	Percentile rank: Baseline (2011): 9.95 Target: (2014): 15	2014: 11.5	Not achieved
RI2: Composition of expenditure compared with budget	PA2, PA3, PA4, PA5, PA6	PEFA (PI-2) Baseline (2009): C Target (2014): B	2014: D+	Not achieved
RI3: Increase in the effectiveness of internal audits	PA2(A), PA3, PA4, PA5	PEFA (PI-21) Baseline (2009): D Target (2014): C	2014: C	Achieved
RI4: Public Procurement Report shows increased compliance with the public procurement law through information provided	PA6, PA6(A), PA6(B), PA7, IT2	Baseline (2011): No information provided Target (2014): Information available	2014: Information was made available	Achieved
RI5: Key performance indicators and decisions of the power sector are disclosed regularly	PA8, PA8(A), PA8(B), PA8(C), IT4	Baseline (2011): No disclosure Target (2014): Indicators disclosed	2014: Disclosed but not regularly	Partially achieved
RI6: Increase in the budget of the judiciary				
Pillar B: Strengthening Private Sector Competitiveness: Series One, DPO1 and DPO2				
RI7: Reduction in the DBI		Baseline (2011): 20 days Target (2014): Decline of 10 days	2016: A decline of 14 days	Achieved
RI8: Strength of investor protection index in the DBI		Baseline (2011): Score of 7 Target (2015): Score of 8	2015: 6.3	Not achieved
RI9: Risk-based inspection by MoE [Ministry of Economy] and pilot agencies reduce inspection burden		Baseline (2011): No risk-based inspections Target (2014): Risk-based inspections	2014: Risk-based in a pilot 2017: Risk-based nationwide	Achieved

Results Indicators	Associated PA	Baseline/Target	Actual	Outcome
RI10: NBKR regularly collects credit information from banks and microfinance institutions and enhances supervision		Baseline (2011): No record of multiple loans to a single borrower from different lenders Target (2014): Multiple loans tracked	By 2016, most multiple borrowings were tracked.	Partly achieved
RI11: Increased confidence in banks as evidenced by increasing deposits to GDP ratio		Baseline (2013): Deposits to GDP 16% Target (end 2014): 20%	End 2014: 25%	
Pillar A: Improving Public Sector Governance: Series Two, DPO1				
RI1: Percentage of declarations of personal interests of public officials verified by the Commissions on Ethics to identify potential conflicts of interest		Baseline (2016): 0 Target (2018): 15%	End 2018: 0	Not achieved
RI2: Competition, value for money, and controls in public procurement PEFA (PI 19) score		Baseline (2014): B Target (2018): B+	End 2018: B+	Achieved
RI3: Graft index (that is, the number of reported bribes as a share of the number of reported transactions) in key public service areas ^a		Baseline (2016): 21% Target (2018): 10%	Alternative measures show this was achieved.	Achieved
RI4: Cash collected per kWh of power supplied to the domestic market		Baseline (2015): 0.61 som/kWh Target (2017): 0.97 som/kWh	End 2017: 1.06	Achieved
RI5: Cash collected per Gcal of heat generated by the Bishkek Central Heating Plant		Baseline (2015): 394.5 som/Gcal Target (2017): 584 som/Gcal	End 2017: 847.4	Achieved
RI6: Disclosure of quarterly key performance indicators for the heating sector		Baseline (2015): no Target (2018): yes, as of 2017	End 2017: Yes	Achieved
Pillar B: Strengthening Private Sector Competitiveness: Series Two, DPO1				
RI7(a): Export sales tax rate		Baseline (2016): 2% on goods, 3% on services	End 2018: 0%	Not achieved
RI7(b): Number of firms with certified HACCC		Target (2018): 0%	End 2018: 20	Achieved
RI7(c): Number of firms included in the EEU register of FBOs and allowed to export to the EEU		Baseline (2016): 9 Target (2018): 20 Baseline (2016): 9 Target (2018): 20	End 2018: 43	Achieved

Results Indicators	Associated PA	Baseline/Target	Actual	Outcome
RI8: Share of VAT refunds processed through the "green channel"		Baseline (2016): 0% Target (2018): 25%	End 2018: 21%	Partially achieved
RI9: Share of firms filling reports on social contributions to State Tax Service		Baseline (2014): 0% Target (2018): 50%	End 2018: 6.4%	Not achieved
RI10: Share of firms inspected annually by the Sanitary Department		Baseline (2016): 31% Target (2018): 50%	End 2018: 20%	Not achieved
RI11: Number of firms from which feedback on inspections has been received		Baseline (2013): 0 Target (2018): 500	2017/2018: 58	Not achieved
RI12: International internet bandwidth indicator used by the International Telecommunications Union		Baseline (2013): 5,008 Mbps Target (2018): 6,500 Mbps	2015: 12,700	Achieved

Source: Independent Evaluation Group.

Note: DBI indicator = number of days to register a business; DPO = development policy operation; EEU = Eurasian Economic Union; FBO = food business operators; Gcal = gigacalorie; GDP = gross domestic product; HACC = Hazard Analysis Critical Control; IT = information technology; kWh = kilowatt-hour; Mbps = megabits per second; NBKR = National Bank of the Kyrgyz Republic; PA = prior action; PEFA = Public Expenditure and Financial Accountability; PI = performance indicator; RI = results indicator; som = Kyrgyz som (currency); VAT = value-added tax.

a. The Graft Index was not calculated beyond 2015. Four alternative measures are an index of the public's view on corruption in public services, an index of the public's views of executive government and local government corruption, evaluation of state executive and local bodies, and an index of the trust of citizens in the state.

Appendix E. Borrower Comments

КЫРГЫЗ РЕСПУБЛИКАСЫНЫН
ФИНАНСЫ МИНИСТРЛИГИ



МИНИСТЕРСТВО ФИНАНСОВ
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14.05.22 № 16-2/5909
№

Офис Всемирного банка в Кыргызской Республике

Министерство финансов Кыргызской Республики (далее – министерство) выражает свою благодарность офису Всемирного банка в Кыргызской Республике (далее - ВБ) за оказываемое содействие в развитии Кыргызской Республики.

Министерство, повторно рассмотрев письмо от 21 марта 2022 года года сообщает, что замечаний к отчету об оценке эффективности проекта по «Операции I-II (IDA - 54780) (IDA - 52880) по политике программного развития и Операция (IDA - 58660) по разработке программы государственного управления и конкурентоспособности» не имеется.

Пользуясь случаем, министерство хотело бы засвидетельствовать свое высокое уважение ВБ, выражает благодарность за оказываемую стране помощь, и надеется на дальнейшее плодотворное сотрудничество.

Заместитель министра

Р.С. Татиков

УМС
Исп. А.Мукапбетов
Т. 62-53-13 (2221)

010097

Ministry of Finance of the Kyrgyz Republic

Reference number 16-2/5909

May 24, 2022

**Attn. of: World Bank Country Office
In the Kyrgyz Republic**

The Ministry of Finance of the Kyrgyz Republic (hereinafter referred to as the Ministry) expresses its gratitude to the World Bank Office in the Kyrgyz Republic (hereinafter referred to as the WB) for its support to the development of the Kyrgyz Republic.

The Ministry having reconsidered the letter dated March 21, 2022, reports that there are no comments from our side to the performance evaluation report to "Operation I-II (IDA - 54780) (IDA - 52880) on program development policy and Operation (IDA - 58660) on development of state administration and competitiveness program".

The Ministry would like to take this opportunity to convey its high consideration to the World Bank and expresses its gratitude for the continued support to the country development. We are looking forward to our future fruitful cooperation.

**Deputy minister
R.S.Tatikov**

/Signed/