Report Number: ICRR0022886

1. Operation Information

Operation ID P163983	**Operation Name** Kyrgyz Republic Economic Governance DPO
Country Kyrgyz Republic	**Practice Area (Lead)** Macroeconomics, Trade and Investment

Non-Programmatic DPF

L/C/TF Number(s) IDA-62180,IDA-D2930	**Closing Date (Original)** 30-Sep-2019	**Total Financing (USD)** 22,929,081.92
Bank Approval Date 08-Nov-2018	**Closing Date (Actual)** 31-Dec-2019	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	24,000,000.00	0.00
Revised Commitment	24,000,000.00	0.00
Actual	22,929,081.92	0.00

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2. Program Objectives and Pillars/Policy Areas

a. Objectives

According to the Program Document (p. 13), the Program Development Objective (PDO) for the Kyrgyz Republic Economic Governance Development Policy Operation (DPO) was to *strengthen macro-fiscal foundations for growth; enhance transparency and anticorruption in the public sector; and boost private sector competitiveness.*

For this ICRR, the operation will be assessed on the basis of the three separate objectives listed in the PDO. They are further clarified by the pillars/policy areas set out below, which align with the PDO.

b. Pillars/Policy Areas

The operation was structured around three pillars/policy areas identical to the three objectives in the PDO, each one underpinned by Prior Actions (PAs) listed in Section 3b:

Pillar 1: **Macro-fiscal foundations for growth.** Reforms under this pillar supported two policy objectives: (i) enhanced budget discipline and transparency, and (ii) increased domestic revenue mobilization.

Pillar 2: Transparency and anti-corruption in the public sector. Reforms under this pillar also supported two policy objectives: (i) improved integrity of government decisions, and (ii) enhanced efficiency and transparency of public sector procurement.

Pillar 3: Boosting private sector competitiveness. Reforms under this pillar supported three policy objectives: (i) promoting trade in the context of the Kyrgyz Republic's accession to the Eurasian Economic Union (EEU), (ii) improving the local business environment, and (iii) supporting development of the digital economy.

c. Comments on Program Cost, Financing and Dates

<u>Program costs and Financing</u>. The DPO consisted of a US$12 million Development Policy Credit and a US$12 million equivalent Development Policy Grant. US$22.9 million of the total US$24 million was disbursed.

<u>Dates</u>. The program was approved on November 8, 2018 and became effective on December 7, 2018. Its original closing date of September 30, 2019 was extended to December 31, 2019, at which time the program closed.

3. Relevance of Design

a. Relevance of Objectives

The operation's objectives were aligned with government priorities and Bank strategy for the Kyrgyz Republic. The operation built on a prior DPO series that also was focused on improving governance and the business environment, but this time there was an added focus on fiscal management to address growing macroeconomic imbalances that the government was experiencing, and the need for coherent macroeconomic policy planning to support medium-term objectives. The introduction of expanded internet connectivity reflected concerns about climate change and environmental risks, and the need for effective communications that such eventual shocks are likely to require.

The three objectives in the PDO all addressed country-specific priority challenges in governance that were identified in strategic national and external analyses:

- Objective one, with its focus on budget discipline and domestic revenue mobilization, was meant to tackle the effects of the country's sensitivity to external shocks, influenced by a narrow economic base, heavy dependence on remittances and foreign aid, and sometimes large discrepancies between planned and actual public spending.
- Objective two focused on the integrity of budget decisions and public procurement, as corruption in routine decision-making and procurement across the public sphere were recognized as key drivers of poor governance.
- Objective three focused on addressing the lack of a competitive private sector able to create good jobs, by improving the business environment and by promoting connectivity and trade through facilitating access to larger markets and reducing the costs of doing business.

All three objectives were fully aligned with the Bank's FY18-22 Country Partnership Framework, which includes increased engagement in private-sector led job creation, promotion of a rules-based macro-fiscal environment, and improvements in governance and external competitiveness. The operation also reflected the findings of the 2018 Systematic Country Diagnostic that identified macroeconomic management and governance as priority areas for reform. The objectives were aligned with the government's own reform agenda embodied in its medium-term development plan for 2018-2022. That plan aims at strengthening the macro-fiscal foundations for growth, transparency, and anti-corruption initiatives in the public sector, and at raising private sector competitiveness. Finally, the operation complemented programs supported by other development partners, including the Asian Development Bank, the United Kingdom's Department for International Development, and the European Union.

The operation was coordinated with the International Monetary Fund (IMF), though in the absence of a supporting IMF program. A three-year arrangement had been approved by the IMF in 2015, with macroeconomic stability, fiscal and debt sustainability, financial sector health, and structural reforms signaled as key policy areas. The most recent review in December 2017 noted that while significant risks remained, debt and financial sector vulnerabilities had subsided, and the authorities remained committed to prudent macroeconomic policies and structural reforms promoting higher and more inclusive growth.

b. Relevance of Prior Actions

Rationale

Table 1. Prior Actions by Objectives and Policy Areas

Objective 1: Macro-fiscal foundations for growth
- enhanced budget discipline and transparency
Prior Action 1: The government of the Kyrgyz Republic approves and submits to its Parliament amendments to the Budget Code to: • Introduce a fiscal rule that provides a debt anchor supplemented by an operational deficit target for the purpose of ensuring a sustainable fiscal policy; and • Revise Article 115 to stipulate that any request to the Budget and Finance Committee of Parliament to pre-authorize unbudgeted expenditure shall be deficit neutral and compliant with fiscal rule parameters.

Prior Action 2: The Government of the Kyrgyz Republic has approved procedures requiring information on transfers, refinancing, and restructuring of budget loans for State-Owned Enterprises (SOEs) to be included in the Republican Budget Law, starting from the 2018 budget submission,
- increased domestic revenue mobilization
Prior Action 3: The Parliament of the Kyrgyz Republic enacts amendments to the Tax Code increasing basic excise rates on tobacco by 16.7 percent, and the government of the Kyrgyz Republic adopts a Resolution increasing excise rates on alcohol by 25 percent.
Objective 2: Enhance transparency and anti-corruption in the public sector
- ***improved integrity of government decisions***
Prior Action 4: The Parliament of the Kyrgyz Republic enacts the Law on Conflict of Interest, to define conflicts of interest and to provide mechanisms for their prevention and sanction.
- enhanced efficiency and transparency in public sector procurement
Prior Action 5: The Government of the Kyrgyz Republic, through the Ministry of Finance, adopts an Order on the "Regulation on the procedure for the work of an Independent Complaints Review Commission," which adopts procedures to strengthen the objectivity and transparency of complaints handling.
Prior Action 6: The Government of the Kyrgyz Republic, through the Ministry of Finance, adopts Standard Bidding Documents for pharmaceuticals and other medical products, as well as for the design, supply, and installation of plant and equipment, to streamline procurement while enhancing value for money.
Objective 3: Boost private sector competitiveness
- promoting trade in the context of the Kyrgyz Republic's accession to the Eurasian Economic Union
Prior Action 7: The Government of the Kyrgyz Republic has approved and submitted to its Parliament the draft Law on Food Safety to strengthen the technical and institutional framework for quality controls and certification in respect to food safety.
- improving the business environment
Prior Action 8: The Government of the Kyrgyz Republic adopts a Resolution establishing a deadline for the nation-wide roll out of the transfer of social insurance payments administration from the Social Fund to the State Tax Service in 2019.
- supporting the development of the digital economy
Prior Action 9: The Government of the Kyrgyz Republic has (a) adopted amendments to the Law on Electronic and Postal Communications to promote competition in the issuance of the radio spectrum resource for providing data transmission; and (b) adopted through its State Committee of Information Technologies and Communication a procedure for dispute resolution between electronic communications service providers.
Prior Action 10: The Parliament of the Kyrgyz Republic adopts laws to lay key governance foundations for the development of the digital economy and e-service delivery.

Objective 1: Macro-fiscal foundations for growth

Given high levels of public debt and an economy susceptible to external shocks, prudent fiscal management is essential to ensure macroeconomic stability, and is reflected in the three PAs supporting the objective: PA1 seeking enhanced budget discipline and transparency by adopting a fiscal rule and strengthening the budgetary legal framework; PA2 seeking better budget transparency and oversight; and PA3 seeking means to increase revenue mobilization.

PA1 was an essential element for strengthening the country's fiscal accounts and its budget process, and improving fiscal discipline. It specifically addressed the adverse effects on fiscal management of shocks that were transmitted through the country's narrow economic base and its heavy dependence on remittances and foreign aid. Such shocks often resulted in large deviations between planned and actual expenditures, with consequent increases in public debt. The amendments introduced into the Budget Code by PA1 required a fiscal rule and a debt anchor, as well as an operational deficit target, all building blocks toward better fiscal discipline and a reduction in differences between planned and actual spending, and consequently, toward a decline in public debt. However, following repeated political and policy shifts in the period preceding the operation, the likelihood of the submission of these amendments to the Parliament being successful was questionable. Given the track record of the authorities, submission of legislation was not a fully credible prior action as it was not likely to lead to achievement of the intended objective.

(Relevance of PA1 = MS)

PA2 was designed to improve budget transparency and legislative oversight of SOEs. With a significant share of government borrowing being on-lent as budget loans to SOEs, as well as the accumulation of own debt by SOEs (which translated into implicit government debt), this increased unpredictability in budget management created a potentially significant source of fiscal risk. Requiring information on such transactions would enable better oversight of SOEs by the legislature and provide an additional means to reduce fiscal risk, if the legislature acted on PA1. However, as noted in the ICR (p. 12), there was no provision for accompanying regulations on implementation for PA2 to achieve sought-after results.

(Relevance of PA2 = MS)

PA3 was part of a broader effort by the government (in collaboration with the IMF and the Bank) to generate additional revenues and set fiscal policy on a more sustainable path. Increasing excise tax rates on alcohol and tobacco products (the former by 25 percent and the latter by 16.7 percent) was a legitimate but quite modest revenue raising measure, estimated to raise 1 billion Kyrgyz Soms, or less than one percent of total tax revenue (ICR, page 12). Over the longer term, PA3 was expected to reduce health spending by an unspecified amount as a result of potential effects on reducing alcohol consumption. However, the PA left unaddressed fundamental weaknesses in revenues: broadening of the base through elimination of exemptions and revision of tax rates, improving the value-added tax refund mechanism, improving taxpayer segmentation, and strengthening tax administration through improvements in e-filing, taxpayer registration, and risk-based auditing.

(Relevance of PA3 = MS)

Objective 2: Transparency and anti-corruption in the public sector.

Corruption in public procurement and in routine decision-making are considered to be key drivers of poor governance in the Kyrgyz Republic (PD, p.2), and a major constraint to doing business in the country. At the time of project start-up, international surveys identified corruption as one of the most problematic factors for doing business in the Kyrgyz Republic (PD, page 14). All three PAs are closely linked to the PDO, regulating conflicts of interest of public officials, considered an underlying source of corruption among public officials

(PA4), and enhancing the efficiency and transparency of public procurement through an effective redress mechanism and the application of standard bidding documents in public procurement (PA5, PA6).

PA4 was designed to eliminate conflicts of interest and improve the integrity of government decisions by defining the concept of *conflict of interest* and providing mechanisms to tackle conflicts of interest among public officials. That was to be done through declarations of personal interest by officials, as well as their review by commissions of ethics created for this purpose in public agencies with a view to either prevent or sanction violations.

(Relevance of PA4 = S)

PA5 and **PA6.** The absence of an effective complaints review mechanism was, according to a 2014 PEFA assessment, the most important area for improvement in the country's procurement system. This was to be rectified when an independent complaints review mechanism was introduced under **PA5** and complemented with standard bidding documents (**PA6**), initially for pharmaceuticals and plant and equipment; previously only simplified bidding had been available for procuring entities, where turnkey solutions were a more efficient and effective way to proceed. The Program Document does not explain why pharmaceuticals and plant/equipment were chosen as the specific areas for procurement reform.

(Relevance of PA5 = S; Relevance of PA6 = MS)

Objective 3: Private sector competitiveness

The PAs supporting this objective were aimed at facilitating the country's access to the EEU customs union, of which it had recently become a member. This was to be done by measures promoting trade (PA7), improving the business environment (PA8), and supporting development of the digital economy (PA9 and PA10). Achieving those goals would allow Kyrgyz businesses access to larger markets, reduce compliance costs, and improve private sector competitiveness.

PA7 was to promote trade by upgrading institutional and regulatory controls governing food safety, including processing, storage, transportation, and sale of food products to facilitate access to EEU markets. While Kyrgyz firms already had had access to and were exporting their goods to EEU markets, access took on new relevance when neighboring Kazakhstan stepped up food quality controls at the border. PA7 provided the legal basis for introducing new food safety requirements and inspection procedures that applied to both domestic trade and exports. However, as the ICR notes (p. 12), firms exporting to or planning to export to EEU markets did not require a law to raise food safety standards; PA7 was therefore likely to have more impact on food quality for the domestic market than as a stimulant for exports. Key alternative measures that would have promoted EEU exports, covering trade facilitation, standards beyond food, and energy sector reform, were not covered by the DPO.

(Relevance of PA7 = MU)

PA8 was to contribute to improving the business environment by reducing the time and cost of paying taxes. The Kyrgyz Republic is considered the least competitive of the Central Asian countries, but complicated tax administration is a relatively minor factor; the latest Doing Business report points to registration, permits, utility connections, and access to credit as more important constraints facing businesses. The IFC estimates that the transfer of the social insurance administration to the state tax services could generate a relatively modest US$1.3 million equivalent in compliance savings for businesses, resulting from a reduction in time spent from 225 hours/year to 205 hours/year. The ICR (p. 13) notes that the Bank had engaged in prior work in the

Kyrgyz Republic on other "critical elements" for improving the business climate -- unjustified inspections, poor practices related to corporate and value-added tax payments, lack of finance for small and medium enterprises, incentives toward informalization, and unreliability of utilities -- none of which were covered by this DPO.

(Relevance of PA8 = MU)

PA9 and **PA10** focused on developing the digital economy, noting the narrow use of digital technology across government and business operations, and the adverse impact of its absence on efficiency and competitiveness in the business environment. Its absence in rural areas rendered timely interventions in case of natural hazards difficult. PA9 would encourage greater competition in the sector by setting market rules (for issuing radio spectrum and dispute resolution), plausibly leading to a measurable increase in international bandwidth and progressively expanding access to broadband internet. It was also expected to improve disaster preparedness through better early warning systems. PA10 focused on providing legislation that was to create incentives for further development of the digital economy and e-services, but it provided no specificity on the laws or other governance mechanisms that were to be passed.

(Relevance of PA9 = S; Relevance of PA10 = U)

Rating

Moderately Satisfactory

4. Relevance of Results Indicators

Rationale

Table 2. Results Indicators

RI	Assoc. PA	RI relevance	Baseline	Target	Actual	Actual change vs. target	RI Efficacy Rating
Objective 1: Macro-fiscal foundations							
- enhanced budget discipline and transparency							
RI1:							
a. Improvements in the PEFA indicator PI-2 on “composition of expenditure out-turn compared to original approved budget"	PA1	S	D+ (2014)	B (2019)	D+ (2020)	0%:	Negligible

b. Decreased variance in functional composition of expenditure out-turn	PA1	S	54% (2016)	10% (2019)	15.2% (2020)	89%	Negligible
c. Fiscal deficit as % of GDP (excluding on-lending) for 2018 and 2019	PA1	S	3.3% (2017)	2.5% (2018, 2019)	1% (2018), 0% (2019)	>100%	Negligible
- increased transparency and domestic revenue							
RI2: Enhanced public scrutiny by the legislature and the public over the operations of SOEs operating in the energy sector, as measured by the number of Parliamentary hearings on the issue (at least once a year)	PA2	MS	None	One (2019)	None (2020)	0%	Negligible
RI3: Increase in excise taxes collected from tobacco and alcohol by at least KGS 1 billion in 2018 and 2019 relative to 2017	PA3	MS	5.75 bln KGS (2017)	1 bln KGS increase (2018, 2019)	6.73 bln KGS (2018) 6.70 bln KGS (2019)	100%	Modest
Objective 2: Transparency and anti-corruption in the public sector							
- improved integrity of government decisions							
RI4: Increase in the percentage of declarations of personal interests of public officials reviewed and verified by the Commission on Ethics to identify potential conflicts of interest from 0% in 2017 to 15% of all filed declarations in 2019	PA4	S	0 (2017)	15% (2019)	No data	No data	Negligible
- enhanced efficiency and transparency in public sector procurement							
RI5:							
a. Increase in PEFA PI-19 sub-score on procurement complaints management based on 2011 PEFA methodology	PA5	S	D (2014)	C(2019	A (2020)	>100%	Negligible
b. Increase in the PEFA PI-19 sub-score on competition, value for	PA5	S	B (2014)	B+ (2019	A (2020)	>100%	Negligible

money, and controls in public procurement							
c. Reduction in the average processing time for review of cases by the ICRC	PA5	S	10 days (2017)	7 days (2019)	7 days (2019)	100%	Negligible
RI6:							
a. Increased uptake of the new standard bidding document by procuring entities in the health sector	PA6	S	0% (2017)	50% (2019)	0% (2020)	0%	Negligible
b. Gradual uptake of the new standard bidding documents for large procurement requiring turnkey solutions	PA6	MS	No use	In use	No use	0%	Negligible
Objective 3: Boosting private sector competitiveness							
- promoting trade in the context of the Kyrgyz republics accession to EEU							
RI7:							
a. Increase in the number of firms implementing Hazard Analysis Critical Control Point principles	PA7	MU	9 (2016)	24(2019	31 (2021)	>100%	Modest
b. Increase in the number of firms included in the EEU register of food business operators and allowed to export to the EEU	PA7	MU	43 (2016)	54 (2021)	188 (2021)	>100%	Modest
- improving the business environment							
RI8:							
a. Increase in the share of firms filing reports on social contributions with the state tax service to 100% by end-December 2019	PA8	MS	Two pilot tax offices	100% of tax offices	100% of tax offices	100%	High
b. Reduction in tax compliance cost measured by Doing Business (DB) "paying taxes" indicator from 225 hours per year in 2016 to 205 in 2019	PA8	MS	225 (2016)	205 (2019)	220 (2018)	25%(2019)	Modest

- supporting the development of the digital economy							
RI9:							
a. increase in the International Telecommunications Union internet bandwidth indicator	P9	S	5006 Mbps (2016)	6500 Mbps (2019)	203329 Mbps (2019)	>100%	Modest
b. Dispute resolution mechanism between electronic communications service providers is operational	P9	S	None	Operational	Operational	100%	High
RI10: Increase in the number of visitors to the state portal for e-services	PA10	MU	None (2019)	100000 (2021)	161700 (2021)	>100%	Modest

1. Macro-fiscal foundations for growth

Reforms under this objective supported: (i) enhanced budget discipline and transparency (RI1 and RI2); and (ii) increased domestic resource mobilization (RI3).

RI1 was designed to measure the likely impact on budget discipline of implementing PA1. RI1a was to monitor deviations between planned and actual budget expenditures; RI1b monitored variances in the functional composition of expenditure outturn; and RI1c monitored the evolution of the budget deficit. In conjunction with RI2 below, the indicators allowed monitoring fiscal discipline and deviations from set targets. Baselines and targets were clear, drawing on PEFA assessments and routinely collected public sector financial data.

(Relevance of RI1a = S; RI1b = S; RI1c = S)

RI2 was to monitor fiscal risks arising from budget loans to SOEs by measuring the exercise of oversight by the legislature of budget loans to SOE operations, drawing on PA2 which stipulated that such information be included in the annual budget law. However, the effectiveness of the oversight function is dependent on the quality of the information about SOE liabilities submitted to the legislature in the explanatory notes to the budget. A PEFA update from 2020 provides some assurance on this quality of information.

(Relevance of RI2 = MS)

RI3 measured the effects on government revenues of increases in excise taxes for tobacco and alcohol. While the RI adequately measured the impact of PA3, as noted above, this was a relatively modest revenue source, expected to contribute only 0.9 percent of tax revenue. RI3 was therefore a good measure of a PA that contributed relatively little to the objective of domestic revenue mobilization.

(Relevance of RI3 = MS)

2. Transparency and anti-corruption in the public sector

Reforms under this objective supported (i) improved integrity of government decisions (RI4); and (ii) enhanced efficiency and transparency of public sector procurement (RI5 and RI6).

RI4 measured the extent of reported potential conflicts of interest among public officials making regulatory decisions on business transactions. It supported PA4, which defined conflicts of interest and provided mechanisms for their prevention and sanction. Review and verification of submitted declarations by a Commission on Ethics was an important measure of improved transparency in the public sector.

(Relevance of RI4 = S)

RI5 measured the effects of the redress system introduced under PA5. It measured the performance of the Independent Complaints Review Commission introduced under PA5, using the PEFA indicator for “independence” of the commission (RI5a), and for competition, value for money and controls in public procurement (RI5b), as well as average processing time (RI5c). Baselines and targets were clear.

(Relevance of RI5a = S; RI5b = S; RI5c = S)

RI6 was a straightforward measure of the uptake of standard bidding documents introduced under PA6. The sub-indicators separately addressed pharmaceutical procurement (RI6a) and procurement of large plant and equipment (RI6b). They were measurable and relevant to improving transparency in contract awards, though the indicator for plant and equipment was non-specific (a binary "no use" or "in use" of new standard bidding documents).

(Relevance of RI6a = S; RI6b = MS)

3. Boosting private sector competitiveness

Reforms under this objective supported: (i) trade promotion in the context of accession to the EEU (RI7); (ii) a better business environment for firms (RI8); and (iii) development of the digital economy (RI9 and RI10).

RI7 included two indicators of improved food safety. While the implementation of Hazard Analysis Critical Control Points principles (RI7a) may have resulted from the PA (passage of the law on food safety), as noted above, the connection to trade with the EEU is unclear. Similarly, food business operators who wished to export to the EEU (RI7b) were already taking measures to meet EEU standards, and it is unclear how the PA would have further supported those firms to be included in the EEU registry. As a result, RI7 measured the impact of a PA that was modestly relevant, at best, to achievement of the objective.

(Relevance of RI7a = MU; RI7b = MU)

RI8 included two indicators to measure the impact of transferring filing of social insurance payments to the state tax service (STS in accordance with PA8. RI8a measured changes in the share of firms filing with the STS); while RI8b measured changes in tax compliance costs as a result of RI8a. Together they adequately measured the impact of the PA: an indicator measuring the increase in the number of firms filing is more relevant when also measuring the effects of lower compliance costs. While both were measurable and in combination relevant, the PA they measured was not central to the objective of improving the business climate.

(Relevance of RI8a = MS; RI8b = MS)

RI9 included two indicators to developing the digital economy: RI9a measured the expansion of wireless network coverage, and RI9b the establishment of a dispute resolution mechanism for service providers. Both responded to PA9's aims to promote competition over data transmission and introduce dispute resolution procedures.

(Relevance of RI9a = S; RI9b = S)

RI10 monitored the number of visitors to the state portal for e-services, measuring the impact of PA10 (which set out the key governance foundations for the development of a digital economy). The RI was measurable, with a clear baseline and target. However, without specificity of the PA on what laws or other governance measures were to be enacted, the connection between the objective, PA, and result was not clear.

(Relevance of RI10 = MU)

Rating

Moderately Satisfactory

5. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

Strengthen macro-fiscal foundations for growth

Rationale

Supported by PAs 1 – 3; progress measured by RIs 1 – 3

RI1 included three sub-targets, one of which was achieved, but for reasons exogenous to the project. The fiscal rule providing the structure for setting a debt anchor supplemented by an operational deficit target was introduced into Parliament in 2018 but was then withdrawn with the stated intent of re-submission in a new budget code in 2022; however, measures submitted to Parliament in late 2021 did not include the fiscal rule or an amendment relating to expenditure variance. Effectively, according to the ICR (p. 13), "the prior actions have been totally reversed." As a result, the PEFA indicator on variance of expenditures remained at D+, and the fall in expenditure variance did not reach the targeted 10%. The indicator on a declining deficit path was met in 2018 and 2019, but largely due to gold exports and related revenues, and the deficit rose sharply beyond 2019 as revenues fell and spending increased because of the COVID-19 pandemic. Achievement of the three RI:s is therefore each rated **negligible**.

RI2 was the results indicator on enhanced public scrutiny of the operations of SOEs (an important and unpredictable cost item), but Parliament has not scheduled the relevant hearings. Achievement is rated **negligible.**

RI3 on increased excise tax collection for alcohol and tobacco was achieved. However, while the target was met, the indicator's relevance to the objective could have been enhanced by focusing on other revenue sources, especially electricity tariffs, characterized by the ICR as the Achilles heel of the economy and massively subsidized through the budget. As the indicator measured an outcome that was only modestly relevant to achievement of the objective, achievement is rated **modest.**

Rating

Unsatisfactory

OBJECTIVE 2

Objective

Enhance transparency and anti-corruption in the public sector

Rationale

Supported by PAs 4 – 6; progress measured by RIs 4 – 6

The target for RI4, oversight of conflicts of interest, was not achieved. According to the ICR, "the law on conflict of interest is not being enforced in the manner necessary to root out corruption and establish transparency in the public sector." Declarations by public officials, although submitted in some cases, are not being properly reviewed or verified by the Commission on Ethics. Measures for prevention and sanction of conflict of interest as specified under the law are therefore not functional. Achievement is rated **negligible**.

RI5, monitoring complaints management and processing times for public procurement, showed steady improvement over time with stated results meeting or exceeding targets (as measured through PEFA scores and case processing times). However, according to the ICR, the good practice public procurement law was gutted through the passage of amendments that removed the obligation to use e-procurement portals, introduced paper procurement, and raised ceilings on procurements exempt from ceilings to "unreasonable levels" (ICR, p. 14). The ICR notes that these amendments were "not based on any consideration of possible shortcomings in the procurement law," but instead "introduced high risks of malfeasance." As a result, "the prior action relating to the complaints commission is rendered nugatory" (ICR, p. 14). Reported progress toward the three RI targets were therefore exogenous to the operation. Achievement for all three RI5 targets is therefore rated **negligible**.

Similarly, for RI6, standard bidding documents that had been adopted to international good practice standards under earlier procurement reforms were abolished in 2019, and "current documents are of poor quality in terms of appropriate allocation of responsibilities, risks, and liabilities, constituting a further reversal in total of a prior action" (ICR, p. 14). The two RI targets were not achieved because they related to the use of earlier bidding documents. Achievement of both is rated **negligible**.

Rating

Highly Unsatisfactory

OBJECTIVE 3

Objective
Boost private sector competitiveness

Rationale
Supported by PA 7 – 10; progress measured by RIs 7 – 10

RI7 measured trade promotion. The target for number of firms implementing Hazard Analysis Critical Choke Point principles (RI7a) was not met, but the indicator for the number of firms included in the EEU register of food business operators and allowed to export to the EEU (RI7b) was exceeded. As noted by the ICR (p. 14), the relevance of the PA (law on food safety) to exports to the EEU was weak. Achievement of RI7a and b are both rated **modest.** .

RI8 measured reductions in the administrative costs of paying taxes by monitoring (i) an increase in firms reporting social contributions (RI8a) and (ii) a reduction in tax compliance costs to firms (RI8b). The target for the former was achieved, but the one for the latter was not. Achievement of RI8a is rated **high** and achievement of RI8b is rated **negligible**.

RI9 contained two key measures related to the digital economy. The target for bandwidth (RI9a) was exceeded, and that for the operationalization of a dispute mechanism between electronic communications service providers (RI9b) was met. However, the ICR notes that government leadership on digitalization has been inconsistent, and that improvements in bandwidth were achieved primarily due to efforts from the private sector (and not attributable to PA9. Consequently, RI9a is rated **modest**. RI9b, which plausibly does capture the impact of the PA, is rated **high**,

RI10, measuring the number of visitors to the state portal for e-services, was exceeded; however, because of the lack of specificity of the PA, the pathway between the operation and achievement of this target cannot be established. Achievement is rated **modest**.

Rating

Moderately Satisfactory

Overall Achievement of Objectives (Efficacy)
Rationale

Overall achievement of the objectives for this operation is rated ***unsatisfactory*** based on the ratings of each of the three PDOs. In all three, ratings were influenced by political economy factors, notably increasing political instability that influenced decision making. Objective 1, on the macro-fiscal foundations for growth, is rated unsatisfactory, as PA1 was effectively reversed, PA2 is stalled in Parliament, and PA3 was only modestly relevant to achievement of the objective. Objective 2, on transparency and anti-corruption in the public sector, is rated highly unsatisfactory, due to lack of enforcement of the law on conflict of interest (PA4) and reversal of the public procurement law (PA5 and PA6). Objective 3, boosting private sector competitiveness, is rated moderately satisfactory, based on limited relevance of PA7 and PA8 to achievement of the objective and unclear specification of PA10, and reflecting the consideration that both trade promotion and the business environment could have been more effectively improved by drawing on private interests rather than government (PA10).

Overall Efficacy Rating

Unsatisfactory

6. Outcome

Rationale

With the relevance of PAs rated **moderately satisfactory**, but overall efficacy rated **unsatisfactory**, the overall outcome of the operation is rated **unsatisfactory**.

a. Rating

Unsatisfactory

7. Risk to Development Outcome

Given the absence of attributable results for objectives 1 and 2, a discussion of risks to achieved outcomes is irrelevant. The complexity and political sensitivity of the reform agenda supported by the operation, as well the volatile political environment into which it was introduced, create the potential for continued policy reversals and discontinuities. For the third objective, government ownership in the areas of food safety and transfer of social insurance payments is present (ICR, p. 19), increasing the possibility for sustaining those reforms. Though government support is also strong for the digitalization agenda, capacity to enforce laws and implement reforms is weak.

8. Assessment of Bank Performance

a. Bank Performance – Design

Rationale

The operation was aligned with government and Bank priorities as reflected in government planning and Bank strategy, and it was supported by development partners. It extended reforms supported under earlier DPL series (P129597; P148099; P126034), building on that experience and also on several years of related technical assistance and analytical work. The latter included support for implementing a public sector reform roadmap, financial management capacity building, and public procurement reforms. Procurement reforms also drew on prior actions that had been dropped from a previous DPO series. The operation built on joint donor efforts at private sector development, including collaboration with the IMF in reviewing subsidies, providing technical assistance on developing a rules-based fiscal framework, and other areas (ICR, p. 5).

The design of the operation reflects this prior work, notably in its focus on a few key policy areas where change at the time appeared to have strong government support. In other areas, where government commitment was weaker, the Bank team tread cautiously. For example, reform of the electricity sector, while undoubtedly a central element of longer-term macro-fiscal stability and an important source of corruption, was not addressed. The Bank recognized other country risks, reflected in the Program Document but difficult to address head on, including an uncertain political landscape (still relatively stable at appraisal) that raised implementation and sustainability risks, numerous stakeholders with conflicting interests, and limited government capacity to implement reforms. Under such circumstances, the Bank opted for a stand-alone DPO with relatively narrow focus rather than a programmatic approach that would have been more challenging under the circumstances. However, design may still have been too ambitious in an environment that had over time gone through dramatic political and policy shifts and which again appeared to go through an evolving political environment where stakeholders uncertain about reform and with institutions less capable of reform.

Rating

Moderately Unsatisfactory

b. Bank Performance – Implementation

Rationale

Existing institutional structures were used to implement and monitor the policy actions that were supported under the operation. The Ministry of Finance assumed overall responsibility for coordinating implementation, monitoring, and evaluation of the operation, as well as for reporting progress and coordinating actions among government agencies. The Bank team monitored the indicators for each policy area and played a coordinating role among development partners to ensure that there was agreement on the implementation of policy actions. However, the ICR (p. 18) notes that Bank engagement was "patchy," with no structured dialogue established formally to address reversals of PAs or failures to follow through on enacted policies, and failure to proactively identify and effectively respond to risks.

Rating

Moderately Unsatisfactory

c. Overall Bank Performance

Rationale

Preparation of the operation drew on the Bank's and other donors' experience in the country, and the Program Document noted a series of risks, all of which ranged between "substantial" and "high" and would normally have called for intense engagement during implementation. However, the Bank did not adequately assess or mitigate the government's weak commitment and implementation capacity, and it did not follow up with systematic dialogue or other measures to respond to risks as they materialized.

Overall Bank Performance Rating

Moderately Unsatisfactory

9. Other Impacts

a. Social and Poverty

No direct, measurable impacts on poverty or social inclusion were identified.

b. Environmental

The ICR did not note any significant effects on the environment.

c. Gender

The ICR did not note any significant gender considerations or impact.

d. Other

None noted.

10. Quality of ICR

Rationale

The ICR is relatively concise, but this comes with certain drawbacks. While the discussion of program context and development objectives, as well as program design and the discussion around major factors affecting the efficiency of the operation, are all clear and consistent, that around relevance, outcomes, and impact tends to be brief, almost cryptic, and could benefit from a clearer results chain. Additional information could have helped the analysis. The report follows ICR guidelines and methodology.

a. Rating

Modest

11. Ratings

Ratings	ICR	IEG	Reason for Disagreement/Comments
Outcome	Unsatisfactory	Unsatisfactory	
Bank Performance	Moderately Unsatisfactory	Moderately Unsatisfactory	
Relevance of Results Indicators	---	Moderately Satisfactory	
Quality of ICR	---	Modest	

12. Lessons

Political economy constraints should be carefully identified prior to implementation. Potential political economy constraints require attention to securing political commitment at the highest levels and ensuring that commitments are followed through and, where appropriate, backed up with actions at the implementation level, not just as submissions to Parliament.

Deliberate mechanisms are required for ensuring consensus around DPO objectives. Given the challenging environment in which DPOs can function, careful consideration should be given to engagement of the Bank team in a context of structured dialogue, where lender and client can communicate in a proactive way to solve problems.

In some situations, results-based operations may be called for. Complex reforms may be better pursued with results-based operations that can bring sharper focus to a few critical reforms.

13. Project Performance Assessment Report (PPAR) Recommended?

No