



<b>1. Project Data:</b>		<b>Date Posted :</b> 08/13/2002	
<b>PROJ ID:</b> P045631		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Financial Sector TA	<b>Project Costs (US\$M)</b>	7.3	not available
<b>Country:</b> Kyrgyz Republic	<b>Loan/Credit (US\$M)</b>	3.4	2.61
<b>Sector(s):</b> Board: FSP - Payment systems securities clearance and settleme (39%), Banking (39%), Law and justice (14%), Central government administration (8%)	<b>Cofinancing (US\$M)</b>	not available	not available
<b>L/C Number:</b> C2891			
	<b>Board Approval (FY)</b>		97
<b>Partners involved :</b> Government of Finland, EU/TACIS, USAID, Government of Japan, IFC/TICA, ADB	<b>Closing Date</b>	12/31/2001	12/31/2001
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
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**2. Project Objectives and Components**

**a. Objectives**

The objective of the Financial Sector TA Project (FINSAC TA) was to facilitate implementation of policy and institutional reforms envisaged under the Financial Sector Adjustment Credit (FINSAC). FINSAC TA aimed to do this by: (a) strengthening the legal and regulatory framework and the capabilities of the key financial and regulatory institutions; (b) assisting with establishment of a new, temporary Debt Resolution Agency (DEBRA) to effect the restructuring/liquidation of major banks and recover, write off, sell or restructure the non-performing loan portfolios of these banks; (c) implementing Legal and Judicial Reforms through an improved legal database and enhanced access to legal information by Government agencies, and training of judges, lawyers and prosecutors; (d) helping establish a Central Registry for Pledges with regional offices in six oblasts; (e) improving the payment and clearing system in Bishkek and key regions; and (f) improving legal and regulatory framework and prudential supervision of non-bank financial institutions, including the securities market.

Additional objectives (envisioned on appraisal) of extending the new accounting infrastructure and training bank personnel were subsequently dropped.

**b. Components**

**IDA-financed components**

**1. Financial sector reform** : Advisor to the National Bank of the Kyrgyz Republic (NBKR) to assist with overall reform program; **2. Bank restructuring and liquidation** : Advisor to NBKR to rationalize bank branch networks; **3. Debt recovery and resolution** : Expert advice on asset sales, liquidation, and coordination of work-out teams; **4. Central registry for pledges** : Enactment of the law on pledges and establishment of a regional network for registration and monitoring of pledges; **5. Non-bank financial institutions** : Advisor to MOF to set up new accounting system and provide advice on developing insurance market; **6. Public debt instruments and securities** : Advisor to MOF on deepening market for Government debt; **7. Training** : Establishment of system to improve access to legal information. **8. Improved NBKR payment and clearing system** ; **9. Institutional development of the Social Fund and Tax Inspectorate** (added during implementation).

**Components financed by other donors**

**1. Bank supervision** : training for on-site supervision staff; **2. Mortgage financing** : Study to identify opportunities for stimulating mortgage financing; **3. Rural finance** : Draft legislation and regulations for development of rural finance institutions.

**c. Comments on Project Cost, Financing and Dates**

Of the IDA commitment of US\$3.4 million, US\$2.61 million was expended, and US\$0.60 million canceled, with the balance being retained for remaining payments. The ICR states that project expenditures by other donors are not available. The project was approved on June 25, 1996, became effective on September 3, 1996, and closed on time on December 31, 2001.

While it was initially envisioned that 46% of the credit would be used for automation of systems and establishment of electronic networks, by project completion 80% of the credit had been used for that purpose. The main reason was that the Borrower chose to use available grant funding for TA and consultants.

### 3. Achievement of Relevant Objectives:

**(1) Strengthening legal /regulatory framework and capabilities of key financial /regulatory institutions** : Key financial laws enacted included Laws on Banks, Pledges (collateral), Bankruptcy, Tax Code amendments, Law on Insurance, Law on Investment Funds, Law on leasing. **(2) Assisting with establishment of DEBRA to effect restructuring /liquidation of major banks and recovering or restructuring their non -performing loan portfolios** : The project assisted DEBRA in liquidation and recovery of Agroprombank and Elbank 's loans (insolvent former state-owned banks). Closure of these 2 banks contributed to stabilization of the banking system. Two other large banks were also restructured and received capital injections from the Government, and some of their recoverable debts were transferred to DEBRA. **(3) Implementing Legal and Judicial Reforms through an improved legal database and better accessibility** : A Central Legal Database (CLD) was established, and all cognizant agencies were connected. A major program in training judges in the new commercial and banking laws was completed. **(4) Helping establish Central Registry for Pledges** : This automated system was established, with the central registry in Bishkek and 5 regional centers. **(5) Improving payment and clearing system** : System was established and has greatly enhanced accuracy and efficiency of payment flow; increased operational information on correspondent bank accounts allows funds to be used more efficiently. **(6) Improving legal and regulatory framework and prudential supervision of non -bank financial institutions** : Jointly with USAID, project strengthened capacity of State Commission on Securities (SCS) to regulate investment funds, stock exchange, Central Depository, and other financial sector entities. A substantial effort was expended on upgrading IT systems; **(7) Institutional development of the Social Fund and the State Tax Inspectorate** : The data systems of these two organizations were linked to decrease duplicate individual identification numbers and harmonize lists of enterprises. (This objective was added during implementation and was in support of the Social Sector Adjustment Credit)

### 4. Significant Outcomes/Impacts:

- The country's legal and regulatory framework for financial activities was substantially improved
- Development of the payment and clearing system substantially improved efficiency : interbank payments now take 1 day in Bishkek and 5-6 days between regions; earlier, payments took around 2 days within a region and up to 14 days between regions. Errors have also been reduced.
- The data systems of the Social Fund and the State Tax Inspectorate were linked, so that multiple id numbers for individuals could be eliminated and enterprises paying taxes but not previously known to the Social Fund could be identified
- From 1997 to 2001, 15 banks transferred their non-performing loans to DEBRA

### 5. Significant Shortcomings (including non-compliance with safeguard policies):

- In retrospect, the project could have placed more emphasis on strengthening bank supervision (just 1% of total projected project costs, all from other donors); the regional financial crisis following the Russian 1998 situation resulted in the closure of the country's largest banks and the recapitalization of many smaller banks
- The project did not take adequate account of NBKR's limited capacity to manage the procurement process for a large TA program

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome :</b>	Satisfactory	Satisfactory	
<b>Institutional Dev .:</b>	Substantial	Substantial	
<b>Sustainability :</b>	Likely	Likely	
<b>Bank Performance :</b>	Satisfactory	Satisfactory	
<b>Borrower Perf .:</b>	Satisfactory	Satisfactory	
<b>Quality of ICR :</b>		Satisfactory	

**NOTE:** ICR rating values flagged with '\*' don't comply with OP/BP 13.55, but are listed for completeness.

### 7. Lessons of Broad Applicability:

- In an environment in which grant funding is abundantly available, a Borrower may be disinclined to borrow for TA or consultant services
- For a Borrower with highly constrained budgetary resources, a TA project should make provision for subsequent O&M costs for IT upgrades
- A thorough assessment of PIU capacity to manage a complex procurement program should be conducted, and

capacity strengthened during preparation if necessary, so that program implementation can begin soon after effectiveness.

**8. Assessment Recommended?**  Yes  No

**9. Comments on Quality of ICR:**

The ICR is satisfactory and provides a competent and thorough review of the project's accomplishments . It would have been valuable to describe the 1998-99 financial crisis and review project accomplishments in this context . With the project's heavy emphasis on upgrading IT equipment and software, as part of the assessment of sustainability the ICR should have described whether O&M costs for these systems are now being paid out of budgetary funds .