

Annual Project Progress Report

Project title: Supporting Business and Digital Transformation in Banking

Project ID: 00115493

Implementing partner: The State Bank for Foreign Economic Affairs of Turkmenistan

Period covered in this report: 01.01.2023 – 31.12.2023

Date of last Annual Report: 31.12.2022

Date of the last Project Board meeting: 12.07.2023

Date of last Quality Assurance and rating: 2023 - Satisfactory (Implementation stage)

1. Project Performance

Please state the expected Output of the Project, set indicators and corresponding CP Outcome (as per project document/AWP):

Project Output 2: TFEB infrastructure and staff ready for digitalization

Output indicators

2.2 IT infrastructure upgraded with the modern equipment and software

Output targets: Yes

b) Were the indicators and output achieved? Yes No Partially X

The activity is on track. The contract for Digital Banking Platform was extended till the end of 2024 due to landscape integration with existing systems of the bank, the Project document was also revised.

2.3 Number of bank staff passed through the specific trainings

Output targets: 20

b) Were the indicators and output achieved? Yes X No Partially

With the purpose of the capacity building the 5 trainings were conducted for banking sector of Turkmenistan under the support of the regional project "Knowledge Management and Capacity Building in Russia-UNDP Partnership" (KM Project) on the following topics: - Development of Ecosystem in Banking; Digital Currency; The System of Fast Payments; Open Banking, Electronic Money Regulations.

2. Progress Reporting

Please summarize the main achievements during the project cycle:

During the year 2023 the output was done partially to implement the digital transformation component of the State Bank for Foreign Economic Affairs of Turkmenistan - Internet and Mobile Banking platform and the Host Card Emulation (HCE) for Mobile Bank module, integration with the existing environment and technical support in the TFEB.

During the implementation of the project, the need was identified for the qualitative introduction of an innovative Digital Banking platform, including WEB and Mobile Banking and its integration with existing banking systems used by the State Bank for Foreign Economic Affairs of Turkmenistan. During a number of missions of international expert, the need for additional time for integration work has been identified as well as training of the bank's staff for the effective implementation of the new digital platform. Taking into account that the development of high-quality digital platforms requires more time for the execution of ongoing contracts with IT service providers, it was agreed to extend the validity period of the Project Document until December 31, 2024, in order to ensure effective completion of all activities planned within the project without increasing the cost of the project. The relative contracts was extended till the end of the 2024 year and the remaining budget will be revised to 2024 accordingly.

With the purpose of the capacity building the number of trainings were prepared for banking sector of Turkmenistan under the support of the regional project "Knowledge Management and Capacity Building in Russia-UNDP Partnership" (KM Project) on the following topics: - Development of Ecosystem in Banking; Digital Currency; The System of Fast Payments; Open Banking, Electronic Money Regulations. We expect the workshop to focus on such effect of digitization banking sector as strengthening of bank-centric ecosystems. Using the international cases and examples, it will be considered the consequences of potential ecosystemization of financial system and different regulatory approaches for risk mitigation.

Engagement with Russian Experts on Demand Programme was very useful for the project – the training for banking sector was conducted to support capacity building on knowledge and sharing expertise of Russia through mentorship and institutional consulting. The assignment was in line with national strategic objectives, including the long-term banking strategies that focus on improving the quality of banks' products and services, an upgrade to payment systems, digital transformation in all layers of banking, support for the private sector, and compliance with international financial reporting standards. In this regard, to support developing capacity and capabilities of banking sector staff to enable and develop a professional and highly skilled staff in banking sector, it is expected that international expert had shared an international experience and overview the regulatory approaches used to support the development and implementation of digital financial services (DFS), as well as mitigate the risks associated with financial innovations.

3. Gender Equality and Women's Empowerment

Analyse and report with the support of evidence concrete results achieved and/or unachieved towards gender equality and women's empowerment during the year.

The new Digital Banking Platform includes the gender component. The financial digitization is a significant factor in women's economic empowerment. Women's financial inclusion is crucial for achieving gender equality. Financial inclusion empowers women and offers them more financial authority. It ultimately could have a positive impact on a family's entire home. In addition, digital banking financial services made available through mobile phone application, will let women conduct transactions easily and safely from their own homes, companies, and communities.

4. Project Risks and Issues

Integrating Internet banking with core banking involves merging the online banking platform with the Bank's Core Banking System and Card Processing System. This integration process requires careful consideration of various factors to ensure smooth and secure operations.

It is necessary to understand that the context has a slow-changing dimension regarding new legislation, regulation, security and other standards, usage of the integrated solution, product and service changes.

The project team has conducted a thorough risk assessment and engage relevant stakeholders, including IT experts and advisors, to tailor the mitigation strategies to their unique circumstances. The Risk map is enclosed.

The risks and mitigation strategies mentioned below are not exhaustive and may vary depending on the specific context.

A number of potential risks are listed below:

| Description of risk | Type and category | Risk management actions | Current situation |
|---|--------------------------|---|--------------------------|
| Delay in project implementation | Operational | To speed up the process | Ongoing |
| National partner capacity to be enhanced | Operational | The international and national IT experts to support national partner in digital transformation as outsourcing team to be hired | Ongoing |
| The existing systems in the bank need to be upgraded in order to integrate with innovative Digital Banking Platform. It is necessary to have landscape integration solution | Operational | Integration Service bus will be will be developed, the negotiations with Stakeholder and procurement are on track | Ongoing |

5. Lessons learned and follow-up steps (if applicable)

a) Please provide the lessons learned and further steps after the project's closure.

Extensive consultations with stakeholder and providers are key during the design phase of the project and project document to correlate with their plans, and integrataion with existing technological systems.

Engagement with Russian Experts on Demand Programme was very useful for the project to support capacity building on knowledge and sharing expertise of Russia through mentorship and institutional consulting and to achieve sustainable development impact in partner countries. The Programme had simplified and accelerated the contracting process to receive good quality training. The Program also covered the costs of Russian experts, which had beneficial effect and increased the economic efficiency of the project budget.

The national partner's support is important for the success of the project. Long term well-established relations by the project staff is key for effective fulfilment of the project activities and mobilization of additional resources.

The support in capacity building of National parner staff is very important for digital projects.

6. Transfer of Assets or other related matter

a) Please state on any past or future transfer of assets made within the project cycle (Attach list of equipment, cooperation frameworks with beneficiaries, etc.)

N/A

7. Financial management

| Budget item | Total approved in 2023 (in USD) | Expenses + commitments | Budget utilization in % to planned |
|-------------------------------|------------------------------------|---------------------------|---------------------------------------|
| Component 2 | 946 233 | 765 916 | 80% |
| Project management | 25 918 | 21 513 | 83% |
| Total delivery in 2023 | 972 151 | 787 429 | 81 % |
| In % to total project budget | | | |

DocuSigned by:

 Prepared by: _____ Jennet Annaberdiyeva, Project Manager
4D9D01A4B0BC40B...

Date: 31.12.2023

DocuSigned by:

 Approved by: _____ Akmyrat Danatarov, Programme Analyst
D52054DEA0894AB...

Date: 31.12.2023