



Validation Report

Reference Number: PCV: KGZ 2009-03
Project Number: 29149
Loan Number: 1547-KGZ(SF)
May 2009

Kyrgyz Republic: Capacity Building on Corporate Governance and Insolvency Procedure

Independent Evaluation Department

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
CDC	–	Corporate Development Center
CGERP	–	Corporate Governance and Enterprise Reform Program
IED	–	Independent Evaluation Department
JSC	–	joint-stock company
PCR	–	project completion report
PMO	–	Prime Minister's Office
SDR	–	special drawing rights
SOE	–	state-owned enterprise
TA	–	technical assistance

NOTE

In this report, "\$" refers to US dollars.

Key Words

adb, asian development bank, corporate governance, insolvency law, joint-stock companies, policy, program completion report, project implementation, validation

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PROJECT COMPLETION REPORT VALIDATION

A. Basic Project Data		PCR Validation Date:	May 2009	
Project Number:	29149		Approved	Actual
Loan Number:	1547-KGZ(SF)			
Project Name:	Capacity Building in Corporate Governance and Insolvency Procedures	Total Project Costs (\$M):	4.00	3.30
Country:	The Kyrgyz Republic	Loan/Grant (\$M): (SDR equivalent)	4.00 2.89	3.30 2.46
Sectors:	Law, Economic Management, and Public Policy	Total Cofinancing (\$M):	0.00	0.00
ADB Financing (\$M):	ADF: 4.00	Borrower (\$M):	0.00	0.00
	OCR: 0.00	Beneficiaries (\$M):	0.00	0.00
Cofinanciers:	None	Others (\$M):	0.00	0.00
Approval Date:	25 September 1997	Effectiveness Date:	9 December 1997	9 December 1997
Signing Date:	8 December 1997	Closing Date:	30 June 2001	29 March 2006
Project Officers:	Name:	Location (HQ or RM):	From (year)	To (year)
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ADB = Asian Development Bank, ADF = Asian Development Fund, HQ = Headquarters, KGZ = Kyrgyz Republic, M = million, OCR = ordinary capital resources, PCR = project completion report, RM = resident mission, SF = special fund.

B. Project Description (summarized from RRP¹)

- (i) **Rationale:** At the time of appraisal there was a pressing need to reform the policy and legal environment for the enterprise sector in the Kyrgyz Republic in order to strengthen competitiveness and improve corporate governance. The program loan with which the Project was associated (Corporate Governance and Enterprise Reform Program—CGERP) was to complement the Government's macroeconomic stabilization and financial sector reforms that were supported by the International Monetary Fund and the World Bank. The Project was designed to support the CGERP.
- (ii) **Impact:** The expected impact of the Project was improved corporate sector management and thus improved economic growth.
- (iii) **Objectives or Expected Outcomes:** The objectives of the Project were to support implementation of CGERP and its second phase, CGERP-II, through promoting efficiently functioning enterprises by (a) implementing best practices in corporate governance through the establishment of a corporate development center (CDC), and (b) reforming and improving bankruptcy laws and procedures plus related institutional strengthening of the judiciary and State Property Fund.

¹ ADB. 1997. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Kyrgyz Republic for the Capacity Building in Corporate Governance and Insolvency Procedures*. Manila (Loan 1547-KGZ[SF], for \$4 million, approved on 25 September).

(iv) Components and/or Outputs: The Project had two components: (a) strengthening monitoring and implementation capacity for improved corporate governance structures, and (b) strengthening the legal framework to ensure effective insolvency procedure.

C. Evaluation of Design and Implementation (PCR Assessment and Validation)

(i) Relevance of Design and Formulation: The project completion report (PCR)² noted that the Project was designed to help support CGERP to address major constraints on good corporate governance and enterprise resolution. This was in line with ADB's country strategy and program, which envisaged support for a smooth transition to a market economy while maintaining macroeconomic stability. The design and formulation of CGERP were assessed as relevant in a program performance audit report, while those of CGERP-II were assessed as highly relevant in a program completion report. This allows the conclusion that the Project was also relevant, as it supported the implementation of both CGERP and CGERP-II.

The Validator agrees with this conclusion and considers that this may prove to be a good example to follow. The provision of institutional support to back up other program loans in other developing member countries may increase the success rate of this particular lending modality.

(ii) Project Outputs: The PCR described the outputs achieved as follows:

Component 1: Formulation of Best Practices in Corporate Governance and Capacity Building Initiatives.

(a) Strengthen the Capacity of the Government to Monitor and Enforce the Implementation of the Nominative Model Company Charter. Through CDC, the Project was active in the development and dissemination of a guide to corporate governance that contained basic concepts and principles of corporate governance in line with international best practices. The guide included a model company charter with sets of rules in five core areas of corporate governance. CDC was a key actor in disseminating the corporate governance guide and introducing the model company charter. CDC also directly assisted enterprises in adopting the charter. Notably, in this context, all the state-owned enterprises (SOEs) ultimately adopted the model company charter, which was in compliance with a policy condition of CGERP.

The Project also supported the Government in implementing a requirement calling for the replacement of all civil servants in senior positions in SOEs by 2004. Furthermore, to monitor compliance with corporate governance norms on annual general meetings of joint-stock companies (JSCs), CDC staff participated in such shareholder meetings as observers. The number of meetings attended was between 140 and 260 per year.

(b) Strengthen the Capacity of Enterprises to Adopt the Model Company Charter and Promote a More Active Role in Corporate Governance by Shareholders and Enterprise Officers. CDC also provided targeted assistance in the form of advisory support and training to companies. Under the Project, hundreds of managers and senior staff from most large JSCs were trained in corporate governance. CDC also assisted enterprise shareholders and workers by providing information on their rights and obligations in compliance with the model company charter, including consultations and support on legal and other questions. The training was initiated after completion of a wide-ranging information campaign, which provided more than 1,000 enterprises with informational material. The training covered a broad range of corporate governance topics, as well as modern management systems and methods. CDC staff conducted more than 200 seminars and lectures (including those to train civil servants and other stakeholders) with thousands of participants in all parts of the country. The number of seminars and participants far exceeded the target indicators in the monitoring framework for the loan. In addition to training people, CDC developed standard training programs and applications, including a guide for training in management and a methodology for a corporate governance case study.

² ADB. 2007. *Project Completion Report on the Capacity Building on Corporate Governance and Insolvency Procedures in the Kyrgyz Republic*. Manila.

CDC developed a corporate governance action plan in 2001 as a first tranche release condition under CGERP-II. A key element of the action plan was the continuation of training for enterprise managers and other officials. A domestic consulting firm under the Project implemented the training program, called Advisory Support for Enterprises. CDC complemented its training activities by consultations with such stakeholders as shareholders, managers, and staff of JSCs; representatives of nongovernment organizations; and civil servants. Over the project period, CDC was consulted by several thousand individuals.

- (c) **Public Information Campaigns and Educational Activities.** The Project also conducted information campaigns through local media to disseminate corporate governance concepts and requirements. Even in 2002–2004, after the decision to focus more on advisory support for enterprise managers, shareholders, and other corporate governance stakeholders, CDC continued its media work. Further, CDC worked with 28 higher education organizations. Educational institutions were invited to use CDC's resource center. In addition, 64 students were selected on a competitive basis to participate in a 1-year corporate governance study course, which culminated with a certificate.

Component 2: Facilitate the Implementation of the Insolvency Law.

The Project also aimed to build capacity for implementing the insolvency law. To that end, training was provided to staff and judges of economic courts (arbitrazh courts), as well as to staff of the State Property Fund's department for reorganization and liquidation of enterprises (including liquidators of bankrupt enterprises). In response to the increasing awareness that multifaceted weaknesses in judicial decision making seriously constrained the enforcement of corporate law, including bankruptcy law, the Project initiated support in 2001 to facilitate judicial reforms. The judicial reforms supported under the Project aimed to streamline the appellate court procedure and to establish out-of-court commercial dispute resolution. For that purpose, CDC closely cooperated with the Supreme Court and the Chamber of Commerce, under which an arbitration court was established.

Component 3: Strengthen the Legal and Regulatory Basis for Corporate Governance.

Due to the scarcity of qualified legal experts in government institutions, CDC's legal experts were substantially involved in legislative work from project inception. For example, among several other laws and bylaws, CDC's experts drafted a regulation entitled "On the order of using bankruptcy procedures" and amendments to the Law on Bankruptcy. Adopted in 1997, this regulation mandated the Government to undertake legal reforms in the area of corporate governance. Later, to support the implementation of CGERP-II, CDC helped to draft a new law on JSCs, and it prepared a second set of amendments to the Law on Bankruptcy based on experience with the application of this law. CDC experts also participated in drafting the law on arbitration plus draft legislation on the finality of higher courts' judgments.

Component 4: Coordination of Implementation of Program Loans.

The Project complemented two technical assistance (TA) grants for building CDC's capacity to coordinate the implementation of CGERP and CGERP-II. CDC's management and staff, who were mainly financed under the Project, played an increasing role during the Project in (i) monitoring compliance with the conditionality of CGERP and CGERP-II on behalf of the Government and submitting quarterly progress reports to ADB, and (ii) coordinating program implementation.

The Validator notes the Project's extensive and wide-ranging activities and outputs through CDC.

- (iii) **Project Cost, Disbursements, Borrower Contribution, and Conformance to Schedule:** The loan was approved on 25 September 1997 and became effective on 9 December 1997 with an original closing date of 30 June 2001. The project cost was estimated at \$4.2 million, of which ADB was to finance \$4.0 million and the Government was to finance \$0.2 million. The total amount of the loan used by the time of the PCR was equivalent to \$3.3 million. No information is provided in the PCR about the final cost to the Government. This was, presumably, in kind and difficult to quantify. The proceeds of the loan were withdrawn in accordance with ADB's standard disbursement procedures. In 1998–1999, the Russian financial crisis seriously stressed the Kyrgyz economy. That delayed the

disbursement of loan proceeds and project implementation. In May 2002, ADB approved the request to reallocate loan proceeds to support the implementation of its corporate governance action plan (no further details are provided in the PCR). During implementation, the project was extended five times in line with (i) the approval of CGERP-II in 2001; (ii) repeated delays in implementing CGERP-II, which was completed in December 2004; and (iii) a Government request for additional time to financially close the Project. The Project was closed on 29 March 2006.

The Validator notes the reallocation of loan proceeds and points out that there was insufficient explanation as to why this was done and what it entailed. What were the reallocated funds used for? Additional consulting services? The Validator also notes the delays in project closing and assumes that these were justified, although no clear explanation is given in the PCR. Finally, the Validator notes that the whole loan amount was not spent even though the Project was extended by nearly 5 years. Again, no justification is given. The attached Central and West Asia Department's response, dated 11 February 2009, explains the main reasons for the long delay in loan closing.

(iv) Implementation Arrangements, Conditions and Covenants, Procurement, and Consultant Performance:

- (a) **Implementation Arrangements.** The PCR indicated that the Office of the Prime Minister (PMO), through its Department for Economic Sector Development, and subsequently CDC were the executing agencies for the Project. CDC tendered public works financed under the Project and submitted audited project accounts annually. The State Property Fund and the Higher Economic Court were implementing agencies for the Project. CDC was also an implementing agency for CGERP and CGERP-II, as well as executing agency for two TA projects attached to these two program loans. In terms of promoting corporate governance, the implementation arrangements were adequate to deliver the Project's outputs and achieve its purpose. In terms of facilitating the enforcement of corporate governance standards, however, the implementation arrangements were not entirely adequate. CDC had no jurisdiction over SOEs, did not represent the state as a shareholder in any company, and had no mandate to enforce corporate law. However, being part of the PMO helped CDC to play a positive and frequently essential role in implementing CGERP and CGERP-II by coordinating program implementation and focusing high-level attention on implementation issues. Given the frequent periods of PMO weakness, the strong commitment and performance of CDC's management and key staff were at least equally important to success.
- (b) **Related Technical Assistance.** Two TA projects were associated with the Project: TA 2876-KGZ (Strengthening the Economic Policy Making and Monitoring Capabilities of the Prime Minister's Office) and TA 3779-KGZ (Strengthening Corporate Governance and Judicial Reforms). The first of these aimed to strengthen the PMO's capacity to initiate, manage, monitor, and assess the impact of macroeconomic, industrial, and trade policy reforms. The TA design was assessed as relevant, as it aimed to support the Government in implementing CGERP. The expected TA outcomes did not materialize completely, however, and the policy advice provided on a day-to-day basis was not absorbed sufficiently. The TA was completed in September 2001. A separate TA completion report, finalized in December 2006, rated the TA partly successful. The second TA aimed to strengthen corporate and financial governance and judicial reforms by supporting (i) the adoption and monitoring of corporate governance norms, (ii) the adoption of modern accounting standards in enterprises, and (iii) a comprehensive diagnostic assessment of the problems facing the judiciary. While the TA design was relevant overall, service delivery was delayed by 7 months due to problems fielding consultants. The TA was completed in June 2004. A separate TA completion report finalized in May 2005, rated the TA partly successful.

The Validator notes that the PCR did not contain sections on Conditions and Covenants; Consultant Recruitment and Procurement; or the Performance of Consultants, Contractors, and Suppliers. Presumably, the conditions and covenants associated with this TA loan were those of CGERP and CGERP-II and thus were covered in the respective PCRs and project performance audit report. Since most of the project cost was made up of consulting services (\$2.637 million), civil works (\$0.357 million), and equipment (\$0.556 million), however, the procurement of these items and the performance of the consultants should have been discussed. The Validator also notes that while the

partly successful overall ratings of the two grant-funded TA projects are noted, there is insufficient explanation as to why these ratings were given.

- (v) Performance of the Borrower and the Executing Agency:** The PCR rated the overall performance of the Borrower, the Ministry of Finance, as satisfactory. It notes that the Borrower showed commitment to the Project and ensured that it remained on track. The Borrower met all requirements for the submission of reports, including audited annual financial statements. It considers that the efforts and persistence of CDC's management and key staff in implementing the Project deserve high marks, as they helped mitigate the impact of repeated changes in government during the Project. This was to some extent offset by the unusually long time taken by the Government in implementation, loan closing, and also for being unable to use all the proceeds (as part of the loan was cancelled).

The Validator agrees with the PCR's satisfactory assessment.

- (vi) Performance of the Asian Development Bank:** The PCR assessed ADB's performance as highly satisfactory. In support of this assessment, the PCR noted that ADB closely monitored project implementation through 10 missions from headquarters that were supported by the Kyrgyz Resident Mission in Bishkek. Project reviews always were conducted in concert with CGERP or CGERP-II reviews. This was adequate, given the close links between the Project and these two program loans. Responsibility for implementing the Project, the two program loans, the two attached TA projects, and a regional TA project that included a corporate governance component was assigned to one ADB officer. This facilitated coordination and ensured strong ownership. ADB successfully responded to frequent changes of senior government officials over the implementation period by repeatedly reestablishing the implementation dialogue with new counterparts while coordinating closely with the CDC director (who changed twice during the Project). ADB also coordinated efficiently with other development partners engaged in corporate governance and disclosure, notably the European Bank for Reconstruction and Development and the United States Agency for International Development.

The Validator questions the PCR's *highly satisfactory* assessment given that the project's closure was delayed from June 2001 until March 2006. ADB took a very long time to resolve the issue regarding the purchase of office building for this project. The Validator notes the significant efforts by ADB staff to support and supervise the project's implementation given that the country was in transformation from a centrally planned to market-based economy. However, these are the normal activities expected of ADB and its staff during project implementation. The Validator considers that a more reasonable assessment would have been *satisfactory*.

D. Evaluation of Performance (PCR Assessment and Validation)

- (i) Relevance:** The PCR assessed the Project highly relevant. It noted that the relevance of the Project should be seen in the context of the relevance of CGERP and CGERP-II. These programs were assessed as relevant and highly relevant, respectively, as they addressed major shortcomings of the Kyrgyz corporate sector. They responded to the urgent needs to improve the enabling environment for enterprises and improve performance of the enterprise sector. The Project supported promotional activities and capacity building for important areas of enterprise reforms. This included capacity building for CDC, which played an important role in coordinating the implementation of CGERP and CGERP-II. CDC was also directly responsible for implementing policy actions under these programs.

The Validator agrees with the highly relevant assessment, especially in view of the broad range of project outputs that appear to have been much needed at the time the Project was formulated. It is also noted that the formulation of a TA loan to assist in implementing a program loan may be a useful model to follow in cases where sufficient grant-funded TA is not available. It adds flexibility and allows a longer input of supporting expertise than would normally be available with grant funding. It also adds ownership, since the funding is ultimately paid by the borrower and consultant selection thus becomes a borrower responsibility.

- (ii) Effectiveness in Achieving Outcome:** The PCR rated the Project effective. The Project helped to

promote efficient functioning of enterprises in the Kyrgyz Republic. During the project period, greater capacity utilization and productivity gains contributed more to growth than to capital accumulation. That is clear evidence of efficiency improvements. By supporting CDC, the Project contributed importantly to implementing best practices in corporate governance. CDC's promotional activities were essential for widely disseminating knowledge about corporate governance. CDC also facilitated adoption of the model company charter by all large SOEs. Regarding the practical application of corporate governance norms, an assessment completed in 2005 under ADB TA 6137-REG found substantial compliance in the Kyrgyz Republic with proper rules and procedures to secure the rights of shareholders. The Project also helped to advance the bankruptcy law. The number of bankruptcy cases initiated increased from 28 at the end of 1997, to 50 at the end of 1998, to 168 at the end of 1999, and to 398 at the end of 2000. After additional amendments to the bankruptcy law in 2002, the number of initiated cases increased to 909 by the end of 2004. Similarly, the number of bankruptcy cases completed rose from 108 at the end of 2000 to 572 at the end of 2004. By financially supporting CDC, the Project played an important role in advancing judicial reforms. Finally, the Project contributed indirectly to preparing the ground for capital market development by strengthening the legal basis for, and disseminating knowledge about, corporate governance and disclosure.

The Validator notes these achievements and agrees with the effective rating.

- (iii) Efficiency:** The PCR rated the Project *efficient* and noted that the disbursed loan amount of \$3.3 million generated significant project outputs and outcomes. Much of the credit for achieved outputs and outcomes is considered due to the national consultants funded by the loan over an extended period of time. Among the reasons listed for the Project's being considered efficient, the PCR neglected to mention the fact that it supported the successful implementation of two program loans that (in addition to their institutional and policy accomplishments) resulted in the country's being eligible for \$75 million in external financing.

The Validator agrees with the efficient rating, especially in view of the Project's impact on effecting a successful implementation of CGERP and CGERP-II.

- (iv) Sustainability:** The PCR did not provide a rating for sustainability. Rather, it notes that the Project helped to establish CDC as the main champion for corporate governance reforms within the Government. The knowledge about corporate governance disseminated by CDC is likely to remain in the public domain. Training provided by CDC increased the qualifications of many individuals, and that, too, will be beneficial for many years. However, the promotional activities supported under the Program were discontinued after the PCR due to fiscal constraints and a lack of private sector interest in financing them. Rather than attempting to divest CDC and turn it into a self-financing institution, the Government decided to integrate it into the economic ministry in February 2005. CDC was sustained within the ministry as a functional unit until financial closure of the Project. After that, CDC's director, remaining staff, and accountant left the ministry. As such, CDC has not survived as a distinct unit and "brand label," leaving the Kyrgyz Republic without a center for promoting corporate governance. Nonetheless, the stronger legal and regulatory basis for corporate governance and disclosure that the Project helped to generate is deeply entrenched, and the legal and institutional achievements regarding bankruptcy also cannot be easily reversed.

On the basis of this background, the Validator assesses the Project's sustainability as *less likely*. Significant public information, legal, and institutional effects of the Project will continue to have an impact for some time to come, but the institutional continuity expected at appraisal has already been lost.

- (v) Impact:** The PCR reported that institutional development and other impacts of the Project were significant. Its sociocultural impact was to increase knowledge and awareness of the importance of good corporate governance. Further, the Project helped to build capacity for good corporate governance in state agencies and enterprises. The overall long-term impact has been limited, however, since CDC's envisaged privatization (and hence its sustainability) failed to materialize.

The Validator agrees with the assessment of impact as significant.

E. Overall Assessment, Lessons, and Recommendations (PCR Assessment and Validation)

- (i) **Overall Assessment:** The PCR gave the Project an overall rating of successful. In support of this, it noted that the project design was highly relevant, as it supported the implementation of two program loans in important areas. The Project was successful in disseminating knowledge about corporate governance and disclosure, as well as in strengthening the legal and regulatory basis for corporate governance and insolvency. It also helped to build capacity for the application of the bankruptcy law. The Project was successful in strengthening compliance with proper rules and procedures to secure the rights of shareholders. Project implementation was efficient. Sustainability of key achievements is less likely as the Project failed to establish a sustainable corporate governance advisory entity as envisaged during appraisal. Institutional developments and other impacts were significant in building capacity for implementing bankruptcy legislation.

The Validator notes the failure of the Borrower to establish a corporate governance advisory body. Nonetheless, the Validator agrees with the overall PCR rating of successful because of the Project's accomplishments to date and the impact it will have due to these accomplishments.

- (ii) **Lessons:** The PCR noted that the following lessons were derived from the Project:
- (a) Corporate sector reforms require a strong long-term commitment, especially in a transition economy.
 - (b) Careful preparation of interventions should aim to prevent sequencing problems. In this context, the timing of corporate governance reforms should be coordinated with financial sector and judicial reforms, because they are interlinked.
 - (c) Building capacity for reforms in state agencies requires competitive wages to be paid to experts employed by these agencies. If competitive salaries cannot be sustained beyond the project period, the type of capacity building supported under the Project cannot be sustainable.
 - (d) In addition to legal and judicial reforms, securities market development is also crucial for improving corporate governance.

The Validator considers these to be valuable lessons not just for this Project but for capacity building initiatives in general, and especially in the corporate governance sector.

- (iii) **Recommendations:** The PCR recommended that the informal cluster approach used for the Project and its associated TA projects and program loans should be replicated, where suitable, since it provides a high level of flexibility while minimizing the risk that key outcomes of individual interventions cannot be achieved.

The Validator considers this a very useful and pertinent recommendation.

F. Monitoring and Evaluation Design, Implementation, and Utilization (PCR Assessment and Validation)

The Report and Recommendation of the President (RRP) for the Project and accompanying program included a Program Framework indicating that monitoring of the Project would be implemented through progress reports and consultant reports. It is the impression of the Validator that these were regularly prepared. In addition, the Project itself had a monitoring function in that it was part of the role of CDC to monitor the implementation progress of CGERP and CGERP-II. The Project seems to have supported CDC well in this function, as its role in doing so is favorably mentioned in the PCR.

G. Other (e.g., Safeguards, including Governance and Anticorruption; Fiduciary Aspects; Government Assessment of the Project)

The Project appears to have contributed significantly to capacity development in governance and in financial management in both the public sector (SOEs) and the private and quasi-private sector (JSCs). It appears to have laid a sound base for the functioning of private sector entities and generally raised the level of understanding as to the legal and regulatory aspects of commercial activities.

H. Ratings	PCR	IED Review	Reason for Disagreement/Comments
Relevance:	Highly Relevant	Highly Relevant	
Effectiveness in Achieving Outcome:	Effective	Effective	
Efficiency in Achieving Outcome and Outputs:	Efficient	Efficient	The project experienced considerable time delays due to factors related to the country's transition from a centrally planned to a market economy. However, these delays did not affect the project's budget.
Preliminary Assessment of Sustainability:	Not Rated	Less Likely	While the Project's accomplishments are substantial, the Project failed to establish a sustainable corporate governance advisory entity as envisaged during appraisal.
Borrower and Executing Agency:	Satisfactory	Satisfactory	
Performance of ADB:	Highly Satisfactory	Satisfactory	ADB staff made a significant effort to supervise and support the project's implementation. Nevertheless the project experienced considerable time delays.
Impact:	Significant	Significant	
Overall Assessment:	Successful	Successful	
Quality of PCR:		Partly Satisfactory	The PCR did not include a section on consultant recruitment and procurement or one on the performance of consultants, contractors, and suppliers.

I. Comments on PCR Quality

Overall, the PCR is well written and clear. It provides a clear account of the history of the Project and judges the various assessment factors appropriately and fairly. Unfortunately, however, there are also some limitations. For example, it does not clearly state what was involved in the reallocation of loan proceeds in 2002 nor why this was done. It also does not include sections on "consultant recruitment and procurement" or "the performance of consultants, contractors, and suppliers." It is not certain whether there was a reason for this or if it was just an oversight. In any event, because of these shortcomings it is not possible to assess it as satisfactory and it must be judged partly satisfactory.

J. Recommendation for IED Follow-Up

If a project performance evaluation report is to be carried out on CGERP-II, then it would be appropriate to cover this Project at the same time.

K. Data Sources for Validation

Data sources for this validation include the (i) RRP; (ii) PCRs for CGERP, CGERP-II, and the Project; and (iii) project files.

REGIONAL DEPARTMENT'S RESPONSE TO THE PROJECT COMPLETION REPORT VALIDATION REPORT

On 11 February 2009, the Independent Evaluation Department (IED) received the following comments from the Central and West Asia Department:

We received a copy of your report and wish to provide you with some explanations/ justification to item (iii).

Original closing date: 30 June 2001

Actual closing date: 29 March 2006

In 2001, the loan was extended in conjunction with the approval of the Second Phase of the Corporate Governance and Enterprise Reform Program (CGERP-II). CDC had to coordinate the reforms supported under CGERP-II. Given a delay in the implementation of CGERP-II, the loan closing date was extended in 2003 until 31 December 2004, i.e. the revised end of CGERP-II. Although CGERP-II was completed in December 2004, the Government requested for another extension of the loan from 31 December 2004 to 31 March 2005 to give time to finalize the Government's program completion report and a loan audit.

Although the loan was physically completed by 31 March 2005, it remained open by default due to the non-return of an advance in the amount of \$25,400.08 from the loan's imprest account. A letter from the Ministry of Economy and Finance (MOEF) stated that the outstanding amount was spent to achieve the loan's objective and requested ADB to reconsider the payment made by the Government as part of the project cost. The amount was used to purchase a new building for the project in 1999. This purchase was then considered less costly than the initially planned renovation of an old building under the project. MOEF also informed that CDC, the executing agency for the loan, had ceased its operation and that the Government has no allocation in the 2006 state budget for a repayment of the outstanding advance.

OGC, CTLA and COSO had been consulted, and each had concurred to a proposed minor change in scope, namely, to allow the procurement of a new building instead of the renovation of an existing one, provided this option was more economical. This change in scope was necessary to allow the payment made by the Government to be regarded as retrospectively eligible under the project and, thereby, eliminate the outstanding advance payment issue. The proposed change in scope would not substantially affect the project's purpose, benefits, procurement or other implementation arrangements.

Hence, ADB reconsidered the payment made by the Government to purchase a new building for the project in 1999 and apply such payment to the outstanding advance of US\$25,400.08 from the loan's imprest fund. Effective 29 March 2006, ADB proceeded to cancel the remaining unutilized loan amount and close the loan account.