

ASIAN DEVELOPMENT BANK

PPA: KAZ 28243

PROJECT PERFORMANCE AUDIT REPORT

ON THE

**SPECIAL ASSISTANCE PROJECT
(Loans 1337-KAZ[SF]/1338-KAZ)**

IN

KAZAKHSTAN

December 2001

CURRENCY EQUIVALENTS

Currency Unit – Tenge (T)

	At Appraisal (September 1994)	At Project Completion (April 1999)	At Operations Evaluation (September 2001)
T1.00	= \$0.0212	\$0.0085	\$0.0068
\$1.00	= T47.05	T117.50	T147.83

ABBREVIATIONS

ADB	–	Asian Development Bank
EA	–	Executing Agency
FSU	–	former Soviet Union
GDP	–	gross domestic product
IMF	–	International Monetary Fund
MOH	–	Ministry of Health (later changed to Committee of Health)
NAFI	–	National Agency for Foreign Investment
NBK	–	National Bank of Kazakhstan
PCR	–	project completion report
PIU	–	project implementation unit
PPAR	–	project performance audit report
RRP	–	report and recommendation of the President
SDR	–	special drawing rights
TA	–	technical assistance

NOTES

- (i) The fiscal year (FY) of the Government ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

Operations Evaluation Department, PE-581

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BASIC DATA
Special Assistance Project (Loans 1337-KAZ[SF]/1338-KAZ)

Project Preparation/Institution Building

TA No.	TA Name	Type	Person-Months	Amount (\$)	Approval Date
2222	Institutional Support	ADTA	26	554,000	6 Dec 1994

Key Project Data (\$ million)	As per ADB	
	Loan Documents	Actual
Total Project Cost	60.0	59.6
Foreign Exchange Cost	60.0	58.9
Local Currency Cost	—	0.7
ADB Loan Amount/Utilization	60.0	58.9

Key Dates	Expected	Actual
Appraisal		3-24 Sep 1994
Loan Negotiations		31 Oct-5 Nov 1994
Board Approval		6 Dec 1994
Loan Agreement		6 Dec 1994
Loan Effectiveness	6 Mar 1995	6 Mar 1995
First Disbursement-Loan 1337		14 Nov 1996
First Disbursement-Loan 1338		30 Mar 1995
Loan Closing-Loan 1337	31 Dec 1996	21 Aug 1998
Loan Closing-Loan 1338	31 Dec 1996	23 Jan 1996
Project Completion	Jun 1996	May 1998
Months (effectiveness to completion)	16	39

Borrower Government of the Republic of Kazakhstan

Executing Agency National Agency for Foreign Investment

Mission Data

Type of Mission	No. of Missions	No. of Person-Days
Fact-Finding	1	80
Appraisal	1	71
Disbursement	2	15
Project Administration		
Review	6	59
Project Completion	1	10
Operations Evaluation ¹	1	20

ADB = Asian Development Bank, ADTA = advisory technical assistance, TA = technical assistance.

¹ The Operations Evaluation Mission comprised R. K. Leonard, Evaluation Specialist (Mission Leader) and E. Koch, Macroeconomist/Public Sector Finance Specialist (Staff Consultant).

EXECUTIVE SUMMARY

In the early 1990s, Kazakhstan underwent a difficult transition from a centrally planned to a market-based economy. The resulting economic crisis produced high unemployment, declining output, contraction in foreign trade, and rampant inflation. With the assistance of international financial institutions, the country embarked on a program of macroeconomic stabilization and structural reforms.

The Special Assistance Project was the first lending operation of the Asian Development Bank (ADB) in Kazakhstan. ADB's interim operational strategy recognized that without quick-disbursing assistance, the reform process could be set back by rising social tensions caused by declining living standards, rapidly increasing unemployment, a shortage of essential goods, and lack of an adequate social safety net. Accordingly, the strategy gave priority in 1994 to emergency financial assistance.² At the Second Consultative Meeting for Kazakhstan, held in January 1994, the Government estimated that the external financing gap would be \$450 million in the current year, while the International Monetary Fund (IMF) projected a gap of over \$200 million in 1995. ADB responded to the request for urgently needed financial support and in December 1994, the Board approved a quick-disbursing blended loan of \$60 million—Loan 1337-KAZ(SF) for \$20 million from the Asian Development Fund (ADF) and Loan 1338-KAZ for \$40 million from the ordinary capital resources (OCR). The Project was classified as a growth intervention with social concerns as a secondary objective. Together with the loans, ADB provided an advisory technical assistance (TA) grant to train and support the Executing Agency, the National Agency for Foreign Investment (NAFI), on ADB's operational requirements, particularly in relation to procurement.

Loan 1337-KAZ(SF) funded the import of medicines, medical equipment, and medical spare parts by the Government (part A), while Loan 1338-KAZ provided foreign exchange for imports by enterprises (part B). A condition of part B was that at least 60 percent of the beneficiary enterprises were to be in the private sector. The goal of the Project was to support the Government's macroeconomic stabilization and structural reform program by helping bridge the external financing gap, thereby averting a collapse of the health system and arresting a further decline in output and employment. The Project was prepared in close consultation with IMF, the World Bank, and the European Bank for Reconstruction and Development. Two agencies were responsible to NAFI for implementation—the Ministry of Health (MOH) for Loan 1337-KAZ(SF) and the National Bank of Kazakhstan (NBK) for Loan 1338-KAZ. Disbursement under part A was to be from an imprest account against a positive list of items. For part B, ADB agreed to retroactive financing of \$15 million against customs receipts for imports made up to 180 days prior to loan effectiveness, while the balance was to be disbursed from an imprest account against individual applications by enterprises made on their behalf by five selected commercial banks. These banks were to remit corresponding amounts of local currency to NBK (using the most recent market-based exchange rate) for onward transfer to the Government for budget support.

Completion of part A was delayed by 18 months. Reasons included (i) the Government's slow action in authorizing MOH to act; (ii) frequent changes in staff and organization structure of NAFI and MOH; (iii) requests by MOH to include medicines or formulations not approved by ADB as these were not in the World Health Organization list of essential drugs; (iv) repeated revision of the list of pharmaceuticals and medical equipment; (v) delays in the bidding process; and (vi) the lengthy process involved in mandatory registration of medicines.

² *The Bank's Interim Country Operational Strategies in Kazakhstan and the Kyrgyz Republic*, circulated to the Board on 23 December 1993.

Conversely, part B was completed about 12 months ahead of schedule. By October 1995, enterprises could purchase foreign exchange readily without having to complete the time-consuming project documentation requirements. Consequently, ADB agreed to change disbursement procedures whereby the balance of around \$7 million in the imprest account, and the balance of the loan (\$15 million), could also be disbursed retroactively against customs receipts.

The macroeconomic stabilization program was successful while good progress was made with structural reform although a subsequent World Bank evaluation found that insufficient attention was paid to institutions, protection of the poor or gender issues. ADB's support to the wider reform program helped establish confidence in the transforming economy.

The Project contributed to alleviating the external financing gap. However, the balance-of-payments crisis had largely been overcome by the time disbursements started for Loan 1338-KAZ in March 1995 and for Loan 1337-KAZ(SF) in November 1996. By the second half of 1995, it was clear that foreign exchange was much more freely available as a result of the boost in export receipts, increased foreign direct investment, and disbursements from IMF, the World Bank, and other funding agencies.

Loan 1337-KAZ(SF) achieved its purpose of easing the critical shortage of medicines, medical equipment, and medical spare parts. However, the delays in procurement prevented the expected rapid response to the shortage. Not all the medical supplies met priority health needs or those of the poor. Specifically (i) a significant proportion was for medium or advanced care, (ii) the purchases principally served the needs of urban residents, and (iii) the needs of vulnerable groups such as women or children were inadequately served.

Loan 1338-KAZ made only a limited immediate contribution to arresting the decline in employment, production, and capacity utilization. However, the success of the macroeconomic stabilization program helped create the conditions for growth in the medium term. The requirement to provide at least 60 percent of the foreign exchange to the private sector was met, but this had the unintended effect of directing over 70 percent of the loan funds to the import of consumer items rather than inputs for production. At the time, most value-added activity was in the state sector. Only 35 enterprises received foreign exchange under part B. Within this group, one company received around 44 percent of the foreign exchange, while the top five companies accounted for 85 percent. Three of the four largest recipients were engaged in trading and the import of consumer goods. However, a number of these have developed into diversified conglomerates employing many people.

The supporting TA was relevant in terms of addressing a need, but inadequate in terms of quality, scope, and duration. Only a limited amount of training was provided. The resident adviser lacked general knowledge of procurement and specialized knowledge of procurement of medical supplies. A replacement should have been sought when this became obvious. Given the delays, a decision should have been made to split the assignment into two or more periods in order to provide support at all stages of the procurement process.

The Project is assessed as relevant at the time of formulation. Part A was relevant to the country's needs. A more focused approach (perhaps on certain priority health needs such as tuberculosis) could have increased its relevance. Part B was relevant in general terms but the condition that at least 60 percent of the funds would go to the private sector reduced its relevance. The Project is rated as efficacious. It provided useful support to the successful macroeconomic stabilization program. Part A was partly efficacious in addressing the issue of a shortage of medicines and medical equipment. Part B had a limited impact on halting the

decline in output and employment in the short term although this was achieved in the longer term. The Project is rated as less efficient. Part A was less efficient in terms of timeliness of disbursements, as it was delayed by 18 months. On the other hand, part A was cost efficient, as procurement followed standard international shopping procedures. Part B was efficient in terms of promptness of disbursement of funds once changes were made to procedures. The sustainability of the Project is assessed as likely in terms of the country's ability to avoid similar financial crises, although the economy is still narrowly based and therefore susceptible to external shocks. Few other impacts were attributable to the Project.

Overall, the Project is assessed as successful, though close to the partly successful category. Its short-term impacts were smaller than expected. However, it contributed to a successful macroeconomic stabilization program. The performance of ADB, NAFI, MOH, and NBK was satisfactory.

The key issue that emerges is whether special assistance lending, such as that provided by loans 1337-KAZ(SF) and 1338-KAZ, produces sufficient value added to justify similar loans by ADB in the future. Based on the experience of this Project, there is no clearcut answer. While ADB accounted only for a small proportion of the total external funding agency support over the period (less than 5 percent), its participation provided a significant vote of confidence in the transforming economy. On the other hand, ADB might be better advised to stick to its normal role of supporting sector-level development and leave support for macroeconomic reform to IMF. In cases where it is decided that ADB should respond to a major economic crisis in a developing member country, the recently introduced special program loan modality can be considered.

The main lesson is that a timely response to an economic crisis may not be consistent with the achievement of immediate development objectives. To an extent, the two thrusts proved to be incompatible in this case. The achievement of development objectives was predicated on adherence to a number of conditions—imports of medical items against a positive list and approval of individual applications by enterprises. However, these conditions caused delays that worked against quick disbursement. On the other hand, rapid disbursement reduced control, which resulted in less-than-expected and unevenly distributed development impacts.

The second lesson is that care should be taken in the selection of conditions, particularly during the early stages of a reform program, as unintended and negative consequences may result. The requirement to allocate at least 60 percent of loan proceeds to enterprises in the private sector, while a sound policy in other circumstances, was made with an inadequate understanding of the structure of the private sector in Kazakhstan at the time.

I. BACKGROUND

A. Rationale

1. In the early 1990s, Kazakhstan underwent a difficult transition from a centrally planned to a market-based economy. With the collapse of the former Soviet Union (FSU), Kazakhstan, along with other former Soviet republics, suffered severe disruption to long-established and highly integrated production and marketing arrangements. The resulting economic crisis produced high unemployment, declining output (a cumulative reduction of over 50 percent in gross domestic product [GDP] between 1990 and 1995), contraction in foreign trade (a 40 percent decline in 1993) and rampant inflation (a year-end inflation rate of 2,169 percent in 1993).³ The cessation of transfers through correspondent account credits at the Central Bank of Russia in mid-1993 severely curtailed external financing. Simultaneously, social support systems were disrupted, particularly those associated with state enterprises. Poverty became a serious problem (see Appendix 1 for social and economic statistics). Reform measures to deal with the crisis began in the early 1990s, after Kazakhstan achieved independence in December 1991. With the assistance of the International Monetary Fund (IMF), the World Bank, the European Bank for Reconstruction and Development, and others, the country adopted a program of macroeconomic stabilization and structural reforms.

2. IMF supported the macroeconomic stabilization program. In 1993, it approved a transformation facility for SDR123.75 million, followed by a standby credit, also for SDR123.75 million, in 1994 and a second standby credit for SDR185.6 million in 1995. These credits supported a program aimed at (i) stabilizing the financial situation through tight fiscal and monetary policies to sharply reduce inflation, (ii) containing the decline in real output and living standards, (iii) building up net international official reserves, and (iv) instituting a range of systemic reforms. The World Bank supported structural adjustment through a rehabilitation loan for \$180 million and a technical assistance (TA) loan for \$38 million, both approved in 1994, followed by a structural adjustment loan for \$180 million in 1995. The focus of World Bank support was on privatization, trade and price liberalization, financial sector restructuring, and public sector reform. Overall, the stabilization and structural adjustment programs made good progress (paras. 30 to 31 and Appendix 1).

3. Balance-of-payments support was seen as an essential part of external funding agency strategy. At the Second Consultative Meeting for Kazakhstan in January 1994, the Government estimated that there would be an external financing gap of \$450 million in the current year, while IMF projected a gap of more than \$200 million in 1995. The funding agencies recognized the need for quick-disbursing special assistance to help close this gap to contain the contraction of economic activity and to build up net official international reserves in support of the new national currency (the tenge).

4. Social service provision was severely disrupted. In the early years of transition, the health system was characterized by centralized management, and an emphasis on curative practices through hospitalization. A result of the rapid inflation was that most of the health budget was being spent on staff salaries and utilities; financial allocations for nonsalary recurrent costs, particularly for medicines and medical equipment and spare parts, had been substantially reduced. The disruption of trade among the FSU republics and the foreign

³ Data on the decline in GDP comes from CER: KAZ 97027: *Country Economic Review, Kazakhstan*, October 1997. Subsequently, other official estimates show a decline in output of about 40 percent during this period.

exchange scarcity further aggravated the shortage of pharmaceuticals, vaccines, medical supplies, and equipment. The health status of the population declined alarmingly. External financing was urgently required for medicines and medical equipment for state hospitals and pharmacies.

5. The country was poorly equipped to deal with these problems. Few people knew how market economies worked. Aid coordination was still in its early stages and decision making was highly centralized. Previously, civil works contracts and procurement of goods were carried out by state-owned companies through direct purchase or negotiation with a single source. Consequently, there was little knowledge of, and no established procedures for, commercial procurement or disbursement of funding agency credits.

B. Formulation

6. The Asian Development Bank (ADB) responded to the call for quick-disbursing financial support to the macroeconomic stabilization and structural reform programs. A fact-finding mission was fielded in April-May 1994. A preappraisal mission⁴ visited Kazakhstan in September 1994 and reached agreement with the Government regarding the Project. The Project was designed in close consultation with the IMF, the World Bank, and the Government. ADB was concurrently carrying out an economic study of the country and this provided helpful inputs during formulation.⁵ Some lessons were drawn from the World Bank rehabilitation loan, which also provided foreign exchange to enterprises and financed critical imports.⁶ Preappraisal was timed to coincide with reviews by IMF and the World Bank of their programs of support. ADB staff participated in both reviews. The positive conclusion of IMF's second review of the stabilization program enabled ADB to proceed with the proposed loans.

7. In December 1994, the Board approved a quick-disbursing blended loan of \$60 million—Loan 1337-KAZ(SF) for \$20 million from the Asian Development Fund and Loan 1338-KAZ for \$40 million from the ordinary capital resources—to assist the Government in partially bridging the external financing gap.⁷ The loans were the first made by ADB to Kazakhstan. Together with the loans, ADB provided an advisory TA grant to train and support the Executing Agency (EA)—the National Agency for Foreign Investment (NAFI)—and other government agencies on ADB's operational requirements, including those related to procurement, disbursement, and consultants.⁸

8. The elapsed time from the start of fact-finding to Board approval was less than eight months, with a further three months required for loan effectiveness. This compares to five months from the start of fact-finding to effectiveness for the Mongolia Special Assistance Project.⁹ On the ADB side, the reason for the additional time was the decision to await the outcome of IMF's second review of its standby arrangement, which was only approved by its Board on 30 November 1994. The three-month period between loan signing and effectiveness was caused by delays by the Government. Although the Parliament had ratified the loans on 27 December 1994, it then recessed without completing the required official documentation.

⁴ Because of the positive developments in the reform program and the satisfactory understandings reached with the Government, the preappraisal mission was subsequently upgraded to an appraisal mission.

⁵ *Economic Report on Kazakhstan* (ECR:KAZ 94019, October 1994).

⁶ In particular, a lesson incorporated was that a lack of counterpart funds available to departments affected disbursements for public sector procurement. The choice to fund the import of medicines, medical equipment, and medical spare parts was taken in part because the Ministry of Health had counterpart funds available.

⁷ Loans 1337-KAZ(SF)/1338-KAZ: *Special Assistance Project*, for \$60 million, approved on 6 December 1994.

⁸ TA 2222-KAZ: *Institutional Support*, for \$554,000, approved on 6 December 1994.

⁹ Loan 1109-MON: *Special Assistance Project*, for \$30 million, approved on 29 October 1991.

The Parliament formalized ratification on 20 February 1995. The legal opinion required under the Loan Agreement was provided to ADB at the beginning of March 1995, and ADB confirmed that the conditions of loan effectiveness had been met, declaring the loan effective as of 6 March 1995. Consequently, disbursements were not possible in 1994 as originally envisaged.¹⁰ While a significant part of the delay was on the government side, ADB's decision to wait for a satisfactory outcome of IMF's second review of its standby arrangement also delayed processing. Thus, there was some tradeoff between providing a rapid response and ensuring that longer-term stabilization goals were met.

C. Purpose and Outputs

9. The goal of the Project was to support the Government's macroeconomic stabilization and structural reform program by helping bridge the external financing gap, thereby preventing collapse of the health system and arresting a further decline in output and employment. The Project was classified as a growth project with social concerns as a secondary objective. Its purpose was to provide foreign exchange to finance critical imports by the Government and enterprises. The counterpart funds that were generated provided budgetary support to the Government. The Project also contributed to diversifying trade away from FSU countries, as eligible imports could only be sourced from ADB member countries. Another important aspect of the Project was to help the Government meet its fiscal targets under the IMF stabilization program.

10. The Project had two parts: (i) importation of medicines, medical equipment, and medical spare parts for \$20 million, funded by Loan 1337-KAZ(SF) from the Asian Development Fund (part A); and (ii) provision of foreign exchange for imports by enterprises for \$40 million, funded by Loan 1338-KAZ (part B). The purpose of part A was to improve supply of essential drugs and services in state hospitals and pharmacies that catered to the general public. This was expected to lessen the social costs of the reform program, thereby preventing an erosion of public support. Expenditure under part A was to be against a positive list of items (Appendix 4 of the report and recommendation of the President [RRP]). The purpose of part B was to help arrest the decline in employment and production by enterprises. ADB's interim operational strategy recognized the need for quick-disbursing assistance to act as a social safety net.¹¹ Eligible imports under part B were against a negative list (Appendix 6 of the RRP). At least 60 percent of the funds under part B were to go to enterprises in the private sector. The intent of this condition was to limit access to the funds by state-owned enterprises. The attached TA was expected to build the institutional capacity of relevant state agencies to comply with ADB procedures, particularly regarding procurement.

D. Cost, Financing, and Executing Arrangements

11. The total cost of the Project was estimated to be \$60 million, all in foreign exchange. Disbursement under part A was to be from an imprest account. ADB agreed to retroactive financing under part B of \$15 million (out of a total of \$40 million) for eligible imports made not

¹⁰ Both the balance of payments and the fiscal targets under the stabilization program assumed that ADB would disburse \$30 million in the fourth quarter of 1994, of which \$15 million would be retroactive financing. (Letter from IMF to ADB, 25 October 1994).

¹¹ *The Bank's Interim Country Operational Strategies in Kazakhstan and the Kyrgyz Republic*, circulated to the Board on 23 December 1993. The strategy recognized that the reform process could be set back without quick-disbursing assistance, because of the social tensions caused by declining living standards, rising unemployment, the shortage of essential goods, and the lack of an adequate social safety net. Accordingly, the strategy gave priority consideration in 1994 to requests for emergency financial assistance.

more than 180 days prior to loan effectiveness. The balance was to be disbursed also from an imprest account liquidated against applications by specific enterprises through five preselected commercial banks. Conditions for disbursement under part B were (i) a maximum of \$2 million equivalent for each application for purchase of foreign exchange, and (ii) a disbursement of no more than \$20 million during the first three months after loan effectiveness, excluding retroactive financing. These conditions were attached to avoid distortions to the foreign exchange auction system and to provide some control over the spread of benefits.

12. The project implementation unit (PIU) that had been established in NAFI in 1993 to implement the World Bank's rehabilitation loan was utilized for the ADB loans. The Ministry of Health (MOH) was the implementing agency for part A. The role of MOH was to (i) prepare the lists of requirements, including quantities and generic technical specifications; (ii) agree on bidding documents prior to their distribution; and (iii) approve the bid evaluation reports of the PIU. It was agreed that three specialized entities would undertake the procurement on behalf of MOH, as well as receive, deliver, and distribute the imports: MedTechnica for the medical equipment, Pharmacia for the medicines,¹² and Techmed for the medical spare parts. These service providers were paid 2 percent of the cost of medical equipment and spare parts and 7 percent of the cost of medicines.

13. The National Bank of Kazakhstan (NBK) was responsible for implementing part B. A loan implementation unit was established within the Division of Foreign Economic Operations for this purpose. Loan proceeds were to be passed to NBK, which would remit corresponding counterpart funds to the Ministry of Finance for budget expenditure. The exchange rate to be used for the calculation of the tenge equivalent was that established by the most recent auction held by the Kazakh Interbank Currency Exchange. Five commercial banks were selected to participate in the Project: Kazdorbank, Kazkommertsbank, Kazkommerts-Ziraat International Bank, Kramdsbank, and Turanbank. These banks were to apply to NBK on behalf of interested enterprises to purchase the foreign exchange proceeds to finance eligible imports.

E. Completion and Self-Evaluation

14. It was expected that the Project would be completed by 31 December 1996. The implementation of Loan 1337-KAZ(SF) (part A) was substantially delayed (para. 26). This necessitated two extensions of the completion date to 31 December 1997, then to 30 April 1998. The loan was closed in August 1998. Loan 1338-KAZ (part B) was closed in January 1996, about one year ahead of schedule (para. 25). A project completion review mission was fielded in May 1999 and the project completion report (PCR) was circulated to the Board in August 1999. The PCR concluded that the Project substantially achieved its objective of supporting the Government's macroeconomic reform program by easing the shortage of foreign exchange needed to finance critical imports for the health and industry sectors. It rated the Project as "generally satisfactory" (i.e., generally successful).

15. Although the PCR provided a good discussion of the implementation of the Project, it did not fully evaluate the impact of Loan 1338-KAZ, which, while partly alleviating the scarcity of foreign exchange, did not contribute as much as it might have to arresting the decline in employment and output (para. 22). The PCR should also have evaluated the impact of delays in part A and the appropriateness of the medical imports (para. 33).

¹² In the event, Pharmacia was replaced by another, unnamed company after Pharmacia's privatization in April 1996, the month the tender process actually started.

F. Operations Evaluation

16. The findings of this project performance audit report (PPAR) are based on the Operations Evaluation Mission to Kazakhstan from 27 September to 6 October 2001 and a review of available documentation. Performance of the Project is assessed on the basis of its contribution to the macroeconomic stabilization and structural reform program and the achievement of project purpose and outputs in terms of relevance, efficacy, efficiency, sustainability, and other impacts, with the weighting for each criterion being 30, 40, 10, 10, and 10 percent, respectively. More weight was given to relevance and efficacy because these are seen as a more valid basis than the other criteria for assessing the performance of quick-disbursing loans provided to address an economic crisis. The financial and economic efficiency of part B (support to enterprises) could have been given more weight. However, neither a financial or an economic analysis was carried out as part of the design, nor were beneficiary enterprises required to provide financial information. Therefore, data for an ex-post financial and economic analysis could not be obtained. Copies of the draft PPAR were submitted for review to the Government of Kazakhstan and concerned ADB departments. Comments received were considered in finalizing the PPAR.

II. PLANNING AND IMPLEMENTATION PERFORMANCE

A. Formulation and Design

17. The Project was consistent with ADB's interim operational strategy for Kazakhstan. Its formulation involved close consultation with IMF and the World Bank. The Project built on the experience of the World Bank's rehabilitation loan of \$180 million, approved in September 1993, which also provided foreign exchange for imports by enterprises and the Government. The Project was similar to and drew on the experience of the Special Assistance Project in Mongolia (footnote 7).

18. Part A (importation of medicines, medical equipment, and medical spare parts) responded to the country's severe shortage of funds, both in terms of budget provision and of foreign exchange to purchase these items. The estimated demand for medicines was around \$300 million per year but state-budgeted funds provided for only \$90 million of this amount in 1994.¹³ Given this funding gap for medicines alone, the decision to use ADB funds (\$20 million) for the purchase of medicines, medical equipment, and medical spare parts, was questionable. However, those involved believed it was necessary to cover the most important needs across all three areas. Part B also addressed an urgent need given the severe contraction in economic activity, output, and employment. The rationale was that a shortage of foreign exchange to purchase inputs was impeding business activity.

19. Finding a balance between providing quick-disbursing assistance to deal with an identified cause of the economic crisis—namely, an external financing gap—and achieving development objectives—improved health status, increased employment, private sector development, etc.—was never going to be easy. To an extent, the goal of providing emergency assistance and achieving medium-term development objectives proved to be incompatible. This has given rise to a lesson for future emergency lending (para. 54).

B. Achievement of Outputs

20. The output of part A was achieved, albeit with delay (para. 26). A list of medicines for importation was included in the RRP (Appendix 4 of the RRP). The MOH was unable to provide information to either the PCR Mission or the Operations Evaluation Mission on the actual medicines imported. However, discussions with former MOH officials indicated that actual purchases generally served the same ends as those listed in the RRP. During project implementation, considerable discussion took place between health officials and ADB representatives over some of the medicines included in the list notwithstanding the RRP statement that "the indicative list of medicines and medical equipment to be financed under part A of the Project was prepared by the MOH." The problems with agreeing on the list of medicines should perhaps have been foreseen, given that previously the great bulk of the country's pharmaceutical products had been sourced from the FSU and its associated states. Therefore, there was a lack of familiarity with alternative products and, in some cases, strong differences of opinion regarding the efficacy of the alternatives. The list of medical equipment purchased, and its distribution, are given in the PCR (Appendix 5 of the PCR) and former MOH officials confirmed the accuracy of this list. There are some differences between the planned for equipment and that actually imported; operating tables, scales for newborn babies, and

¹³ United Nations Development Programme. 1996. *Kazakhstan Human Development Report*.

medical instruments were not purchased. Unplanned items included HIV/AIDS¹⁴ test kits, water treatment equipment, and computerized tomography scanners (Appendix 4 of the RRP and Appendix 5 of the PCR). Medical imports were sourced from 12 member countries of ADB, with Germany accounting for over 50 percent of the supply. The appropriateness of the imports to meet critical needs is discussed in para. 33.

21. The output of part B was imports by enterprises. Analysis conducted by a World Bank procurement consultant was used in the Borrower's PCR and in turn reported in ADB's PCR. Table 1 shows the breakdown of imports.

Table 1: Imports by Type

Type of Import	Value (\$ million)	Percent of Total
Construction Materials	5.83	14.6
Fuel	0.82	2.1
Metallurgy	0.51	1.3
Chemicals (including medicines)	1.03	2.6
Light Industry	11.69	29.2
Food	7.31	18.3
Medical Equipment	0.65	1.6
Other (television, computer, electronics, refrigerators, vehicles, telecommunications)	12.15	30.4
Total	40.00	100.0

Note: Totals have been rounded.

Source: PCR: 1337-KAZ(SF)/1338-KAZ: *Special Assistance Project*, August 1999.

22. The above data do not allow a precise determination of the proportion of imports that were for productive enterprises—that is, those contributing to output and significant employment—compared to imports of consumer items. However, only around 30 percent of the total may have supported manufacturing or industrial activity (calculated on the basis of the share of light industry, metallurgy, and half of the chemical category). NBK provided details of the firms to which foreign exchange was allocated, the amount allocated to each firm, a very general description of the imported goods, and the name of the supplier (Appendix 2). In some cases, the nature of the business can be determined from the enterprise name.¹⁵ In other cases, informed persons provided input. The analysis of this information supports the view that over 70 percent of the funds were used to import consumer goods. Sixty percent of the funds under part B were to go to private sector enterprises. While it has not been possible to establish ownership of all the entities, it appears that most were private sector companies, so the condition was met. Appendix 2 shows that 35 enterprises received foreign exchange under part B, that one company received around 44 percent of the foreign exchange, and that the top 5 companies accounted for 85 percent. Three of the four largest recipients were importers of consumer goods. Some of the largest recipients were well connected politically.

23. The output of the attached TA was expected to be increased knowledge and capability to comply with ADB procedures for procurement, disbursement, and other operational policies. This was largely achieved, albeit with support provided by World Bank consultants rather than the ADB TA (para. 35).

¹⁴ Human immunodeficiency virus/acquired immunodeficiency syndrome.

¹⁵ For example, Eshel Engineering Ltd., Kazimex Importing and Exporting Co., Coca Cola JSC Almaty Bottlers, etc.

C. Cost and Scheduling

24. The actual cost of the Project was \$59.56 million, compared to the appraisal estimate of \$60.00 million. ADB funded \$58.86 million, while the Government provided the local currency equivalent of \$0.70 million. The unexpended balance of \$1.14 million in foreign exchange costs (all part A, Loan 1337-KAZ[Sf]) was cancelled.

25. Part A was completed 18 months behind schedule, while part B was completed around 12 months ahead of schedule. Part A was delayed by problems in procurement (para. 26) while part B was disbursed more rapidly than expected because of changes made to the disbursement process during the first year of implementation (para. 27).

D. Procurement and Disbursement

26. Procurement under part A was delayed, despite attached TA to facilitate the process. Reasons included (i) the Government's slow action in authorizing MOH to act; (ii) frequent changes in staff and organizational structure of the EA and MOH; (iii) requests by MOH to include medicines not approved by ADB, as these were not in the World Health Organization list of essential drugs; (iv) repeated revision of the list of pharmaceuticals and medical equipment; (v) delays in the bidding process; and (vi) the lengthy process involved in mandatory registration of medicines. While the Loan Agreement was ratified in March 1995, the Cabinet of Ministers did not pass a decree to authorize the implementation of the loan until August 1995. MOH considered that it was not authorized to act without this decree. Procurement lists for all three subcomponents were provided only in September 1995 and as late as January 1996, the EA and MOH were still discussing the allocation of part A funds. The RRP statement that the indicative list of medicines had already been approved by MOH (para. 20) proved to be optimistic. ADB review missions made efforts to resolve the problems as did the TA consultant although he could have done more to facilitate progress. To speed up procurement, ADB approved the EA's request to change the procurement mode from international competitive bidding to international shopping. Once agreement was reached on what to purchase and the necessary approvals were in place, procurement proceeded smoothly and the three entities selected for the task (or in the case of Pharmacia, its successor) performed well. Staff interviewed in some of these agencies were very positive about the opportunity provided by the Project for them to experience international procurement practices for the first time. World Bank consultants who supported procurement under the loan confirmed that ADB procedures were followed.

27. The Board approved retroactive financing under Loan 1338-KAZ (part B) for \$15 million against submission of customs receipts. The balance was to be liquidated from an imprest account against approved applications by individual enterprises. In the event, only around \$3 million of an initial \$10 million deposited in the imprest account was liquidated against contracts by specific enterprises. In October 1995, it was agreed that the balance of around \$7 million in the imprest account, and the balance of the loan (\$15 million) could also be disbursed retroactively against customs receipts. By this time, enterprises could purchase foreign exchange directly from the Kazakh Interbank Currency Exchange without having to complete the project documentation requirements. There was a risk that loan funds would not be used, hence the changed disbursement method, which allowed rapid and full disbursement around one year earlier than anticipated. However, an unintended consequence of this change was that there was reduced control over which enterprises received the foreign exchange. Prior to the change, there was an approval process for individual applications. After the change, this was no longer the case.

Consequently, the allocation of most of the foreign exchange to only a few firms and the focus on the import of consumer goods could proceed unchecked.

E. Organization and Management

28. The implementation arrangements were appropriate. Given the realities of the major transformations taking place in the Government and its agencies, including the EA, management of the Project by the EA was adequate. In July 1995, the nominated EA, NAFI, was changed to a newly created organization, the Committee for the Utilization of Foreign Capital, under the Cabinet of Ministers. In July 1997, accountability for this new organization was moved to the Ministry of Finance and later that year the name was changed to the Committee for External Loans. This has now been subsumed within the Ministry of Finance as the Department of Government Borrowing. The frequent restructuring of the EA and consequent loss of staff hampered EA performance. World Bank consultants fortunately monitored the disbursements and imports. For part A, the performance of MOH was initially not satisfactory, but once the required authorizations and agreements were in place, it performed adequately. NBK performed well in its role of implementing agency for part B.

29. All covenants under the loans were fully or partly complied with, albeit with delays in a number of instances (Appendix 3). The compliance was partial in creating the general conditions for managing the Project efficiently and supplying timely records and reports. More TA should have been provided to assist the EA in complying with the reporting requirements. The covenant that all medicines procured be on the World Health Organization list of essential drugs contributed to the delay in implementing part A because MOH personnel were unfamiliar with these drugs, and differences of opinion with ADB mission staff occurred regarding the efficacy of the alternatives and formulations compared to those previously used. The covenant that 60 percent of the funds under part B go to private sector enterprises, though well intentioned, was not helpful as it gave rise to negative consequences (para. 22).

III. ACHIEVEMENT OF PROJECT PURPOSE

A. Operational Performance

30. The goal of macroeconomic stabilization was largely achieved. In 1994 and 1995, real GDP declined by 12.6 percent and 8.2 percent, respectively. However, in 1996, economic growth resumed with a modest increase in real GDP of 0.5 percent, followed by 1.7 percent growth in 1997. Inflation reached a peak of 3,000 percent (annualized rate) in mid-1994. But by the end of 1997, it was down to about 11 percent. During 1994, the exchange rate rose from 6.3 to 54.3 tenge to the United States dollar. Thereafter, the rate of depreciation slowed. The exchange rate was 64.0, 73.3, and 75.6 tenge to the dollar by the end of 1995, 1996, and 1997, respectively. Exports recovered strongly from 1995 on, resulting in a much improved trade balance. The current account deficit as a percent of GDP narrowed from 8.6 percent in 1994 to 3.1 percent in 1995. By 1996, NBK's gross international reserves reached 3.2 months of import cover. Appendix 1 contains additional macroeconomic indicators.

31. Progress was also made in structural reform. Indicators on transition performance from the European Bank for Reconstruction and Development show that the country made moderate to good progress in most areas (Table 2). The World Bank concluded that its assistance was successful in promoting policy reforms: prices and trade were liberalized, much of the economy was privatized, the financial sector was strengthened, and a framework of market-based legislation was put in place.¹⁶ On the other hand, the reforms were accompanied by severe economic and social deterioration: during the 1990s, per capita GDP dropped by 40 percent, poverty grew significantly, major social indicators worsened and public financial accountability remained poor. While acknowledging that without its assistance the situation could have been worse, the World Bank evaluation suggested that the strategy did not focus sufficiently on institutions, protection of the poor, or gender issues. While reform of the public sector was emphasized, efforts to promote rural development were ineffective and there was insufficient early attention paid to environmental sustainability, building domestic capability for monitoring or evaluation and strengthening public financial accountability. The World Bank assessed its country assistance program as partly satisfactory, its contribution to institutional development as modest and its sustainability as uncertain. Although the policy framework improved, privatization worsened social inequities, while the environment for private sector development remained constrained by endemic corruption, excessive government intervention, arbitrary tax enforcement, a relatively small banking sector, a weak regulatory framework, and a poorly functioning judiciary.

¹⁶ World Bank. *Republic of Kazakhstan Country Assistance Evaluation*. 20 February 2001.

Table 2: Transition Performance Ratings for Kazakhstan

Indicator	Performance Rating^a
Price Liberalization	3
Trade Policy and Foreign Exchange System	3
Banking Reform and Interest Rate Liberalization	2+
Securities Market and Nonbank Financial Institutions	2
Competition Policy	2
Legal Transition: Commercial Law: Extensiveness	3+
Legal Transition: Commercial Law: Effectiveness	3
Legal Transition: Financial Regulations: Extensiveness	3
Legal Transition: Financial Regulations: Effectiveness	3-
Privatization: Large-Scale	3
Privatization: Small-Scale	4
Governance and Enterprise Restructuring	2
Infrastructure: Telecommunications	2+
Infrastructure: Railways	2
Infrastructure: Electric Power	3+
Infrastructure: Roads	2
Infrastructure: Water and Waste Water	1+

^a The rating is from 1 to 4+ with 4+ indicating the most progress.

Source: European Bank for Reconstruction and Development Transition Indicators, 1999.

32. The Project contributed to alleviating the external financing gap to some extent. However, the balance-of-payments crisis had largely been overcome by the time disbursements for Loan 1338-KAZ started in March 1995. The Project did not contribute to bridging the external financing gap that existed in 1994, as was envisaged (footnote 8). By the second half of 1995, it was clear that foreign exchange was much more freely available, as a result of the boost in export receipts, increased foreign direct investment, and disbursements from IMF, the World Bank, and other funding agencies. The disbursement under Loan 1337-KAZ(SF) from 1996 to 1998 came at a time when the balance-of-payments crisis no longer existed. Notwithstanding this reality, ADB's commitment to provide funding had a beneficial effect of providing a degree of confidence that the problem would be resolved.

33. Loan 1337-KAZ(SF) achieved its purpose of easing the critical shortage of medicines, medical equipment and medical spare parts, albeit with delay. Also, the purchases made were not entirely appropriate to the health needs of the time, nor were they particularly targeted to the poor. An assessment by a medical specialist indicates that (i) a significant proportion related to medium or advanced care, (ii) the purchases made principally served the needs of urban residents, and (iii) the specific needs of vulnerable groups such as women or children were not directly addressed.

34. Loan 1338-KAZ made only a limited direct contribution to arresting the decline in employment, production, and capacity utilization. The requirement that 60 percent of the foreign exchange go to the private sector had the unintended impact of directing the preponderance of resources to entities engaged in importing consumer items rather than to those involved in manufacturing (para. 22). Thus, the immediate impact on employment and output was smaller than expected. Because enterprise-specific data could not be obtained for the firms that received foreign exchange under part B, no estimates could be made on the extent to which employment was supported. However, anecdotal evidence indicates that a

number of the principal recipients have now become diversified conglomerates employing many people. Also, while the immediate impact on employment and output may have been less than envisaged, the successful macroeconomic stabilization helped create the conditions for growth in the longer term.

B. Technical Assistance

35. The supporting TA was largely unsuccessful in achieving its purpose. It was relevant in terms of addressing a need but inadequate in terms of quality, scope, and duration. Only a limited amount of training was provided. There was a perception that the resident adviser could have done more to help resolve the blockage in initiating procurement under part A. The resident adviser's knowledge of procurement was inadequate. The consulting company provided useful input from its head office, but this was not sufficient to overcome the deficiencies in the performance of the adviser. ADB should have requested that the firm replace the adviser. Because of the delays in initiating procurement, the resident adviser finished his assignment before procurement actually took place. Therefore, his input was limited to providing support to the early stages of the process and to providing a limited amount of training. Given the delays, a decision should have been made to split the assignment into two or even more periods in order to provide support at all stages of the procurement process. Fortunately, World Bank consultants were able to provide support after the ADB-funded consultant finished his assignment.

36. Lending to a country in the early stages of a macroeconomic stabilization and structural reform program is likely to require a substantial amount of TA support. In particular, support should have been provided for monitoring and evaluation. Although this was included in the resident adviser's terms of reference, it was not realistic to expect a procurement specialist to carry out this specialized task or to dedicate sufficient time to it, particularly in the ever-changing environment of ongoing reform. Furthermore, the delays in procurement meant the specialist was no longer there to perform the task.

IV. ACHIEVEMENT OF OTHER DEVELOPMENT IMPACTS

A. Socioeconomic Impact

37. The Project had a modest positive socioeconomic impact. It supported economic activity, largely through supporting consumption, and it provided needed medical supplies. However, this impact was smaller than it might have been for three reasons. First, the import of medical supplies was delayed, by which time the problem the imports were intended to solve was less acute, although still present. Second, the medical supplies met a mix of basic needs and more advanced care rather than being targeted to basic needs or those of vulnerable groups. Third, the foreign exchange provided to enterprises favored imports of consumer items over imports to manufacturing, so there was less immediate impact on employment and output than there could have been. The structural reform program produced some negative social impacts in the short- to medium-term (para. 31). More efforts to mitigate these impacts were required.

B. Environmental Impact

38. There is no indication that the Project had any significant negative environmental impact. However, it is not possible to be certain about this, as no environmental monitoring took place. The medicines, medical equipment, and medical spare parts are unlikely to have produced any negative impact. The imports under part B are not specified in enough detail to determine possible environmental impact. The bulk of the imports under part B were consumer items.

C. Impact on Institutions and Policy

39. The Project contributed to institutional strengthening. Strong positive benefits were derived by import agencies, such as MedTechnica, which were exposed to international procurement processes for the first time. The Project also led to the establishment of a number of supplier relationships and local service support facilities that remain to this day. Staff members of the EA and implementing agencies gained new skills and experience. In the case of NBK, this has contributed to institutional strengthening. In other cases, major restructuring, including the disappearance of the EA, meant that those who gained new skills as a result of the Project have become widely dispersed, and clearly identifiable enhanced institutional capacity is not apparent. The Project may have had a minor impact on the development of national legislation and regulations on procurement, but the major support for this came from World Bank consultants.

V. OVERALL ASSESSMENT

A. Relevance

40. The Project is rated as relevant, but close to being highly relevant. It was relevant at the time of formulation. It had a good strategic fit with the country's development strategy (as enunciated in the letter from the Deputy Prime Minister [Appendix 2 of the RRP]) and ADB's interim operational strategy. The rationale for supporting the macroeconomic stabilization and structural reform program was strong. The relevance of addressing a shortage of foreign exchange was high during processing in 1994 although the provision of such balance-of-payments support is generally not ADB's role. Relevance was somewhat lower when implementation started as the shortage of foreign exchange had largely been overcome by this time. ADB's presence helped restore confidence in the transforming economy. The relevance of supporting economic activity and the newly established national currency was high.

41. Part A was relevant to the country's needs. However, since ADB's contribution was modest in relation to the needs for medicines alone (para. 18), the decision to spread these resources across the three categories of medical imports can be questioned. A more focused approach (perhaps on certain priority health needs, such as tuberculosis) could have increased the relevance of part A. This could also have helped ensure that the imports addressed basic needs and those of more vulnerable groups (para. 33).

42. Part B was also relevant to the country's needs. However, requiring that at least 60 percent of the funds go to private sector enterprises, while well intentioned, produced the unintended impact of directing resources away from firms that supported employment and output. The Project took place early in the transition process, when the private sector was very narrowly based and regulation largely nonexistent, so a few enterprises owned by those with good connections were able to capture most of the benefits. At the time, few private firms were engaged in output-oriented activity such as manufacturing. Enterprises in the public sector that were candidates for privatization could have been supported to provide a more immediate impact on output and employment.

43. In terms of changes to improve relevance during implementation, ADB reacted flexibly by approving simplified procurement procedures to expedite disbursements under both parts of the Project. However, under part B at least, this produced some unintended negative consequences (para. 22).

44. Relevance in terms of stakeholder participation and ownership was high. Given the situation prevailing at the time, the participation of the Government and hence the ownership of the Project was good. Funding agency coordination during project preparation and implementation was excellent, in particular with IMF and the World Bank.

B. Efficacy

45. The Project is rated as efficacious, but close to less efficacious. The macroeconomic stabilization program was effective and structural reforms partly so. Balance-of-payments support was provided. Part A was eventually partly efficacious in addressing the shortage of medicines and medical equipment, though it was not entirely targeted on the needs of the poor or priority health issues (para. 33). Part B was partly efficacious in producing a direct impact on output and employment (para. 34) although the distribution of foreign exchange among firms

was very narrow (para. 22). Indirectly, the success of the macroeconomic stabilization program and progress with structural reform helped create the conditions for a recovery in output and employment.

46. The supporting TA was largely ineffective. Training of EA staff started late and the TA was over before procurement started. The resident adviser lacked both general knowledge of procurement and specific knowledge of the procurement of medicines and medical equipment. Also, he was not able to contribute effectively to resolving the blockage in initiating procurement (para. 35).

C. Efficiency

47. The Project is rated as less efficient, but close to efficient. Part A was inefficient in terms of timeliness of disbursements because disbursement was delayed by 18 months. On the other hand, part A was cost efficient, as procurement followed standard international shopping procedures. This ensured economy and efficiency of purchases, and thus cost-effectiveness in the utilization of ADB funds. Financial and economic efficiency could not be determined (para. 16). Numerous reorganizations, a relocation of offices, and frequent changes of staff resulted in some inefficiencies in implementation.

48. Part B was efficient in terms of timeliness of disbursement of funds. Loan proceeds were disbursed ahead of schedule as a result of changed disbursement procedures. The funds were utilized in a cost-effective manner, as procurement was handled by the private sector following standard commercial practice.

D. Sustainability

49. The sustainability of the Project is assessed as likely in terms of the country's ability to avoid similar crises. The World Bank assessed the sustainability of its overall country assistance program as uncertain (para. 31). The Kazakh economy, while currently in good shape, is vulnerable to external shocks, as shown by the impact of the Russian financial crisis of mid-1998. The country's economic well-being depends significantly on the world price of oil and metals, its major exports. Meanwhile, progress on structural reforms is mixed with delays in privatization and the adoption of important fiscal measures, and stagnation in land and social sector reform. Major problems remain in governance. The fiscal position of the Government is much improved, but depends heavily on oil and other mineral receipts. Currently, the country is able to meet its needs for medicines and medical equipment and for the foreign exchange required for imports, but sustainability depends on reducing dependence on a few commodity exports.

E. Institutional Development and Other Impacts

50. Few other impacts were attributable to the Project. The purchasing agencies gained useful experience in international trade. Individuals in the EA and implementing agencies also gained knowledge, but because of frequent restructuring and staff transfers the impact at the institutional level was not very apparent. The Project had only a limited impact on poverty reduction. There were no identifiable negative environmental impacts.

F. Overall Project Rating

51. The Project is assessed as successful although it is close to the partly successful category. The Project supported macroeconomic stabilization and structural reform through quick disbursement at the same time it sought to achieve immediate development objectives. To an extent, these twin thrusts worked against each other (para. 54).

G. Assessment of ADB and Borrower Performance

52. The performance of ADB was satisfactory. In particular, ADB reacted flexibly to a changing situation in the course of implementation, which facilitated disbursements. However, in the TA component ADB could have been more responsive to the need to replace the resident adviser and to provide for split inputs. ADB should have also paid greater attention to the distribution of benefits. The performance of the EA and implementing agencies was satisfactory. The performance of MOH was less than satisfactory in terms of the front-end delays that occurred, but once procurement started, its performance was satisfactory.

VI. ISSUES, LESSONS, AND FOLLOW-UP ACTIONS

A. Key Issues for the Future

53. The key issue that emerges is whether special assistance lending, such as that provided by Loans 1337-KAZ(SF) and 1338-KAZ, adds sufficient value to justify this type of lending by ADB. Based on the experience of this Project, there is no clearcut answer. While ADB's contribution of funds to macroeconomic stabilization and structural reform was less than 5 percent of the total provided by external funding agencies over the period, the presence of ADB had an important impact as a statement of confidence. On the other hand, ADB might be better advised to stick to its normal role of supporting sector-level development and leave support for macroeconomic reform to IMF. If it is decided that ADB should respond to a major economic crisis in a developing member country, the special program loan modality introduced as of 1 January 2000 can be considered.¹⁷

B. Lessons Identified

54. The main lesson is that a timely response to an economic crisis may not be consistent with the achievement of immediate development objectives. First and foremost, the Project attempted to address an identified critical shortage of foreign exchange through quick disbursement. Second, it sought to achieve a number of development objectives—namely, arresting the decline in living standards through meeting basic needs for medicines, medical equipment, and medical spare parts; and supporting imports by enterprises to halt the decline in output and employment. To an extent, the two thrusts proved to be incompatible. The achievement of development objectives was predicated on adherence to a number of conditions—imports of medical items against a positive list and approval of individual applications by enterprises. However, these conditions caused delays that worked against quick disbursement. On the other hand, the Project demonstrated that rapid disbursement reduces control, which may result in less-than-expected or unevenly distributed development impacts.

55. The second lesson is that care should be taken in the selection of conditions, particularly in a rapidly changing situation such as during the early stages of transition, because unintended and negative consequences may result. The requirement to allocate at least 60 percent of loan proceeds to enterprises in the private sector, while a sound policy in other circumstances, was made with an inadequate understanding of the structure of the private sector in Kazakhstan at the time. Even where conditions are sound, sufficient capacity must exist for them to be met and monitored. In situations of economic crisis and reform, substantial TA is likely to be required to mitigate the risk posed by weak institutional capacity, and to ensure effective monitoring and evaluation of implementation and impact.

56. A third lesson is that emergency lending is likely to require a higher level of ADB support and supervision than normal lending activities. Moreover, special assistance projects such as Loans 1337-KAZ(SF)/1338-KAZ, which were the first loans to the country, should be used to build relationships and set directions for future lending and not simply be an end in themselves. This in turn indicates a need for more input by ADB, including supporting TA, than perhaps required by the project itself. It also highlights the desirability of establishing a representative office in a country early in a transition or reform process, when local capacity is

¹⁷ R210-99: *Review of ADB's Program Lending Policies*, 22 November.

at its weakest. ADB's decision to have a representative in East Timor is a good response based on the experience with Kazakhstan.

C. Follow-Up Action

57. No follow-up action is required.

APPENDIXES

Number	Title	Page	Cited on (page, para.)
1	Key Economic and Social Indicators	16	1, 1
2	List of Contracts Financed Under Part B	17	6, 22
3	Status of Compliance with Loan Covenants	21	8, 29

KEY ECONOMIC AND SOCIAL INDICATORS

Indicator	1995	1996	1997	1998	1999	2000
Income and Growth						
Real Growth in GDP	(9.2)	(12.6)	(8.2)	0.5	1.7	(1.9)
Year-end Inflation Rate	2,169.0	1,160.0	60.4	28.6	11.3	1.9
Overall Budgeted Deficit Excluding Privatization Receipts	4.1	7.5	3.2	5.3	7.0	7.7
Privatization Receipts	—	—	0.7	2.2	3.2	4.3
Share of GDP						
Industry	28.6	29.1	23.5	21.2	21.4	24.4
Agriculture	16.3	14.9	12.3	12.2	11.4	8.6
Construction	8.3	9.6	6.5	4.4	4.3	4.5
Transport and Communications	10	11.2	10.7	11.3	11.7	9.3
Trade and Catering	10.4	12.1	17.2	17.3	15.6	17.2
Others	26.4	23.1	29.8	33.6	35.6	36.0
Labor and Employment						
Labor Force	7.0	7.1	7.4	7.5	7.4	7.1
Average Wage	—	42.5	81.4	100.0	113.2	118.5
Real Growth of Average Wages (1991=100)	49.1	32.9	33.4	34.4	36.6	38.7
Registered Unemployment Rate	0.6	1.1	2.1	4.2	3.8	3.7
Demographic Indicators						
Total Population	16.5	16.3	15.8	15.6	15.3	15.1
Life Expectancy at Birth	65.4	64.9	63.5	63.6	64.0	64.0
Male Life Expectancy at Birth	60.3	60	58.4	58.5	59.0	—
Female Life Expectancy at Birth	70.8	70.4	69.5	70	70.2	—
Literacy Level of Adult Population	98.4	98.7	99.0	99.0	99.0	99.0
Infant Mortality Rate (Per Thousand Live Births)	28.1	27.1	27	25.4	24.9	21.6
Maternal Mortality Rate (Per Hundred Thousand Live Births)	49.4	48.4	57.6	52.9	59.0	54.9
Share of Births to Unmarried Mothers (% of Total Live Births)	13.4	14.5	15.7	17.6	21.0	21.8
Basic Education Enrollment	94.0	93.6	94.3	94.6	93.7	93.2
Pre-primary Enrollment	40.9	30.7	24.6	—	11.7	11.0
General Secondary Enrollment	28.0	26.1	25.7	29.3	33.3	—
Sectoral Composition of Capital Investment ^a						
For Production Facilities	—	72.8	75	77.4	74.5	—
For Nonproduction Facilities	—	27.2	25.1	22.6	25.5	—
Summary Accounts of NBK						
Net International Reserves	—	49,555	73,277	101,925	116,176	114,584
Foreign Exchange	—	29,046	42,748	53,067	71,830	72,980
Gold	—	20,509	33,530	48,858	44,346	41,604
Reserve Money	—	33,351	63,954	75,184	86,893	91,983
Currency Outside NBK						
Held by Public	—	20,255	47,998	92,812	74,221	80,022
Held by Commercial Banks	—	337	645	1,457	3,156	4,036
Balance of Payments						
Merchandise Trade Balance	3,586	3,285	5,440	6,292	6,899	5,871
Current Account Balance	(5,146)	(4,205)	(5,326)	(6,627)	(7,176)	(6,672)
	(1,560)	(920)	114	(335)	(277)	(801)
Current Account Balance	(1,073)	(905)	(213)	(751)	(799)	(1,236)
Foreign Direct Investments	1,096	635	964	1,137	1,320	1,143
Gross Official Reserves						
	—	1.5	3.2	3.2	3.1	3.2
Government Budget						
Revenue	37.0	23.9	18.8	17.5	15.4	16.5
Expenditure	43.5	25.2	25.9	19.9	18.6	20.3
Balance	(6.5)	(1.3)	(7.1)	(2.4)	(3.2)	(3.8)

— = not available, FOB = free on board, GDP = gross domestic product, NBK = National Bank of Kazakhstan.

^a In current prices, as percent of total investments.

Sources: National Statistical Agency, National Bank of Kazakhstan, United Nations Development Programme, International Monetary Fund.

LIST OF CONTRACTS FINANCED UNDER PART B

No.	Number and Date of Concluding a Contract	Supplier	Supplier's Bank	Buyer	Buyer's Bank	The Contract Object	Total Amount of Contract
1.	No.R069-94 of 31/10/94	Golden Mill Trading, USA	Chemical Bank, USA	Synthesis Ltd.	Kazkommertsbank	Office equipment	\$200,000
2.	Of 10/3/95	Procter and Gamble Eastern Europe Service GmbH, Germany	Commerzbank AG Mainz, Germany	Resmi Group Ltd.	Kazkommertsbank	Goods	DM300,000 (\$214,605.81)
3.	No.P-2/95 of 31/1/95	Procter and Gamble Eastern Europe Service GmbH, Germany	Commerzbank AG Mainz, Germany	Butya JSC	Kazkommertsbank	Goods	\$1,000.000 (\$664,916.89) ^a
Subtotal for Kazkommertsbank:							\$1,079,522.70
4.	Of 3/4/95	Sony Europe International, Germany	Commerzbank Frankfurt AG, Germany	Zhardem	Kazdorbank	Goods	DM700,000 (\$507,014.68)
5.	No.1/4-/95NY	World Business Network, USA		Kazbaits Ltd. Joint Venture	Kazdorbank	Goods	\$870,000
6.	No.36/11-00182 of 15/5/95	International Versandhandel Victor Losing, Germany		Arai	Kazdorbank		\$400,000
7.	No.021/MT/95 of 13/4/95	Renko S.P.A, Italy	Banca Commerciale Italiana, Italy	Solyaris	Kazdorbank	Equipment	\$39,250
8.	No.QG-ALM-95-1/04	Carrier Transcontinental Co. Ltd., England	Lloid Bank, England	Eshel Engineering Ltd.	Kazdorbank	Goods	\$20,760
9.	No.QG-ALM-95-2/03	Carrier Transcontinental Co. Ltd., England	Lloid Bank, England	Eshel Engineering Ltd.	Kazdorbank	Goods	\$46,183
10.	No.QG-ALM-95-5/03	Carrier Transcontinental Co. Ltd., England	Lloid Bank, England	Eshel Engineering Ltd.	Kazdorbank	Goods	\$11,232
11.	No.KMM-950303 of 3/4/95	Matsushita Electric Industrial Co. Ltd., Japan	Okobank, Finland	Zhardem	Kazdorbank	Goods	\$107,264

^a The contract amount in US dollars has been determined by the NBK exchange rate as of the date of concluding the contract.

No.	Number and Date of Concluding a Contract	Supplier	Supplier's Bank	Buyer	Buyer's Bank	The Contract Object	Total Amount of Contract
12.	No.10/95/T of 28/2/95	Sun Counter PTE Ltd.	United Overseas Bank, Singapore	A.K.Tulepov	Kazdorbank	Goods	\$235,000
13.	No.R079-94 of 19/12/94	Golden Mill Trading, USA		Prosliryakov Enterprise	Kazdorbank		\$100,000
14.	No.9 of 10/4/95	Wisewell, Ltd., USA	Bank Ona Columbus, USA	Life Corporation	Kazdorbank	Goods	\$200,000
15.	No.95/02/01/115	Hendri Gras B.V.		ORA Co.	Kazdorbank		\$329,225
Subtotal for Kazdorbank:							\$2,865,928.68
16.	No. 7-09/94NY of 19/09/94	World Business Network, USA	Chemical Bank, USA	Kazbaitis Ltd. Joint Venture	Turanbank	Goods	\$250,000
17.	No.94011 of 24/11/94	Volvo Truck Corporation, Sweden		Business Dos Ltd.	Turanbank	Goods	\$570,000
18.	No.AL/959125 of 25/1/95	Future Enterprises PTE Ltd.		ATD Ltd.	Turanbank		\$1,580,000
Subtotal for Turanbank:							\$2,400,000
19.		Exsa Export, Turkey	Akbank, Turkey	Eraidyn	KZI bank	Goods	\$103,462
20.	No.37 of 1/2/95	ETI, Turkey		Chaary Co. Ltd.	KZI bank	Goods	\$88,405
21.		ULKER, Turkey		Kherkyul JSC	KZI bank	Goods	\$259,435
22.		KENT, Turkey		Sadakat Enterprise	KZI bank	Goods	\$88,420
23.	No.A-050 of 15/8/94	Agacis, Turkey	FB Finnansbank, Switzerland	Alga PLtd.	KZI bank	Goods	\$53,911
24.		BETA Elektronik, Turkey		BETA-Kazakhstan	KZI bank	Goods	\$88,010
25.	No.24 of 2/1/95	ETI, Turkey		Chaary Co. Ltd.	KZI bank	Goods	\$99,795

No.	Number and Date of Concluding a Contract	Supplier	Supplier's Bank	Buyer	Buyer's Bank	The Contract Object	Total Amount of Contract
26.	Of 13/1/95	ATLAS, Turkey		Atlas Joint Venture	KZI bank	Goods	\$237,500
27.	No.00003 of 1/3/95	Nessash-Taakhiot, Turkey		Boy-Arrow Co.	KZI bank	Goods	\$17,440
28.	No.6 of 28/11/94	Ankara Un Sanayi A.Sh., Turkey	Baagat Ziraat Bank Shubessi, Turkey	Alanka	KZI bank	Goods	\$200,000
29.	No.1 of 15/12/94	BESTAS, Turkey	T.C. Ziraat Bankasi, Turkey	Kazimex Importing and Exporting Co.	KZI bank	Goods	\$10,000,000
30.	Of 10/2/95	Kent Bakarat Gida, Turkey		Kervan Ltd.	KZI bank	Goods	\$23,700
31.	No.95/03/38 of 21/3/95	Yefes Synai Yatyrym, Turkey	TRK Dysh Tidzharet Bankasy, Turkey	Coca-Cola JSC Almaty Bottlers	KZI bank	Goods	\$108,153
32.	No.95/03/33 of 7/3/95	Yefes Synai Yatyrym, Turkey	TRK Dysh Tidzharet Bankasy, Turkey	Coca-Cola JSC Almaty Bottlers	KZI bank	Goods	\$79,813
33.	No.95/03/32 of 7/3/95	Yefes Synai Yatyrym, Turkey	TRK Dysh Tidzharet Bankasy, Turkey	Coca-Cola Almaty Bottlers	KZI bank	Goods	\$67,596
34.		ULKER, Turkey		Kherkyul JSC	KZI bank	Goods	\$410,000
35.	No.24744 of 7/10/94	Kodzhapabuch Ayakkabi, Turkey		Eraidyn	KZI bank	Goods	\$142,646
36.	No.7 of 14/2/95	Dzhessa Saniy Ureleri, Turkey	Ziraat Bankasy Adana Shubessi, Turkey	Alanka	KZI bank	Equipment	\$84,000
37.	No.18/95-SU of 5/4/95	Arkadia Investment Group Co.	Inkombank	Interprogress	KZI bank	Medicines	\$250,000
38.	No.1 of 1/3/95	Anadolu	Garanti bank	Ana food machineries	KZI bank	Equipment	\$2,000,000
Subotal for KZI bank:							\$14,402,285.50

No.	Number and Date of Concluding a Contract	Supplier	Supplier's Bank	Buyer	Buyer's Bank	The Contract Object	Total Amount of Contract
39.	No.1 of 14/10/94	Step deri tekstil insaat taahur ve dustic		Khilal Ltd.	Kramdsbank	Goods	\$1,000,000
Total for Kramdsbank:							\$1,000,000
40.	No.95/1603 of 13/4/95	SCHMITZ-ANHANGER		Business Dos Ltd.	The bank is not indicated in the contract	Semi-trailers	DM410,000 (\$298,482.65)
41.	No.17/03 of 20/3/95	ABR		Butya Co. Ltd.	The bank is not indicated in the contract	Goods	\$17,000,000
42.	No.24/5-95 of 12/5/95	Paster Merye Serums and Vaccines	Credit Anstalt Bankverein Wien	Albedo	The bank is not indicated in the contract	Medicines	\$3,043,350
43.	No.A2/95 of 18/2/95	Akcha Ich Ve Dysh Tidzharet Ltd. Shirket	Vereins – und Westbank Hamburg	Barakat Co. Ltd.	The bank is not indicated in the contract	Goods	\$52,718
44.	No.4/1 of 14/2/95	Conti elektirli ev aletleri san. Ve tic.a.s.		Geneks Ltd. Joint Venture	The bank is not indicated in the contract	Goods	\$27,046
45.	No.5/2 of 15/3/95	Geneks ic ve dic ticaret a.s.		Geneks Ltd. Joint Venture	The bank is not indicated in the contract	Goods	\$4,980
46.	No.3 of 21/11/94	Akhmad Fatanat Fard Khagikhi		Star Mod Kazakhstan	The bank is not indicated in the contract	Goods	\$60,000
47.	No.001 of 10/4/95	Dzhan Gyda San ve Dysh Tidzharet		KAZDIL-Alma-Ata-Kazakhstan	The bank is not indicated in the contract	Goods	\$500,000
48.	Of 20/4/95	Fruko-Tamek meyva sulari sanayii a.s.		NIMEX	The bank is not indicated in the contract	Foodstuffs	\$80,000
Subtotal for other contracts:							\$21,066,577
TOTAL							\$42,814,313

STATUS OF COMPLIANCE WITH LOAN COVENANTS

Table A3.1: (Part A) Loan 1337-KAZ(SF): Special Assistance Project

Covenant	Reference to Loan Agreement	Status at Completion	Status at Operations Evaluation
1. The Borrower will cause the Project to be carried out with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental, and medical practices.	Loan Agreement, Article IV, Section 4.01 (a).	Complied with.	Partly complied with. In light of disruptions of reforms that took place, adequate performance.
2. The Borrower will make available, promptly as needed, the funds, facilities, services, and other resources that are required, in addition to the proceeds of the Special Operations Loan and the Ordinary Operations Loan, for the carrying out of the Project.	Loan Agreement, Article IV, Section 4.02.	Delayed compliance.	Delayed compliance.
3. The Borrower will ensure that the activities of its departments and agencies with respect to carrying out the Project are conducted and coordinated in accordance with sound administrative policies and procedures.	Loan Agreement, Article IV, Section 4.03.	Complied with.	Complied with.
4. The Borrower will maintain, or cause to be maintained, records and documents adequate to identify the priority items financed out of the proceeds of the Special Operations Loan and to indicate the progress of the Project.	Loan Agreement, Article IV, Section 4.04.	Complied with.	Partly complied with. Shift of the capital to Astana and restructuring of departments has resulted in files not being retrievable.
5. The Borrower will insure, or cause to be insured, the goods to be imported for the Project and to be financed out of the proceeds of the Special Operations Loan against hazards incident to the acquisition, transportation, and delivery thereof to the place of use or installation, and for such insurance any indemnity will be payable in a currency freely usable to replace or repair such goods.	Loan Agreement, Article IV, Section 4.05.	Complied with.	Complied with.
6. The Borrower will furnish to the Asian Development Bank (ADB) all such reports and information as ADB reasonably request concerning (i) the Special Operations Loan, and the expenditure of the proceeds and maintenance of the service thereof; (ii) the priority items financed out of the proceeds of the	Loan Agreement, Article IV, Section 4.06 (a).	Complied with.	Complied with, but with delays in some cases.

Covenant	Reference to Loan Agreement	Status at Completion	Status at Operations Evaluation
<p>Special Operations Loan; (iii) the Project; (iv) the administration, operation, and financial condition of the agencies of the Borrower responsible for the carrying out of the Project, or any part thereof; (v) financial and economic conditions in the territory of the Borrower and the international balance-of-payments position of the Borrower; and (vi) any other matters relating to the purposes of the Special Operations Loan.</p>			
<p>7. Without limiting the generality of the foregoing, the Borrower will furnish, or cause to be furnished, to ADB brief monthly and detailed quarterly reports on the carrying out of the Project. Such reports will be submitted in such form and in such detail and within such a period as ADB reasonably requests, and will indicate, among other things, progress made and problems encountered during the period under review, steps taken or proposed to be taken to remedy these problems, and the proposed program of activities and expected progress during the following period.</p>	<p>Loan Agreement, Article IV, Section 4.06 (b).</p>	<p>Partly complied with.</p>	<p>Partly complied with.</p>
<p>8. Promptly after the closing date for withdrawals from the loan account, but in any event not later than six (6) months thereafter or such later date as may be agreed for this purpose between the Borrower and ADB, the Borrower will cause the project implementation unit (PIU) to prepare and furnish to ADB a report, in such form and in such detail as ADB will reasonably request, on the execution of the Project, including its cost, the performance by the Borrower of its obligations under this Loan Agreement and the accomplishment of the purposes of the Project.</p>	<p>Loan Agreement, Article IV, Section 4.06 (c).</p>	<p>Complied with.</p>	<p>Complied with.</p>
<p>9. The Borrower shall ensure that the PIU is responsible for implementing part A of the Project.</p>	<p>Loan Agreement, Schedule 6, para. 1.</p>	<p>Complied with.</p>	<p>Complied with.</p>

Covenant	Reference to Loan Agreement	Status at Completion	Status at Operations Evaluation
<p>10. MedTechnica and Pharmacia will be responsible for preparing technical specifications for priority items and for distributing within Kazakhstan the priority items imported under Part A of the Project. The PIU will assist MedTechnica and Pharmacia in preparing technical specifications and other documentary requirements for procurement of medical equipment, medicines, and spare parts under part A of the Project, including advice about advertising requirements, preparation of bid documents, invitation and evaluation of bids, and preparation of contracts. The PIU shall ensure that all concerned agencies, including the Ministry of Health, MedTechnica, and Pharmacia, comply with ADB's procurement and project administration requirements.</p>	<p>Loan Agreement, Schedule 6, para. 2.</p>	<p>Complied with.</p>	<p>Complied with. Pharmacia was replaced by another organization.</p>
<p>11. The PIU will coordinate with concerned ministries and agencies to ensure consistent and timely implementation of the Project and will provide necessary management and administration services.</p>	<p>Loan Agreement, Schedule 6, para. 3.</p>	<p>Complied with.</p>	<p>Partly complied with, but not on time.</p>
<p>12. The Borrower will ensure that all medicines and medical equipment imported as priority items are delivered to the correct destinations and used for the intended purposes.</p>	<p>Loan Agreement, Schedule 6, para. 5.</p>	<p>Complied with.</p>	<p>Complied with.</p>
<p>13. The Borrower will ensure that all medicines to be procured under part A of the Project shall be included on World Health Organization's List of Essential Drugs, as such list may be amended from time to time.</p>	<p>Loan Agreement, Schedule 6, para. 6.</p>	<p>Complied with.</p>	<p>Complied with.</p>
<p>14. In order to avoid delays in procurement of priority items, the Borrower will ensure that all suppliers of priority items may benefit from a fast-track registration process and that it is not necessary for the purpose of such registration for such suppliers to comply with minimum time limits for establishment within the territory of the Borrower.</p>	<p>Loan Agreement, Schedule 6, para. 7.</p>	<p>Complied with.</p>	<p>Complied with.</p>

Table A3.2: (Part B) Loan 1338-KAZ: Special Assistance Project

Covenant	Reference to Loan Agreement	Status at Completion	Status at Operations Evaluation
1. The Borrower will cause the Project to be carried out with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental, and medical practices.	Loan Agreement, Article IV, Section 4.01 (a).	Complied with.	Complied with.
2. The Borrower will make available, promptly as needed, the funds, facilities, services, and other resources that are required, in addition to the proceeds of the Special Operations Loan and the Ordinary Operations Loan, for the carrying out of the Project.	Loan Agreement, Article IV, Section 4.02.	Complied with.	Complied with.
3. The Borrower will ensure that the activities of its departments and agencies with respect to the carrying out of the Project are conducted and coordinated in accordance with sound administrative policies and procedures.	Loan Agreement, Article IV, Section 4.03.	Complied with.	Partly complied with.
4. The Borrower will maintain, or cause to be maintained, records and documents adequate to identify the priority items financed out of the proceeds of the Special Operations Loan and to indicate the progress of the Project.	Loan Agreement, Article IV, Section 4.04 (a).	Partly complied with, as no proper records on goods procured under part B were maintained.	Partly complied with.
5. The Borrower will enable ADB representatives to inspect any relevant records and documents.	Loan Agreement, Article IV, Section 4.04 (b).	Complied with.	Most documents and records were inaccessible and could not be inspected by the Operations Evaluation Mission (OEM), due to organizational changes and the move of the capital.
6. The Borrower will insure, or cause to be insured, the goods to be imported for the Project and to be financed out of the proceeds of the Special Operations Loan against hazards incident to the acquisition, transportation, and delivery thereof to the place of use or installation,	Loan Agreement, Article IV, Section 4.05.	Complied with.	Complied with.

Covenant	Reference to Loan Agreement	Status at Completion	Status at Operations Evaluation
and for such insurance any indemnity shall be payable in a currency freely usable to replace or repair such goods.			
7. The Borrower will furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the Special Operations Loan, and the expenditure of the proceeds and maintenance of the service thereof; (ii) the priority items financed out of the proceeds of the Special Operations Loan; (iii) the Project; (iv) the administration, operation, and financial condition of the agencies of the Borrower responsible for the carrying out of the Project, or any part thereof; (v) financial and economic conditions in the territory of the Borrower and the international balance-of-payments position of the Borrower; and (vi) any other matters relating to the purposes of the Special Operations Loan.	Loan Agreement, Article IV, Section 4.06 (a).	Complied with.	Partly complied with.
8. Without limiting the generality of the foregoing, the Borrower will furnish, or cause to be furnished, to ADB brief monthly and detailed quarterly reports on the carrying out of the Project. Such reports will be submitted in such form and in such detail and within such a period as ADB shall reasonably request, and will indicate, among other things, progress made and problems encountered during the period under review, steps taken or proposed to be taken to remedy these problems, and the proposed program of activities and expected progress during the following period.	Loan Agreement, Article IV, Section 4.06 (b).	Partly complied with, as no progress report was submitted after the departure of the TA consultants.	Partly complied with.
9. Promptly after the closing date for withdrawals from the loan account, but in any event not later than six (6) months thereafter or such later date as may be agreed for this purpose between the Borrower and ADB, the Borrower will cause the PIU to prepare and furnish to ADB a report, in such form and in such detail as ADB will reasonably request, on the execution of the Project, including its cost, the performance by the Borrower of	Loan Agreement, Article IV, Section 4.06 (c).	Complied with.	Complied with.

Covenant	Reference to Loan Agreement	Status at Completion	Status at Operations Evaluation
its obligations under this Loan Agreement, and the accomplishment of the purposes of the Project.			
10. The Borrower will ensure that the National Bank of Kazakhstan (NBK) is responsible for implementing part B of the Project.	Loan Agreement, Schedule 4, para. 1.	Complied with.	Complied with.
11. The Borrower will cause NBK to establish a loan implementation unit (LIU) within NBK's Division of Foreign Economic Operations with primary responsibility for implementation of part B of the Project, including liaison and coordination with the participating commercial banks. The LIU will be staffed by at least three officials from NBK's Division of Foreign Economic Operations, who will be engaged on a part-time basis in implementing part B of the Project.	Loan Agreement, Schedule 4, para. 2.	Complied with.	Complied with.
12. The National Agency for Foreign Investment (NAFI), as Project Executing Agency, will coordinate with NBK on all matters concerning implementation of part B of the Project. NAFI will be responsible for all communications with ADB concerning implementation of the Project. The LIU will be responsible for collecting from NBK and forwarding to ADB the reports referred to in Section 4.06 (b) of the Loan Agreement.	Loan Agreement, Schedule 4, para. 3.	Complied with.	Complied with.
13. The Borrower shall ensure that at least 60 percent (60%) of the proceeds of the Ordinary Operations Loan shall be utilized by private sector enterprises.	Loan Agreement, Schedule 4, para. 4.	Complied with.	Complied with.
14. The Borrower shall cause NBK and the participating commercial banks to enter into a suitable agreement to regulate the terms upon which the participating commercial banks will participate in part B of the Project and will provide the necessary documents relating to eligible items.	Loan Agreement, Schedule 4, para. 5.	Complied with.	Complied with.

Covenant	Reference to Loan Agreement	Status at Completion	Status at Operations Evaluation
15. NBK will require that any tenge loans provided by participating commercial banks to importers for the purpose of financing the purchase of foreign exchange to purchase eligible items under part B of the Project shall be made at market rates of interest.	Loan Agreement, Schedule 4, para. 6.	Complied with.	Compliance could not be verified, but NBK assured the OEM that this was complied with.
