



Validation Report

Reference Number: PCV: KAZ 2012-201
Project Number: 43330
Loan Number: 2543
December 2012

Kazakhstan: Countercyclical Support Loan

Independent Evaluation Department

Asian Development Bank

ABBREVIATIONS

ACP	–	anti-crisis plan
ADB	–	Asian Development Bank
CSF	–	countercyclical support facility
KCSL	–	Kazakhstan Countercyclical Support Loan
EGP	–	Employment Generation Program
IED	–	Independent Evaluation Department
MOF	–	Ministry of Finance

NOTE

In this report, “\$” refers to US dollars.

Key Words

kazakhstan, countercyclical support, anti-crisis plan, employment generation, performance evaluation, small and medium enterprises

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PROJECT BASIC DATA

Project Number:	43330	PCR Circulation Date:	Dec 2010	
Loan/Grant Number:	2543	PCR Validation Date:	Dec 2012	
Project Name:	Kazakhstan Countercyclical Support Loan			
Country:	Kazakhstan		Approved (\$ million)	Actual (\$ million)
Sector(s):	Public sector management	Total Project Costs	500.0	500.0
ADB Financing (\$ million)	ADF: 0.0	Loan/Grant	500.0	500.0
	OCR: 500.0	Borrower	0.0	0.0
Cofinancier(s):		Total Cofinancing	0.0	0.0
Approval Date:	10 Sep 2009	Effectiveness Date	14 Oct 2009	11 Nov 2009
Signing Date:	14 Sep 2009	Closing Date	31 Dec 2010	14 Dec 2009
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ADB = Asian Development Bank, ADF = Asian Development Fund, IED1/2 = Independent Evaluation Department (Division 1/2), OCR = ordinary capital resources, PCR = project completion report.

I. PROJECT DESCRIPTION

A. Rationale

1. Kazakhstan was among the first countries in the Asia Pacific region to be affected by the global economic and financial crisis in 2008. During 2000–2006, the Kazakhstan economy had been growing at a high growth rate of 9% per annum before its over-exposed banking sector was hit by international volatility. The 2008 global crisis spilled into the domestic economy and resulted in a credit squeeze affecting many sectors, especially the real estate and construction sector. Decline in trade and the commodity prices especially oil and minerals further decelerated the economy. As a result, the economic growth slowed down to 3% in 2008 and further, the economy contracted by 2.4% in 2009.

2. The government responded to the rapidly increasing unemployment by planning and implementing anti-crisis programs, and attempted to restore the economic growth. The Asian Development Bank (ADB) responded to the global crisis by establishing a countercyclical support facility (CSF) in June 2009, and approved a Countercyclical Support Loan (KCSL) for Kazakhstan in September 2009. This loan, with a single tranche of \$500 million, aimed to support the government's Anti-Crisis Plan (ACP) and Employment Generation Program (EGP). Using its savings from oil revenues, the government drew upon the National Fund for the Republic of Kazakhstan (NFRK) to implement these countercyclical reforms, which cost the government a large sum of \$26.5 billion between 2008 and 2010.

3. The KCSL was underpinned by multiple considerations that included: (i) meeting part of the emerging fiscal deficit caused by the lower revenue yields and higher commitment for social

protection commitments; (ii) avoiding further drawing down of the NFRK that needed to protect the financial and banking; and (iii) restraining the effects of the crisis from spilling over to the neighboring Central Asian economies (viz., Kyrgyzstan and Tajikistan) and becoming a contagion.

B. Expected Impact

4. The KCSL aimed to help Kazakhstan mitigate the impact of the global economic crisis. It supported the government's countercyclical expenditure program for 2009. It enabled the government to adopt an expansionary fiscal stance. As resources from the KCSL were combined with the government's own resources, all areas of the government's countercyclical programs were included in KCSL's scope.

C. Objectives or Expected Outcomes

5. The outcome of the KCSL was to enable a greater fiscal stimulus. The performance targets or indicators as stated in its program design and monitoring framework included the disbursement of the resources for the ACP and EGP by the end of 2009. The principal output was a full-fledged implementation of the ACP and EGP.

D. Components and Outputs

6. The government was expected to use the local currency counterpart funds from the loan proceeds to help maintain critical countercyclical expenditures, such as for job creation and restoring economic stability. The related outputs under the ACP included financial sector stabilization, support to real estate markets and small and medium enterprises (SMEs), development of agro-industrial sector, and implementation of infrastructure and innovation projects. The EGP was to support key sectors of the economy and generate job opportunities. It envisaged four types of activities, viz., (i) public works, (ii) staff retraining, (iii) job creation for the socially vulnerable, and (iv) internships.

E. Provision of Inputs

7. The \$500 million loan was to be disbursed in a single tranche upon loan effectiveness. The KCSL was expected to support budgetary financing requirements related to the ACP and EGP in the fiscal year of the loan approval, i.e., ending 31 December 2009. It was expected to be fully utilized by June 2010 and closed by 31 December 2010.

F. Implementation Arrangements

8. The Ministry of Finance (MOF) was the executing agency. The government's ongoing implementation arrangements for the ACP and EGP were extended to the KCSL. The Ministry of Economy and Budget Planning was to deal with the strategic aspects of the ACP, while the National Bank of Kazakhstan, the Financial Monitoring Supervisory Agency, and selected other economic ministries provided sector content and oversight. The overall execution of the ACP was overseen by Samruk-Kazyna, the sovereign wealth fund of Kazakhstan. The Ministry of Labor and Social Protection coordinated the EGP.

9. Given the severity of the crisis and the extent of resources allocated for crisis-mitigation, the government put in place specific monitoring and reporting arrangements, with weekly assessments presented to senior leadership of the country. The KCSL deemed these

implementation arrangements adequate and did not put in any additional arrangements of its own.

10. A regional technical assistance (TA) was expected to assist in the monitoring and evaluation of the program implementation. The KCSL's report and recommendation of the President (RRP) noted,¹ "This regional technical assistance is being processed, and among activities is the monitoring and fiduciary control of crisis response expenditure in selected Central Asian and Caucasus countries." However, this was not followed through and the regional TA did not materialize.

II. EVALUATION OF PERFORMANCE AND RATINGS

A. Relevance of Design and Formulation

11. The PCR assessed the design of the KCSL program *highly relevant* at the time of appraisal and remained so till after the program completion. This validation downgrades it to *relevant*. The program met most of the subcriteria for a *relevant* rating, which is a norm, but it lacked exceptional value-adding features to justify the *highly relevant* rating. The PCR noted that the program was designed as an urgent crisis support and was a quick-disbursing assistance through a single tranche. Although KCSL could not have been foreseen at the time of preparing the previous country strategy and program update in 2005, the program's goal of macroeconomic stability was consistent with the strategic objectives of the country. The program design was fully aligned with the government's ACP and EGP. Both of these programs were already under implementation when KCSL was approved. No new or additional policy conditionalities were included under the KCSL, which was in line with the CSF guidelines. Aside from the regional TA mentioned above (para. 10), monitoring and implementation arrangements by the government were also accepted as adequate for the purpose of monitoring KCSL.

12. This validation notes the diminished ex-post relevance of KCSL and limited additionality of ADB during implementation of the \$500million loan. At the design and formulation stage of KCSL, it was noted that ADB's value-added for development effectiveness were to include reconciling transfers and reported expenditures (that had not received serious attention), quarterly monitoring of the EGP through the regional TA, detailed review of implementation at the ministry level, inputs to government in 2010 for re-designing EGP, and audits of all components of the ACP and the EGP. The regional TA did not materialize, one review mission was undertaken for five person days in January 2010 after the loan was closed, and no mission was fielded at the time of the program completion review.

13. This validation considers that the PCR should have provided a broader view of the Kazakhstan economic crisis. It could have depicted the nature of the economic problems in Kazakhstan fully. It could have identified the vulnerabilities² in Kazakhstan economy that landed it into the crisis in August 2007, i.e., actually even before the global crisis was fully unleashed. Kazakhstan's economic difficulties first started in the financial sector and banks. Some of its

¹ ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of Kazakhstan: Countercyclical Support Loan*. Manila. p. 22, para. 64, footnote 26; see also Appendix 7, p.50, Footnote 4.

² Independent Evaluation Department. 2011. *Real-time Evaluation of Asian Development Bank's Response to the Global Economic Crisis of 2008–2009*. Manila: ADB. The IED study rated KCSL *relevant*.

banks were facing difficulties since 2004–2005.³ More importantly, ADB had been active in the banking sector during these years through its private sector operations.⁴ The program's RRP (footnote 1, para. 2, and Appendix 4) observes that it had lent \$244 million to 4 banks by 2006. The RRP had detailed banking sector issues in designing the KCSL and had clearly identified the banking sector as “an important source of economic vulnerability” (page 6, para. 14 of the RRP). Given this, the PCR could have discussed ADB's exposure to the country banking sector since 2006, when it started with senior loans to Alliance Bank and BTA Bank. Nonetheless, there seemed to have been little learning process. The PCR appeared to focus more on the crisis as being externally generated, and less with the domestic economic and financial sector issues.

14. Preferably, PCR should have spelt out different stages of the economic crisis in Kazakhstan. The nature of anti-crisis activities in 2007–2008 was different from that of the anti-crisis activities in 2009–2010. The ADB program came on board during the latter period and responded to the then prevalent situation. However, PCR does not clarify this fully and has discussed Kazakhstan's economic problems under the broader global economic and financial crisis that masked Kazakhstan's banking problems.

15. Given the limited time and urgency of the situation, it is understandable that KCSL was designed pursuing a minimalist approach during processing. It endorsed the government's program in its entirety, and accepted the implementation arrangements as these were on the ground. Even given the urgency of crisis, some of these matters could have been pursued afterwards. And, the regional TA to follow it up eventually did not materialize. In its absence, it is difficult to form a holistic judgment about the adequacy of the program design.

B. Effectiveness in Achieving Project Outcomes

16. The PCR assessed KCSL *effective*. It noted that ADB's budgetary support helped the government in meeting a part of its fiscal deficit which stayed low at 1.5% of GDP in 2009. It continued to be about the same in 2010. The PCR mentioned that with the assistance of the program, the government was able to incur about T887.7 billion on both ACP and EGP. The PCR mentioned that the performance and outputs of ACP were mixed. It achieved its objective in regard to financial stabilization, SME financing, and mortgage refinancing, but it was less than effective in delivering real estate and construction support, agro-industrial support, and infrastructure financing. In contrast, the PCR noted that the EGP met or exceeded all its targets. Fiscal stimulus contributed towards somewhat lower unemployment in the latter part of 2009. Taking both the outputs together, the validation agrees with the PCR and assesses the KCSL *effective*.

C. Efficiency of Resource Use in Achieving Outputs and Outcomes

17. The PCR rated the KCSL *highly efficient*. This validation downgrades it to *efficient*. The program met most of the subcriteria for an *efficient* rating, which is a norm, but it lacked exceptional value-adding features to justify the *highly efficient* rating. The PCR stated that KCSL was “very efficient” in helping the government address the impact of the global economic crisis.

³ See, “Kazakhstan's banking sector was overextended and overly dependent on external funds, and was experiencing *stress since 2004-2005*. Though there were clear early indications of an impending crisis in the finance sector, the government did not respond effectively till November 2007.” (emphasis added) (Footnote 2, Appendix 3, p. 67. Para.10).

⁴ IMF observes, “ADB's previous interventions with the banking sector through its private sector operation arm raised many issues and lessons, which will need to be addressed and reflected in the future proposed projects.” (IMF, 2010, Staff Report for 2010 Article IV Consultations, Annex IV, p. 15, para. 6. 13 May).

Instead of devising an altogether new program, KCSL utilized ACP and EGP, and imposed no additional conditionality on the government whether for implementation, or for monitoring and reporting. It concluded that this enabled the government to take advantage of the facility promptly. However, this is a limited and narrow perspective on the efficiency.

18. The PCR noted that government completed the EGP within the time-frame and that most of the targets were met especially in regard to employment generation. However, it is questionable whether the employment could have been addressed in such a short time frame (over few months) especially when the crisis was still unfolding in the real sectors. As noted above, the PCR remarked that the government's performance in implementing ACP was not at its best.

18. Monitoring of the use of loan resources and its processes was not followed through once the single tranche was released. The understanding at entry was that reconciliation of transfers and expenditures had not received serious attention. Contrary to the intent, no activities were undertaken to reconfirm internal control arrangements. The associated regional TA that was planned for undertaking monitoring and fiduciary oversight did not materialize.

19. Finally, given the single tranche nature of the KCSL, there were no issues with regard to the disbursements, or portfolio monitoring. The rather narrow transaction-oriented position ("one-off") on the crisis-related funding has left no room for ADB's learning and knowledge management. It tells little about the beneficiaries and the fiduciary oversight on crisis related expenditure.

D. Preliminary Assessment of Sustainability

20. The PCR noted that KCSL is *most likely sustainable*. This validation concurs with this rating. The PCR stated that KCSL was a "short-term response" to an external shock. As such, there were no specific measures to be taken as a part of the program other than what the government had already put in place. This validation acknowledges the caveat mentioned in para 42 of the PCR that the primary goal of the KCSL was limited to provide fiscal resources to the government to immediately arrest the economic downturn and restore economic growth. The KCSL was disbursed in November 2009 and it retroactively financed part of the government's EGP. The validation report notes that there were no risks to the full implementation of EGP and funds allocated were utilized. The government also demonstrated high ownership levels postcompletion of ADB support through its Road Map program.

21. The term of the KCSL is five years and it did not affect the debt sustainability levels as verified during program preparation. The validation report notes that there were also no risks to the successful implementation of EGP or risks to Govt.'s repayment ability. It however needs to be noted that although ADB initially planned to propose process improvements for the government's EGP as was articulated in the program preparation stages, this did not happen post effectiveness of KCSL. The government proceeded to complete the Road Map Program in 2010 findings from which informed the subsequent support for SMEs.

E. Impact

22. The PCR did not mention any specific rating for impact. The intended impact of the KCSL was to mitigate the effects from the global economic crisis. The PCR highlighted that the program achieved a positive impact as seen in that recession had reversed by end-2009, and the growth rate of the economy in the first half of 2010 was about 8%. By contributing to the

control of the fiscal deficit in 2009 and through the EGP, KCSL positively impacted on the socio-economic conditions of the population in general and the poor in particular. The PCR mentioned that poor areas were positively assisted under the EGP. This validation assesses the impact as *satisfactory*.

III. OTHER PERFORMANCE ASSESSMENTS

A. Performance of the Borrower and Executing Agency

23. The PCR assessed the performance of the MOF *satisfactory*. It noted that the government was prompt in preparing the ACP and EGP in timely manner, and implemented these programs swiftly. The PCR observed that government's implementation of EGP was good, while that of ACP was a mixed case and could have been better. The PCR stated that the monitoring of implementation arrangements was carried out well, and that the ACP website carried periodic information regularly. This validation concurs with PCR in assessing MOF's performance as *satisfactory*.

B. Performance of the Asian Development Bank

24. The PCR assessed ADB's performance *highly satisfactory*. It noted that ADB responded in a timely fashion and utilized its CSF to provide assistance to Kazakhstan. The program was prepared quickly and was delivered in a single tranche. ADB reviewed the implementation, especially of the EGP as it was being funded under the KCSL. This validation downgrades ADB's performance to *satisfactory* for the following reasons. This is mainly because ADB did not analyze the causes of the crisis and the fundamental weaknesses and sustainability measures (para. 20) and did not monitor progress in the follow-up of the program after the release of the funds. It also did not follow through with the regional TA that was earlier planned to accompany the program.

C. Others

25. There were no other major issues in the implementation of the KCSL. The program did not involve any cross-cutting issues viz., gender, governance, and safeguards. It also did not have any fiduciary or anticorruption issues.

IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

A. Overall Assessment and Ratings

26. The PCR rated the overall performance of the KCSL *highly successful*. This validation downgrades it to *successful* averaging the subcriteria validation ratings.⁵ In general, the program did not have much exceptional value-adding features that justify the *highly successful* rating. Kazakhstan's economy had been growing at a rapid rate between 2000 and 2006. However, its financial sector and banks started facing pressure in 2008 as the bank's overseas' borrowing started drying out. This resulted in a credit squeeze in the domestic sectors and affected real estate (that had been booming), construction and SMEs in particular.

⁵ Through its interdepartmental comment, the Public Management, Financial Sector, and Trade Division of ADB's Central and West Asia Department, disagreed with this validation's downgrading of the overall rating to *successful* as it believed that the program was *highly relevant* as it met the requirements for relevance and that it was *highly efficient* in achieving the intended outputs and outcome. The response of this validation is provided in the table under para. 28.

With slowing economy, unemployment increased and began threatening the progress registered in poverty reduction over the previous years.

27. The government responded decisively to this on-set of economic problems through launching the ACP and channeled billions of dollars out of past savings generated through oil revenues. Financial and banking collapse in the United States (September 2008) worsened this situation, and the government responded to the situation through launching the EGP. By then, ADB adopted the CSF, and was able to help Kazakhstan with KCSL. The ADB loan was not only prepared in a short time, but was also disbursed promptly within 2009. ADB succeeded in meeting a part of the fiscal deficit in 2009. The KCSL was able to signal ADB's positive role to the government, and demonstrated its readiness to cooperate with the development partners convincingly, especially to the IMF and the World Bank.

28. Notwithstanding, there were certain aspects of the KCSL that PCR could have been addressed better. First, the PCR should have analyzed and identified the vulnerabilities of the domestic economy and sustainability measures, especially when the financial and banking sector was at the heart of the crisis, in which ADB had been involved during the preceding years through a number of loans through its private sector operations. Second, ADB should have continued to monitor economic recovery even after releasing the tranche in November 2009. Thus, ADB missed the opportunity to engage with the national policymakers and build further onto its partnership with Kazakhstan. The detailed assessment as per the IED's evaluation criterion is provided below in table below.

Overall Ratings

Criteria	PCR	IED Review	Reason for Disagreement/Comments
Relevance	Highly relevant	Relevant	Diminished ex-post relevance of KCSL and limited additionality during implementation of the \$500 million loan. The vulnerabilities of Kazakhstan's economy, especially the weak banking sector, were not fully identified. KCSL program lacked exceptional value-adding features to justify the <i>highly relevant</i> rating (para. 11).
Effectiveness in achieving outcome	Effective	Effective	
Efficiency in achieving outcome and outputs	Highly efficient	Efficient	Monitoring of the use of loan resources has not been followed through once the single tranche was released. Also, the associated regional TA that was planned for undertaking monitoring and fiduciary oversight did not materialize. KCSL program lacked exceptional value-adding features to justify the <i>highly efficient</i> rating (para. 17).
Preliminary assessment of sustainability	Most likely sustainable	Most likely sustainable	
Overall assessment	Highly successful	Successful	The weighted average rating becomes <i>successful</i>.
Borrower and executing agency	Satisfactory	Satisfactory	
Performance of ADB	Highly satisfactory	Satisfactory	ADB responded well, in-time and demonstrated good coordination with development partners especially IMF and the World Bank. However, it did not analyze the fundamental weaknesses fully and did not follow-up monitoring of the

Criteria	PCR	IED Review	Reason for Disagreement/Comments
			recovery (para. 24).
Impact	Not specified	Satisfactory	
Quality of PCR		Satisfactory	

ADB = Asian Development Bank, ADF = Asian Development Fund, IED1 = Independent Evaluation Department (Division 1), OCR=ordinary capital resources, PCR = project completion report.

Source: Independent Evaluation Department

B. Lessons

29. There is a need to ensure a better coordination between the sovereign and nonsovereign operations in ADB so that the two sets of operations can operate in the country in a seamless manner. This is especially important in view of the enhanced role of nonsovereign operations under Strategy 2020 in a high middle income country such as Kazakhstan.

C. Recommendations for Follow-Ups

30. In addition to infrastructure, the financial sector is a focal area for nonsovereign operations in ADB. The financial sector, however, is capable of affecting the larger economy and sovereign operations rapidly, and in a diverse and unpredictable manner. Hence, there is a need to review nonsovereign operations closely for possible impacts periodically.

V. OTHER CONSIDERATIONS AND FOLLOW-UP

A. Monitoring and Evaluation Design, Implementation, and Utilization

31. It is understandable that when member countries are in financial distress, ADB is expected to come and help them in the shortest time possible. However, such emergency responses should also focus on fiduciary oversight and adequate monitoring of the results and sustainability of such support. ADB must identify beneficiaries and trace the outcomes and impact of the support in full.

B. Comments on Project Completion Report Quality

32. This validation assesses the report *satisfactory*. The PCR is candid and well written. However, it takes a limited view of the program as has been explained above in para. 28. The PCR was overly optimistic about the performance ratings as pointed out above.

C. Data Sources for Validation

33. The data sources include RRP, PCR, loan review reports, IED's Kazakhstan related documents, PSOD and Office of Risk Management documents on Kazakhstan private sector operations, IMF's Article IV and other related documents.

D. Recommendation for Independent Evaluation Department Follow-Up

34. No recommendation is made for IED.