



Completion Report

Program Number: 49083-001
Loan Number: 3272
September 2017

Kazakhstan: Countercyclical Support

This document is being disclosed to the public in accordance with ADB's Public Communications Policy 2011.

Asian Development Bank

CURRENCY EQUIVALENTS

Currency Unit – tenge (T)

		At Appraisal (22 July 2015)	At Program Completion (31 December 2016)
T1.00	=	\$0.0053	\$0.0030
\$1.00	=	T187.05	T333.54

ABBREVIATIONS

ADB	–	Asian Development Bank
GDP	–	gross domestic product
CSF	–	countercyclical support facility
DMC	–	developing member country
DMF	–	design and monitoring framework
IMF	–	International Monetary Fund
MOF	–	Ministry of Finance
MSME	–	micro, small and medium-sized enterprises
NBK	–	National Bank of Kazakhstan
NFRK	–	National Fund of the Republic of Kazakhstan
RRP	–	report and recommendation of the President
SSB	–	special state benefit
TSA	–	targeted social aid
US	–	United States

NOTE

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

Vice-President	W. Zhang, Operations 1
Director General	S. O'Sullivan, Central and West Asia Department (CWRD)
Director	R. Hartel, Public Management, Financial Sector, and Trade Division, CWRD
Team leader	J. Farinha-Fernandes, Senior Financial Sector Economist, CWRD
Team members	A. Chakenova, Associate Project Officer, CWRD
	A. Chyngysheva, Portfolio Management Specialist, CWRD
	M. Etrata, Associate Project Analyst, CWRD
	L. Omarova, Associate Operations Analyst, CWRD
	D.C. Song, Senior Financial Sector Specialist, CWRD
	M.C. Yabut, Operations Assistant, CWRD

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

	Page
BASIC DATA	i
I. PROGRAM DESCRIPTION	1
II. EVALUATION OF DESIGN AND IMPLEMENTATION	2
A. Relevance of Design and Formulation	2
B. Program Outputs	4
C. Program Costs	8
D. Disbursements and Program Schedule	8
E. Implementation Arrangements	9
F. Conditions and Covenants	10
G. Performance of the Borrower and the Executing Agency	10
H. Performance of the Asian Development Bank	10
III. EVALUATION OF PERFORMANCE	11
A. Relevance	11
B. Effectiveness in Achieving Outcome	12
C. Efficiency in Achieving Outcome and Outputs	13
D. Preliminary Assessment of Sustainability	13
E. Impact	14
IV. OVERALL ASSESSMENT AND RECOMMENDATIONS	14
A. Overall Assessment	14
B. Lessons	14
C. Recommendations	14
APPENDIXES	
1. Design and Monitoring Framework	16
2. Status of Compliance with Loan Covenants	18
3. Macroeconomic Uncertainty in Kazakhstan in 2015	20
4. Key Expenditure Plans and their Current Execution under the Nurlı Zhol Plan	21

BASIC DATA

A. Loan Identification

1.	Country	Kazakhstan
2.	Loan Number	3272-KAZ
3.	Program Title	Countercyclical Support
4.	Borrower	Kazakhstan
5.	Executing Agency	Ministry of Finance
6.	Amount of Loan	\$1,000,000,000
7.	Program Completion Report Number	1669

B. Loan Data

1.	Fact-finding	
	– Date Started	23 February 2015
	– Date Completed	5 March 2015
2.	Loan Negotiations	
	– Date Started	21 July 2015
	– Date Completed	24 July 2015
3.	Date of Board Approval	21 August 2015
4.	Date of Loan Agreement	18 November 2015
5.	Date of Loan Effectiveness	
	– In Loan Agreement	18 December 2015
	– Actual	29 December 2015
	– Number of Extensions	1
6.	Closing Date	
	– In Loan Agreement	31 December 2016
	– Actual	5 January 2016
	– Number of Extensions	0
7.	Terms of Loan	
	– Interest Rate	London interbank offered rate-based lending facility plus 200 basis points
	– Maturity	5 years
	– Grace Period	3 years
9.	Disbursements	

a.	Dates		
	Initial Disbursement	Final Disbursement	Time Interval
	29 December 2015	29 December 2015	0 months
	Effective Date	Original Closing Date	Time Interval
	29 December 2015	31 December 2016	12 months

b. Amount (\$ million)						
Category or Subloan	Original Allocation	Last Revised Allocation	Amount Canceled	Net Amount Available	Amount Disbursed	Undisbursed Balance
Countercyclical Support	1,000	1,000	0	1,000	1,000	0
Total	1,000	1,000	0	1,000	1,000	0

C. Program Data

1. Program Cost (\$ million)

Cost	Appraisal Estimate	Actual
Foreign Exchange Cost	1,000	1,000
Local Currency Cost	0	0
Total	1,000	1,000

2. Program Performance Report Ratings: Not Applicable

D. Data on Asian Development Bank Missions

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization of Members ^a
Reconnaissance mission ^b	23–27 February 2014	1	5	a
Inception mission	4–7 December 2015	2	8	b, c
Program completion review	3–4 October 2016	1	2	d

^a a = principal economist, b = senior financial sector specialist, c = associate project analyst, d = senior financial sector economist.

^b The director of the Public Management, Financial Sector, and Trade Division of the Asian Development Bank's Central and West Asia Department approved upgrading the reconnaissance mission to a fact-finding mission through a memo dated 6 April 2015.

I. PROGRAM DESCRIPTION

1. The Asian Development Bank (ADB) approved a loan in the amount of \$1 billion for the Countercyclical Support program in Kazakhstan in August 2015,¹ to help the government mitigate the significant negative economic impact from two external shocks:

- (i) the macroeconomic shock that took place from late 2013 to early 2014, which resulted from the economic slowdown in the Russian Federation and, most significantly, from the stoppage in consumption and bank lending growth triggered by the 18% devaluation of the tenge against the United States (US) dollar on 10 February 2014;² and
- (ii) the shock associated with the collapse of crude oil prices, from \$110 a barrel in July 2014 to about \$50 a barrel in early 2015.

2. To help arrest a foreseeable economic downturn, the government initiated the implementation of countercyclical expenditure programs in late 2014 (paras. 9 and 17–18). These fiscal measures were coupled in 2015 onwards with two additional measures: (i) the accelerated implementation of its long-term development plan, Kazakhstan 2050;³ and (ii) the maintenance of the tenge–dollar exchange rate peg as the nominal anchor for monetary management.⁴ To cushion the fiscal revenue shortfall that was expected in 2015, the government increased National Fund of the Republic of Kazakhstan (NFRK) transfers to the budget and requested, in December 2014, for ADB countercyclical support to complement borrowing from markets.

3. Although ADB approved the program in August 2015 and intended it to support Kazakhstan’s budget in the same fiscal year, financing came forward only in 2016, shouldering part of new and additional countercyclical fiscal efforts implemented in response to the third macroeconomic shock that hit Kazakhstan in late 2015: the National Bank of Kazakhstan (NBK) abandoned the exchange rate peg on 29 August 2015, which resulted in the sharp devaluation of the tenge against the US dollar and, because of undeveloped systemic liquidity management, a sudden scarcity of liquidity in the banking sector. This adversely affected the availability of bank credit to the economy and triggered the need for additional fiscal stimulus efforts modifying the economic recovery expectations described in the design and monitoring framework (DMF) (Appendix 1).⁵

4. The approved program deviated, through the inclusion of two special features, from what is required under the ADB policy governing countercyclical support facilities (CSFs), by (i) providing a loan that exceeded the CSF’s \$500 million limit, and (ii) including loan disbursement linked to investment climate and social protection reforms. This contrasts with the general expectation that approval and disbursement of CSF funds are to be expedited in view of the nature and objectives of this ADB modality.

¹ ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of Kazakhstan for Countercyclical Support*. Manila.

² The collapse of the Russian ruble in late 2014 also undermined Kazakhstan’s export competitiveness in non-hydrocarbon goods.

³ Launched in January 2014, Kazakhstan 2050 included specific steps to improve the investment climate, expand employment, and diversify the non-oil sector of the economy (footnote 1, Appendix 4, pp. 23–24).

⁴ Footnote 1, Appendix 4, p. 25. The government initiated preliminary measures to prepare for eventual transition to a more flexible exchange rate regime and to allow inflation targeting to become the explicit nominal anchor for monetary policy at some point in the future.

⁵ The DMF, with its performance indicators and targets along the proposed results chain, is part of the basis on which program completion report assessments and ratings are made.

II. EVALUATION OF DESIGN AND IMPLEMENTATION

A. Relevance of Design and Formulation

5. Irrespective of these modifications, the program substantially followed the objectives of this ADB modality. The CSF aims to provide budget support to developing member countries (DMCs) undertaking fiscal stimulus during an economic crisis through a countercyclical development expenditure program to make up for “lost aggregate demand.”⁶ In line with its policies, ADB screened CSF eligibility against three main access criteria.

6. **Criterion 1: An adverse impact from an external, global shock.** The two shocks summarized in para. 1 were both external in nature and of macroeconomic significance. Most importantly, the steep oil price slump triggered all the fiscal and macroeconomic effects that can be expected from a terms-of-trade shock, and brought with it important macroeconomic uncertainty. ADB’s CSF policy highlights the need to consider the “diversity in DMC’s circumstances and the uncertainties underpinning economic projections.”⁷ Thus, the assessment of qualification to the access criteria done in real-time—i.e. while fiscal responses were already being deployed to arrest the predictable macroeconomic consequences of the ongoing shocks—was sensitive to the high dependence on oil export revenues of Kazakhstan’s current account (70% of exports) and state budget (41% of consolidated public expenditure is financed by oil-related revenues). In fact, terms-of-trade shocks of this nature not only directly affect profits, activity, and investment plans in the oil-related sectors; but also tend to indirectly and powerfully affect the policy space that is needed for the deployment of countercyclical measures. This posed a two-fold challenge:

- (i) Fiscal space highly depends on commodity-based export revenues.
- (ii) As terms of trade shocks can change equilibrium exchange rate levels, fixed exchange rate regimes in highly dollarized economies come under severe pressure when central banks no longer have the resources to support the currency peg. This can adversely affect banking stability⁸ and create finance system vulnerabilities to the exchange rate adjustment that is often needed for fiscal space reasons.

7. The macroeconomic policy pressures that Kazakhstan faced from early 2015 were thus pressing with regards to exchange rate policy, beyond arguments about the need to “balance” the balance of trade. Because commodity-based exports are priced in foreign-currency, exchange-rate depreciation helps (i) reduce the debt financing requirements of a fiscal response and (ii) deploy a more accommodating monetary policy.⁹ But this is so as long as the exchange-rate depreciation remains gradual enough (i.e. non-disruptive) to allow the country’s banking system to remain supportive of the private sector. Devaluation expectations started to drive the substitution of tenge deposits into foreign currency from January 2015 onwards.

⁶ ADB. 2013. Policy-Based Lending. *Operations Manual*. (OM D4/BP). Manila (footnote 8).

⁷ ADB. 2013. Policy-Based Lending. *Operations Manual*. (OM D4/BP). Manila (footnote 14).

⁸ Either because banks have open foreign exchange positions that cannot hedge against stark exchange rate depreciations, or when exchange-rate-induced credit risks limit the ability of unhedged borrowers to withstand sharp increases in debt-service requirements.

⁹ This is a well-documented way of how “petro-states” tend to adjust to terms-of-trade shocks. See, for example: (i) Broda. 2003. Terms of Trade and Exchange Rate Regimes in Developing Countries. *Journal of International Economics*. (63) 1. pp. 31–58; and S. Edwards and E. Levy Yeyati. 2005. Flexible Exchange Rates As Shock Absorbers. *European Economic Review*. (49) 8. pp. 2079–2105.

8. Kazakhstan's macro-financial position in early 2015 was thus vulnerable. While estimates of real-time macroeconomic conditions throughout 2015 only gradually acknowledged the likelihood of recessionary conditions, these forecasts were also already factoring in the positive effects of the resolute countercyclical measures that were being deployed by the government since early 2014. Appendix 3 discusses this issue, considering the contingency objective that also underpins the precautionary financing option under ADB's CSF modality. There could have been little doubt about the significance of the macroeconomic adversities affecting the Kazakhstan economy in 2014–2015, and that the terms-of-trade nature of the second shock imposed constraints on policy space that (i) justified swift international financial support, and (ii) required a well-calibrated macroeconomic policy response (to be supported by a gradual exchange rate adjustment—see paras. 10-12).

9. **Criterion 2: Planned countercyclical development expenditures for poverty reduction.** The CSF requires a DMC to have a countercyclical development expenditure program in place by investing in public infrastructure or social safety nets. The program identified a number of government initiatives that fit this requirement.¹⁰ For example, the government announced, in early 2014, a multi-year investment expenditure plan under Kazakhstan 2050. In March 2015, it announced the Employment Roadmap 2020 and revised the state budget to increase funding for social support and services. In April 2015, the Nurdy Zhol Plan for infrastructure development was announced. Paras. 16–18 discuss the implementation of these government initiatives as program outputs and activities.

10. **Criterion 3: Sound macroeconomic management of the crisis, including sound fiscal position.** Macroeconomic policy dialogue with governments and effective assessments are essential requirements of ADB's CSF operations.¹¹ As proper macroeconomic policy management of crisis conditions by the DMC is a prerequisite of CSF operations, macroeconomic analysis by ADB is considered essential. In this regard, the related assessment in the report and recommendation of the President (RRP) for the program missed to offer an analysis of whether the macroeconomic management response to the nature of the shocks—defined by the pillars enumerated in para. 2—was sound.¹² In addition, the macroeconomic risks related to exchange rate peg that prevailed until late August 2015 was not discussed in the RRP. The tenge's sharp depreciation on 21 August 2015 (33% depreciation against the US dollar in one day) and the subsequent exchange rate depreciations (by an additional 36%) in the 4 months after ADB's approval of the program illustrate a disorderly exchange rate adjustment that could have occurred in a managed, and much less damaging fashion.¹³

11. Consistency in the macroeconomic policy response was strengthened from late-2015 onwards, at exchange rate levels that were back in line with the external balance implications of

¹⁰ Footnote 1, paras. 9–10.

¹¹ ADB. 2013. Policy-Based Lending. *Operations Manual*. (OM D4/BP). Manila (para. 11). Also, DMC governments need to conduct formal consultations with the International Monetary Fund (IMF) within the previous 18 months of ADB's approval of a CSF operation. Their "findings should provide inputs for the review of macroeconomic policy and public finance of the potential CSF borrower" (ADB. 2013. Policy-Based Lending. *Operations Manual*. [OM D4/BP]. Manila [para. 27]).

¹² Key questions to bring up would have been, e.g. whether the macroeconomic management response was feasible and efficient, or if there was internal consistency in the fiscal, exchange rate and monetary policy mix being pursued.

¹³ It's important to highlight that already during the second quarter of 2014, the negative effects on private consumption, bank asset quality and credit creation from the February 10 exchange-rate adjustment episode were already being widely reported on, and in that sense lessons could have been extracted. See the Kazakhstan Country Report of May 14th, 2014. The Economist Intelligence Unit.

the new terms of trade.¹⁴ The RRP included confirmation of the debt sustainability of the CSF borrower, including an analysis of the fiscal sustainability of countercyclical efforts and the potential impact of the CSF loan on the country's indebtedness. Kazakhstan's public debt sustainability remained sound.

12. As the need for "CSL lending can only be identified when a crisis arises",¹⁵ these interventions are—by definition—not part of the ex-ante identification effort that a Country Partnership Strategy (CPS) entails.¹⁶ Financial support to mitigate macroeconomic downturns can be development-inducing because the long-term path of potential output of countries is usually negatively affected by the depth of macroeconomic crises. This is especially the case when macroeconomic recessions create medium-term damage to e.g. a domestic financial system and its ability to support the economic recovery.¹⁷ A significant countercyclical fiscal response was thus crucial to avoid the significant economic and social costs that a financial crisis could have imposed in Kazakhstan. International financial assistance—i.e., by ADB and the World Bank—tends to lend credibility to official anti-crisis measures, and it did enable the Kazakhstan government to diversify its external financing.¹⁸

B. Program Outputs

13. The program defined three outputs with direct correspondence to a list of activities in the DMF.¹⁹ However, some of these activities did not describe specific parameters to assess the extent to which expectations were met. This is the case for activities 1.4 and 1.5 (under output 1), activities 2.1 and 2.2 (under output 2), and activity 3.2 (under output 3). To mitigate this problem, this report assesses the implementation of announced government initiatives since 2014 that can be explicitly (although ex-post) relatable to the specific activities under each output heading, and identifies, to the extent possible, overlaps between the different policy announcements.²⁰

14. **Output 1: Measures to promote non-oil and private sector development implemented.** While the RRP does not discuss the three reform activities under this output, all three have become disbursement conditions.²¹ The RRP mentioned that the Nurly Zhol program for infrastructure development had "improving the business environment" as a spending priority and that a detailed action plan supports Nurly Zhol activities,²² but no other discussion is made in the context of the tranche release conditions that required the government to

¹⁴ But by then the economy had to contend with added difficulties that the disorderly exchange rate adjustment caused in the banking system.

¹⁵ ADB. 2013. Policy-Based Lending. *Operations Manual*. (OM D4/BP). Manila (para. 22).

¹⁶ "Stand-alone policy-based lending and the programmatic approach form part of the assistance package contained in a country partnership strategy (CPS) or indicative rolling country operations business plan for a DMC. However, because a crisis is often hard to anticipate, SPBL and CSF lending are not planned in advance." ADB. 2013. Policy-Based Lending. *Operations Manual*. (OM D4/BP). Manila (para. 10). SPBL stands for special policy-based lending.

¹⁷ Financial crises can have permanent and significant effects on an economy's medium-term gross domestic product (GDP) trajectory. One of several comprehensive studies documenting the long-run effects of macroeconomic crises on the level of output in 190 countries is V. Cerra and S.C. Saxena. 2008. Growth Dynamics: The Myth of Economic Recovery. *American Economic Review*. 98 (1). pp. 439–457.

¹⁸ This helped avoid liquidation of an equivalent level of NFRK assets that were likely valued at depressed prices.

¹⁹ The indicators and targets provided for each output do not assist in assessing the degree of implementation of the outputs.

²⁰ In early 2014, the government announced multiyear initiatives and investment expenditure plans under Kazakhstan 2050. In April 2015, the government announced the Nurly Zhol program for infrastructure development with a set of overlapping objectives.

²¹ Footnote 1, para. 24.

²² Footnote 1, paras. 10 and 12.

- (i) establish a single database for tax and customs administration (activity 1.1),
- (ii) establish an e-declaration system for customs clearance (activity 1.2), and
- (iii) introduce a new tariff policy in the electric generation subsector (activity 1.3).

15. The program met all tranche release conditions under output 1, even though the lack of concrete discussion of these reforms in the RRP makes it difficult to assess their reform significance. The program implemented activities 1.1 and 1.2 through the establishment of a system to monitor the import of goods from border to point of sale. The system includes electronic invoicing that is linked to custom declarations (virtual warehousing), but a new unified classification is still to be introduced (the uniform classification of goods and services needs to be integrated with the customs clearance). On the other hand, the uniform risk management system has already been in place since late 2015 to facilitate risk-based inspections and preventive measures.²³

16. Activity 1.3 was also included as steps 50–51 in the Nurly Zhol program for infrastructure development. The law was passed in November 2015, but the new mechanics for energy pricing determination will only materialize in 2019, as the Ministry of Energy expects the current energy surplus of at least 2,000 megawatts to persist until 2021.²⁴ The new law introduces a unified purchaser and calculation methods for contracts with power producers that takes operational costs and markups for capacity expansion into account. It targets both the objectives of adding generation capacity and supporting the renovation of current operators' existing capacity.

17. In activity 1.4, the government was to provide support to current and potential domestic export companies in non-resource sectors of the economy by December 2016. No minimum amount of support was defined as a target for this activity. However, a reference is made in the context of Kazakhstan 2050 to an allocation of "\$1 billion equivalent to increase lending for micro, small, and medium-sized enterprises in manufacturing to increase income-generating opportunities."²⁵ Under activity 1.5, the government was to provide financial support to agribusiness also by December 2016. There was also no quantification of objectives in this regard. References to the Nurly Zhol in the RRP noted that it was to include, as one of its spending priorities, the development of "non-oil business sectors, including manufacturing and agribusiness" through the provision of funds for loans.²⁶ It is not clear to what extent the objectives under activities 1.4 and 1.5 overlap.²⁷ The RRP indicated that about T1,683 billion would be spent for the implementation of Nurly Zhol during 2015–2017 (T804 billion in 2015, T374 billion in 2016, and T505 billion in 2017), "to be financed through the budget by the NFRK and MDB loans." It is not clear how much of this was to be financed by the NFRK.²⁸

²³ Electronic filing for customs clearance uses the Automated System for Customs Data (ASYCUDA) designed by the United Nations Conference on Trade and Development (UNCTAD), and was first pilot tested in Astana. The government plans to complete full rollout in 2017, while it continues to address discrepancies in definitions and internal rules.

²⁴ Ongoing contracts have already brought in 8,000 megawatts of new capacity.

²⁵ Footnote 1, para. 9.

²⁶ Footnote 1, para. 10.

²⁷ Similarly, para. 9 of the RRP noted that under Kazakhstan 2050, \$0.8 billion equivalent would be allocated to "finance infrastructure projects, particularly regional projects in housing and utilities, road construction and repair, and reconstruction of social facilities." Para. 10, on the other hand, indicates that Nurly Zhol would also allocate resources to develop and modernize "infrastructure to support education, tourism, housing, utilities, transport, and logistics." No assessment is provided on how these initiatives coordinate, or whether they form part of a unique set of initiatives that is accounted for in both plans.

²⁸ The exchange rate when ADB approved the program was T187 = \$1. Para. 10 of the RRP refers to "economic support of \$9 billion equivalent—with annual allocations for 2015, 2016, and 2017—to be financed through the budget by the NFRK and MDB loans." However, the government's Development Policy Letter (Appendix 3 to the RRP) noted

18. Based on government information, Appendix 4 provides a breakdown of key expenditure plans and their current execution under Nurly Zhol. This separates NFRK support to the budget that is targeted at Nurly Zhol implementation (Appendix 4, Table A4.1) from off-budget NFRK support for Nurly Zhol activities, which are bonded loans to joint-stock company National Managing Holding Baiterek for onlending to directed credit initiatives (Appendix 4, Table A4.2).

19. ADB and the World Bank provided \$2.0 billion in budget support in 2016, which complemented NFRK's transfers to the budget for the purposes of building cash reserves (T250.0 billion in 2015 and T87.3 billion in 2016). Budget support for 2016 and 2017 reflects new fiscal stimulus initiated in late 2015 to address the third macroeconomic shock that hit the economy in August–October 2015. Output 1's performance was to be measured against the following targets:

- (i) contribution of micro, small and medium-sized enterprises (MSME) sector to gross domestic product (GDP) increased to 21% of GDP in 2016 (2014 baseline: 20%);
- (ii) labor productivity in agriculture increased to at least T700,000 by 2016 (2014 baseline: T572,800); and
- (iii) volume of non-resource exports by enterprises that have received support under the program increased to at least T25.0 billion in 2016 (2015 estimated baseline: T21.7 billion).

20. The program partially achieved these targets. MSMEs' contribution to GDP in 2016 is not yet available.²⁹ Labor productivity in agriculture, forestry, and fisheries grew nominally from T1,072,000 in 2014 to T1,528,800 in 2016. Statistics collected for non-resource exports by enterprises that benefit from the State Program of Industrial-Innovative Development, 2015–2019 report export value of T11.5 billion in 2016, down from T18.5 billion in 2014. The baselines of these performance indicators however are not consistently defined.

21. **Output 2: Measures to increase employment implemented.** Under this output, the government was to implement an action plan for the Employment Roadmap 2020 (activity 2.1) by December 2015 and raise public awareness of employment-related activities (activity 2.2) by December 2016. The government reports that since early 2015 and as of mid-2016, over 598,000 people (referred to as program participants) have benefited directly from the implementation of the road map. Activity 2.2 comprises three pillars of initiatives: (i) small infrastructure projects that, through 4,800 initiatives, employed 72,800 people, 38,700 of whom are program participants; (ii) microcredit support initiatives that benefited 67,600 borrowers, including 25,700 who started a new business; and (iii) vocational training attended by 120,200 people, of whom 105,300 subsequently obtained a job.

22. In addition to NFRK support to the budget (Appendix 4, Table A4.1), the government reports that a state budget allocation of T63 billion was made for 2016 to enable transfers and budget loans to regional budgets (including the municipal budgets of Astana and Almaty) to fund decentralized activities of Employment Roadmap 2020. This was to be funded as a targeted transfer from the NFRK. The absence of an ex ante identification of the measures to raise public awareness for employment-related activities makes it difficult to assess its achievement. However, Table 1 identifies the latest initiatives implemented.

that Nurly Zhol would be “financed in the amount of \$9 billion— with annual allocations of about \$4.3 billion in 2015, \$2.0 billion in 2016, and \$2.7 billion in 2017—as well as with financing to be provided by multilateral development banks in the amount of about \$8.1 billion, and own resources of national companies and development institutions amounting to \$1.3 billion.” MDB stands for multinational development bank.

²⁹ While the contribution of small enterprises to GDP increased from 16% in 2014 to 20% in 2015), the contribution of medium-sized enterprises halved from 9.8% in 2014 to 4.9% in 2015.

Table 1: Public Awareness Initiatives for Employment

Title	Description of the Initiative	Timeline of Implementation
Media plan	Local executive bodies are provided with resources for public dissemination. Audio and video clips, billboards, brochures, booklets, and posters were produced; articles were published in regional newspapers; and seminars were held. For example: Specifically, six audio and video clips were made in the Akmola and Aktobe regions, more than 50 articles and 19 news stories were published in Kyzylorda <i>oblast</i> (local administrative unit analogous to a province), 67 banners and 2,000 brochures were produced in South Kazakhstan, and information on the program was distributed in Almaty's metro station platforms and on 46 large monitors (70,380 slides per month) of the program.	May–September 2016
Website posting of job vacancies	Local executive bodies post information on dkz.mzsr.gov.kz.	Ongoing
National reporting on implementation	The Ministry of Information and Communications placed 8,169 ads on national and local mass media on the implementation of the employment program (954 on national TV stations, 509 articles on national print publications, 1,370 internet postings, and 5,336 articles on local mass media).	January–20 August 2016
Broadcasting <i>Ministermen Sukhbat</i>	The Minister of Health and Social Development participated on the Kazakhstan TV channel to discuss the employment program's implementation issues.	September 2016

Source: Government of Kazakhstan

23. Output 2's performance was to be measured against the following indicators and targets:

- (i) employment by MSMEs increased to at least 3.1 million people in 2016 (2014 baseline: 2.9 million);
- (ii) percentage of self-employed population in the economically active population decreased to at least 27.1% in 2016 (2014 baseline: 28.0%);
- (iii) unemployment for women decreased to at least 5.5% by 2016 (2013 baseline: 5.9%); and
- (iv) number of jobs created under Nurlı Zhol increased to at least 100,000 by 2016 (2014 baseline: 10,400).

24. The program achieved these targets. According to the Committee on Statistics of the Ministry of National Economy, MSME employment had already reached 3.1 million in 2015, 1 year ahead of target, and remained above 3.1 million in 2016. According to the Ministry of Health and Social Development (MHSD), the percentage of self-employed population, which was at 32.8% in 2015, dropped to 24.0% at end of 2016. Unemployment for women dropped to 5.4% at the end of 2016. Lastly, the government clarified that while no reporting routine has been established to record the jobs created under Nurlı Zhol, local executive bodies reported that 150,400 new jobs were created by mid-2016 as a direct result of the program.

25. **Output 3: Priority expenditures to sustain jobs and social expenditure maintained.**

There were two activities under this output. Activity 3.1, which was also a tranche release condition in line with the special feature discussed in paras. 3 and 13 above, required the introduction by the government of optimized social aid based on a targeted approach. But this reform to social benefits was only to be mainstreamed from January 1, 2018 onwards, benefiting from the Orleu Project pilot that was initiated in 2014. The requirements under Activity 3.1 were met through Parliament approval of Law No. 369 in October 2015 on "Amendments Introduced to

Some Legislative Acts of the Republic of Kazakhstan in the field of Social Protection of Population.” This new legal framework sets three main features:

- (i) Three payment types to low-income people—targeted social aid (TSA), State Child Allowances, and Special State Benefit (SSB) for families with many children—will be converted into a newly formatted TSA. The main characteristic of the new TSA is that payments are provided to families with incomes below 50% of the subsistence minimum for each family member, provided that work-capable family members participate in active initiatives to promote employment.
- (ii) The SSB will be optimized by (i) combining the SSB for disabled people with the Special State Allowance related to disability, and (ii) transforming the SSB for mothers with many children into the Special State Allowance, as governed by its own law.³⁰
- (iii) Its effectiveness is being phased by the gradual rollout of a pilot.

26. Activity 3.2 required the government to ensure that countercyclical measures for social expenditures and job creation were included in the budget, implemented, monitored, and reported by December 2016. While all activities referred to under activities 1.4, 1.5, 2.1, and 3.1 can be considered as countercyclical measures that can have direct and indirect effects on job creation, what is reported in Table A4.1 in Appendix 4 is not included in the state budget. However, the government, through the finance minister, does have the mechanisms to monitor and report on the consolidated implementation of such a wide array of initiatives to ADB, although they require several back-and-forth communications. But because a systematic routine seems to be absent, the monitoring and reporting of consolidated information is not done on a set frequency and for the public’s benefit (e.g., through a stand-alone report), as the original intention could have been.

27. Output 3’s performance was to be measured against one single indicator and target: budget expenditure for social expenditures in percent of total expenditure is maintained or increased in 2016 (2014 baseline: 37.5% of total expenditure). The program achieved this target. The government reports that in 2015, social expenditures execution in the state budget reached 39.4%, whereas a share of 40.2% was planned in the approved budget proposal for 2016. Budget execution estimates for 2016 indicate that 39% of total expenditures were for the social function, including Education (6.2% of total expenditures), Healthcare (9.1%), Social Security and Social Assistance (22.3%) and Culture (1.3%).

C. Program Costs

28. The loan amounted to \$1 billion exceeding the CSF loan limit by \$500 million. Under the program, the CSF ceiling of \$500 million for countercyclical funding available for each country was waived, but a more specific basis for determining the proposed loan amount was not articulated in the RRP. Instead, the overall state budget financing requirements of Kazakhstan were presented as a justification.³¹

D. Disbursements and Program Schedule

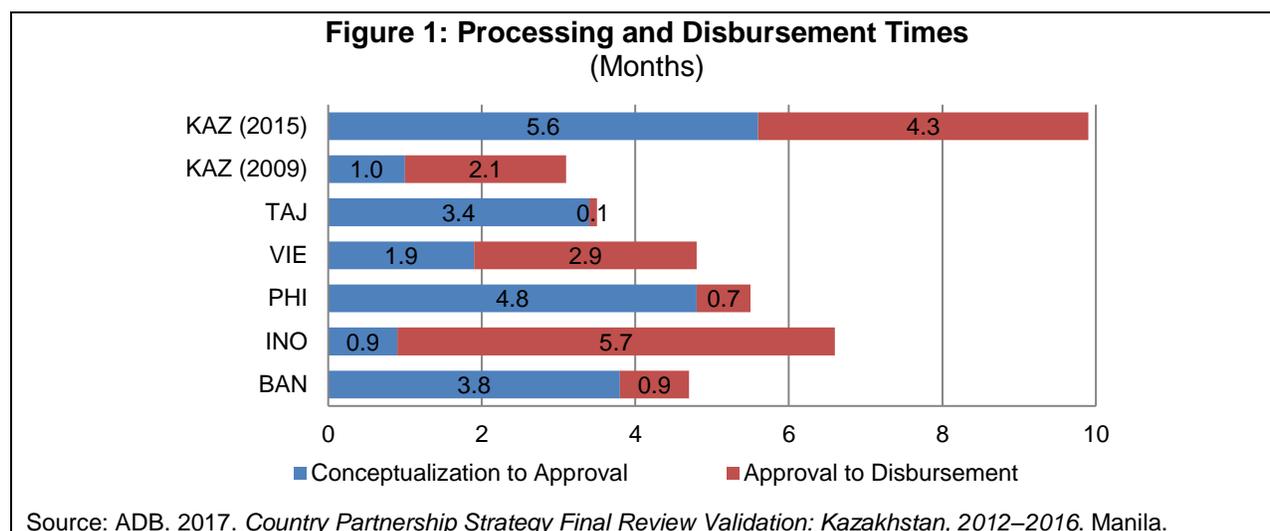
29. Prior to loan effectiveness, the government requested for a single tranche disbursement. The loan was initially envisaged to be disbursed in two tranches (\$500 million each). The first

³⁰ Law of “State Allowances to Families with Children.”

³¹ Footnote 1, para. 22.

tranche was to be released upon loan effectiveness. The second tranche was to be released once the government had met four disbursement conditions (paras 14-16 and 26):

30. Under Kazakhstan law, parliamentary ratification of the loan agreement was required. Because loan effectiveness and compliance with second tranche disbursement conditions were confirmed jointly, ADB approved the simultaneous release of the first and second tranches on 21 December 2015. The loan was declared effective on 29 December 2015 and disbursed on the same day. The program thus supported the 2016 fiscal year. Retrospectively, earlier approval and disbursement with alternative funding for the \$500 million financing gap and refraining from setting disbursement conditions, which were not justified in the RRP, would have been preferable. Figure 1 illustrates the high processing time for this CSF, which due to its special features was subject to extensive time consuming debate within ADB.



31. As discussed in paras. 5–12 and in Appendix 3, there could have been little doubt that the macroeconomic circumstances that were unfolding in Kazakhstan in 2015 and that the quick-response countercyclical efforts already being deployed by the government were in line with ADB's CSF access criteria. Acting on an urgency mode was therefore essential to remain consistent with the nature and objectives of ADB's CSF.

E. Implementation Arrangements

32. Implementation arrangements were *satisfactory*. The Ministry of Finance (MOF) was the executing agency for the program. The implementing agencies were the Ministry of National Economy, the Ministry of Healthcare and Social Development, the Ministry of Energy, and the NBK. The reporting requirements that were included as covenants could have been more effective if they were timed more properly. ADB asked the government to provide annual reports on (i) macroeconomic and financial sector conditions; (ii) expenditures made from the state budget to support the countercyclical measures, as well as the budget execution; and (iii) implementation of countercyclical measures, including progress in the implementation of Nurly Zhol and Employment Roadmap 2020.

33. In accordance with the loan agreement, a completion report was to be submitted by the government within 8 months of the loan closing date. Even though the program's implementation period was up to 31 December 2016, which is also the original loan closing date indicated in the

loan agreement, the loan was closed on 5 January 2016. Given that the program’s DMF mostly includes indicators and targets that require full-year information for 2016, the timing of such a requirement should have been set for early 2017 instead. Nonetheless, the government submitted a completion report, including information along the three topics that were to comprise the annual reports described in para. 32, to ADB in September 2016, in line with the ADB requirement. This effort helped initiate the current completion assessment, but key information could be provided in early 2017.

F. Conditions and Covenants

34. The loan was declared effective on 29 December 2015, less than 2 months after loan signing. The program complied with all 15 covenants (Appendix 2). The covenant that took longer to be complied with was the submission of annual reports on (i) macroeconomic and finance sector conditions; (ii) expenditures made from the republican budget to support the countercyclical measures, as well as the budget execution; and (iii) implementation of countercyclical measures, including progress in the implementation of Nurly Zhol and Employment Roadmap 2020 and the achievement of their established targets. The government submitted its report for 2016, the only year for which this requirement was relevant, in March 2017 when key information became available. This did not have an impact on program performance. The covenants were in general *relevant*.

G. Performance of the Borrower and the Executing Agency

35. The performance of the government and the MOF as the executing agency was *satisfactory*. The government and the MOF effectively met the responsibilities assigned to them in the program. The planned countercyclical development expenditures were executed swiftly by the government and the MOF, and were promptly re-enforced (and extended to 2016–2017) once the third macroeconomic policy shock occurred. When the exchange rate adjusted to levels consistent with the new terms of trade faced by the Kazakhstan economy, the government’s overall macroeconomic policy response became more efficient, with a much more effective mix of fiscal and monetary policy stances. However, there were delays in loan signing and in meeting effectiveness conditions that were mostly related to Parliament’s ratification of the loan agreement.

H. Performance of the Asian Development Bank

36. ADB’s performance was *less than satisfactory* because of the following issues. First, the processing timeline (Table 2) was not in line with the fast-track nature of ADB’s CSF operations. No justification was presented in the RRP for this or for possible hesitations in deeming the Kazakhstan situation in 2015 to be fully eligible under the CSF’s access criteria.

Table 2: Kazakhstan Countercyclical Support Loan Chronology

Date	Activity
26 December 2014	MOF requested for a CSF
23 February–5 March 2015	Reconnaissance mission (upgraded to fact-finding mission) conducted
15 March 2015	MOU of the reconnaissance mission signed
22 April 2015	Management review meeting held
10 July 2015	Informal Board seminar held
21–24 July 2015	RRP circulated to the Board
21 August 2015	Board approved RRP
18 November 2015	Loan agreement signed
23 December 2015	Parliament (lower house) ratified loan agreement

Date	Activity
24 December 2015	Senate ratified loan agreement
28 December 2015	Presidential decree issued
29 December 2015	Loan declared effective and both tranches released

CSF = countercyclical support facility, MOF = Ministry of Finance, MOU = memorandum of understanding, RRP = report and recommendation of the president.

Source: ADB staff

37. Second, gaps in the macroeconomic analysis may have contributing to missing to highlight the rising and very significant exchange rate risks that were likely to significantly alter the recovery expectations displayed in the DMF. Macroeconomic policy dialogue (which the CSF requires) could have been used to highlight the increasing risks of a sharp and disorderly exchange rate adjustment that adversely affected the finance sector.³²

III. EVALUATION OF PERFORMANCE

A. Relevance

38. The program was *relevant* at appraisal and completion. The arguments presented in paras. 5–12 could have justified a higher rating, if not for the design issues highlighted in paras. 8 and 11. The lack of justification for the special feature introduced in the program for tranche release conditions and its potential counterproductive role in delaying financial support disbursement are critical design setbacks. The emphasis on issues that are possibly only relevant to structural challenges in Kazakhstan also seems misplaced. The poor definition of “outcome,” “outputs,” and “activities” in the DMF created difficulties in the current assessment. The identification of specific risks in the DMF that affected the calibration of values and timing in performance indicators and targets should have been more complete.

39. In sum, ADB financing for the government’s countercyclical fiscal efforts remained justified throughout (in terms of the three CSF access criteria. But key risks to the countercyclical fiscal-monetary policy mix were not taken into account. Specifically, the state of the banking system and its vulnerabilities to an abrupt exchange rate adjustment that became increasingly likely in the first half of 2015 should have been considered, in view of the noticeable consequences of the earlier, February 2014 exchange rate adjustment. These sources of vulnerability could have been addressed in various forms.

40. After the approval of the program, the sharp exchange rate depreciation provided some needed expansion of the oil-related fiscal revenue base, limiting the extent of the needed subsequent fiscal effort.³³ But, as expected, its abrupt and disorderly nature exacerbated pressures in the banking system and the credit contraction that ensued led to steep contraction

³² In fact, the focus of the conditionality introduced as a special feature on the program could have instead been on measures to decrease the vulnerability in the financial sector to exchange-rate risks, through e.g. necessary regulatory measures or enforcement requirements. ADB has had continuous engagement in Kazakhstan’s finance sector for more than a decade. This should have produced important insights into what needed to be done to decrease the finance sector’s vulnerability to looming risks and enable its role in supporting economic recovery. In fact, the state of the finance sector before 2014 represented a source of macroeconomic vulnerability that has been there since ADB’s 2009 CSF in Kazakhstan. Independent Evaluation Department’s validation of the program completion report for the previous CSF operation actually recommended increased engagement on this matter (Independent Evaluation Department. 2012. *Validation Report: Countercyclical Support Loan in Kazakhstan*. Manila: ADB). ADB has done so in other countries, such as in ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loans to Georgia for the Growth Recovery Support Program*. Manila.

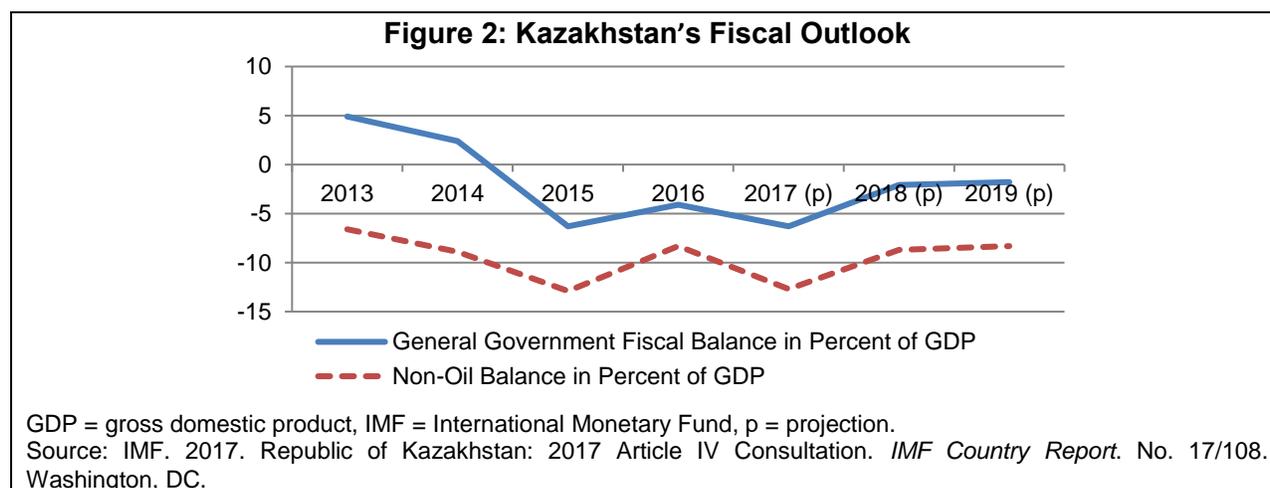
³³ As an illustration, the program loan of \$1 billion was worth, in local currency and at time of disbursement, almost double of what was expected in early August.

in the economy that likely delayed economic recovery. Nonetheless, the program design remained relevant at the time of program completion.

41. The significance of the macroeconomic shocks percolating through the Kazakhstan economy in 2014–2015 wholly justified the increase in the financial resources that was made available by ADB to the program (the first special feature highlighted in para. 3 above). But the introduction of tranche release conditions (the second special feature of the program) was potentially counterproductive: no justification was presented for it, and it could have delayed disbursement even further.

B. Effectiveness in Achieving Outcome

42. The program supported government's countercyclical efforts in 2016 when risks that had not been identified were already occurring (i.e. the third shock discussed in paras. 2 and 10 above) and exacerbating the economic downturn. But in that sense, the program remained highly effective as an external financial support effort to the fiscal effort that had to be re-enforced with additional measures. On the other hand, the 'outcome' statement and the chosen performance indicators and targets do not seem to reflect the expected logical framework for a CSF, i.e. economic growth recovery. Instead it focuses on an exit strategy for the fiscal countercyclical stimulus already in 2016, with the following outcome statement: 'improved fiscal sustainability'. This could have been justified if, because of the debt sustainability analysis, Kazakhstan's fiscal space had been deemed so limited that the government could only afford 1 year of fiscal stimulus. That was just not the case.³⁴



43. Figure 2 indicates that such an exit effort is being gradually factored in the fiscal outlook for Kazakhstan, according to the latest IMF Article IV Consultation report, which might have used a different methodology from the one indicated in the program.³⁵ The current trajectory is indeed one of reducing net fiscal injections into the expenditure flow of the national economy, but at a pace that is adequate to Kazakhstan's macroeconomic circumstances. The same expectation has

³⁴ It had been noted during processing that it was contradictory to deem Kazakhstan clear from a fiscal sustainability perspective, for CSF eligibility purposes, while referring to fiscal sustainability improvement as an outcome of the program.

³⁵ IMF. 2017. Republic of Kazakhstan: Selected Issues. *IMF Country Report*. No. 17/109. Washington, DC.

been in place since early 2016.³⁶ The DMF includes the following performance indicators and targets for the outcome statement, which did not incorporate the possibility of the economic consequences of the third macroeconomic shock into the timing of expected fiscal consolidation:

- (i) Budget deficit is reduced to 2.4% of GDP in 2016 (2014 baseline: 2.7%).
- (ii) Non-oil deficit is reduced to 7.0% of GDP in 2016 (2014 baseline: 7.8%).

44. The program is rated *effective*, given the likelihood of an appropriate pace of fiscal consolidation that is factored in the expectations described in Figure 2 and para. 43. Stability in the public sector debt ratio is also compatible with this outlook. In terms of the achievement of output indicators and targets—an important consideration if outcomes are to be attributable to the program intervention—the information reported in paras. 14–20 (output 1), paras. 21–24 (output 2), and paras. 25–27 (output 3) indicates that the program is likely to have substantially met all outputs despite definitional difficulties with some indicators.

C. Efficiency in Achieving Outcome and Outputs

45. The program was *less than efficient*. From a delivery perspective, the processing pace and disbursement delays are important setbacks and affect this assessment of efficiency. But as discussed above, the government’s macroeconomic policy strategy that was explicitly supported in the program was constrained in part by the exchange rate peg that was only abandoned after program approval. Delaying the exchange rate adjustment to a terms-of-trade shock like the one that hit Kazakhstan likely resulted in a much more resource-intensive countercyclical effort overall.³⁷ A fear of floating seems to have dominated the exchange rate policy in Kazakhstan until late 2015, arguably because of perceived vulnerabilities in the banking system to currency depreciation. But, as an indication of the costs entailed in persisting with a defense of the exchange-rate peg that lasted till end-August, \$11 billion were “spent” in foreign exchange interventions by the NBK between early July and late October 2015. These foreign exchange resources were “sold” to first, defend the peg against mounting depreciating pressures, and, from late-August onwards, slowdown the stark depreciation that ensued.

D. Preliminary Assessment of Sustainability

46. The program is *likely sustainable*, but this is conditional on swift resolution of the asset quality problems in Kazakhstan’s finance system. These are likely to keep holding back economic recovery, and thus the sustainability of the countercyclical efforts.

³⁶ The World Bank’s Kazakhstan Economic Update for summer 2016 also show that in percentage of GDP, the overall fiscal deficit was expected to peak at 7.7% in 2016 and drop to 4.8% in 2017; and in percentage of GDP, the non-oil budget deficit was expected to peak at 11.3% in 2016, and drop to 8.9% in 2017. World Bank. 2016. *Kazakhstan: A Long Road to Recovery—Kazakhstan Economic Update No. 3, Summer 2016*. Washington, DC (Table 2).

³⁷ The reasoning is not new, but two pronged. First, terms-of-trade shocks of this nature and magnitude do not only affect profits and investment plans in oil-related sectors of an economy, but also indirectly but powerfully affect the fiscal space needed to deploy countercyclical measures. Inherent to terms-of-trade shocks is a fundamental change in the equilibrium exchange rate of the affected economy. For this general reason, petro-states do macroeconomic adjustment to terms-of-trade shocks with an important exchange rate adjustment component. Second, fiscal considerations however are usually a more immediate motivation. Given that the export commodities on which petro-states’ fiscal space depends on are priced in international currency, exchange rate depreciation actually helps reduce the debt financing requirements, and/or expand the extent of the countercyclical response (or, alternatively, reduce the extent of the fiscal adjustment).

E. Impact

47. It is too early to rate the impact of the program, which was defined as sustained pro-poor economic growth. As anticipated at appraisal, loan implementation did not result in any impacts related to environmental or social safeguards.

IV. OVERALL ASSESSMENT AND RECOMMENDATIONS

A. Overall Assessment

48. The program was *successful*. This rating is based on several criterion ratings assigned in paras. 38, 44, 45 and 46. The DMF had several shortcomings, including the definition of outputs, performance indicators and targets, and some of the activities discussed in paras.13-27. The inefficient response to the government's request for financial support was a significant setback in the program's design and ADB's performance, but this is reflected in the sub-ratings that determined the overall rating.

B. Lessons

49. Two key lessons can be extracted from the implementation of the program: (i) adequate macroeconomic analysis and policy dialogue are essential to the proper formulation and internal stakeholder mobilization of this instrument; and (ii) to the extent that the inclusion of the special features described in para. 4 were related to processing delays before August 2015, this could have justified proceeding instead with a \$500 million effort, while initiating the preparation of programmatic support effort in parallel.

C. Recommendations

50. **Additional assistance.** It is important to consider that a large part of the asset quality problems of Kazakhstan banks have remained unresolved since the macroeconomic crisis that hit the country in 2009, when ADB supported the government's countercyclical response through an earlier CSF operation.³⁸ The need for additional technical and policy assistance on this front was highlighted in the validation report for the previous Kazakhstan CSF, but was not reflected in ADB's assistance pipeline.³⁹ Even though ADB continued to provide financial assistance to finance sector intermediation in Kazakhstan, through a modality that explicitly requires a reform road map, it did not implement key regulatory and public sector reforms that were essential to sustaining operational outcomes. The discussion on sustainability in para. 46 justifies a particular approach to ADB assistance to Kazakhstan in the near future: programmatic and technical assistance for banking system restructuring.

51. To address problems and encourage bank lending to support economic recovery, the government needs to urgently implement the following reform action pillars: (i) resolve nonperforming loans by enhancing the legal, financial, and management capacity of NBK's Problem Loan Fund; and actively use prudential rules to incentivize banks to come to the negotiating table; (ii) increase capital buffers (with private or public equity) and prepare for banking consolidation solutions; (iii) restructure ongoing wholesale term funding schemes (such as those from the Damu Entrepreneurship Development Fund and National Managing Holding Baiterek) to

³⁸ ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of Kazakhstan for the Kazakhstan Countercyclical Support Loan*. Manila.

³⁹ ADB. 2012. *Validation Report: Countercyclical Support Loan in Kazakhstan*. Manila.

make funding assistance to banks conditional on progress on the first two reform action pillars and actual new lending to the real economy; and (iv) gradually introduce internal risk-based approaches to capital regulation in the banking system, while addressing banks' risk-weight variability behavior and past instances of regulatory forbearance.

DESIGN AND MONITORING FRAMEWORK

Impact of the countercyclical support facility			
Sustained pro-poor economic growth (State Program of Infrastructure Development Nurly Zhol for 2015–2019, Employment Roadmap 2020) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Status Update
Outcome Improved fiscal sustainability	By 2016 a. Budget deficit is reduced to 2.4% of GDP in 2016 (2014 baseline: 2.7%)	a. Ministry of National Economy annual budget	Not achieved
	b. Non-oil deficit is reduced to 7.0% of GDP in 2016 (2014 baseline: 7.8%)	b. Ministry of National Economy annual budget	Not achieved
Outputs 1. Measures to promote non-oil and private sector development implemented 2. Measures to increase employment implemented	1a. Contribution of MSME sector to GDP increased to 21.0% of GDP in 2016 (2014 baseline: 20.0%)	1a. Ministry of National Economy Committee on Statistics quarterly statistical report	Cannot be assessed
	1b. Labor productivity in agriculture increased to at least T700,000 by 2016 (2014 baseline: T572,800)	1b. Ministry of National Economy annual monitoring reports	Cannot be assessed
	1c. Volume of non-resource exports by enterprises that have received support under the program increased to at least T25.0 billion in 2016 (2015 estimated baseline: T21.7 billion)	1c. Ministry of National Economy annual monitoring reports	Cannot be assessed
	2a. Employment by MSMEs increased to at least 3.1 million people in 2016 (2014 baseline: 2.9 million)	2a. Ministry of National Economy annual monitoring reports	Achieved
	2b. Percentage of self-employed population in the economically active population decreased to at least 27.1% in 2016 (2014 baseline: 28.0%) ^b	2b. Ministry of National Economy, Committee on Statistics quarterly statistical report	Achieved

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Status Update
3. Priority expenditures to sustain jobs and social expenditure maintained	2c. Unemployment for women decreased to at least 5.5% by 2016 (2013 baseline: 5.9%)	2c. Ministry of Healthcare and Social Development annual monitoring report	Achieved
	2d. Number of jobs created under Nurdy Zhol increased to at least 100,000 by 2016 (2014 baseline: 10,400)	2d. Ministry of Healthcare and Social Development annual monitoring report	Achieved
	3a. Budget expenditure for social expenditures in percent of total expenditure is maintained or increased in 2016 (2014 baseline: 37.5% of total expenditure) ^c	3a. Ministry of Finance annual monitoring reports	Achieved

Activities with Milestones

1. Measures to promote non-oil and private sector development implemented

- 1.1 Government establishes a single database for tax and customs administration (October 2015)
- 1.2 Government establishes e-declaration system for customs clearance (October 2015)
- 1.3 Government introduces a new tariff policy in the electricity generation subsector (October 2015)
- 1.4 Government provides support to current and potential domestic exporting enterprises in non-resource sector of the economy (December 2016)
- 1.5 Government provides financial support to agribusiness (December 2016)

2. Measures to increase employment implemented

- 2.1 Government implements action plan for Employment Roadmap 2020 (December 2015)
- 2.2 Government raises public awareness of employment-related activities (December 2016)

3. Priority expenditures to sustain jobs and social expenditure maintained

- 3.1 Government introduces optimized social aid based on a targeted approach (October 2015)
- 3.2 Government ensures countercyclical measures for social expenditure and job creation are included in the budget, implemented, monitored, and reported (December 2016)

Inputs

Asian Development Bank: \$1 billion in 2015 (ordinary capital resources)
World Bank: \$1 billion in 2015, \$1 billion in 2016 (planned parallel financing)
Government: \$4.8 billion

Assumptions for Partner Financing

Not applicable

GDP = gross domestic product; MSME = micro, small and medium-sized enterprises.

^a Decree of the President of the Republic of Kazakhstan. 2015. *State Program of Infrastructure Development Nurdy Zhol for 2015–2019*. Astana; and Resolution of the Government of the Republic of Kazakhstan. 2015. *Employment Roadmap 2010*. Resolution No.162. Astana.

^b Self-employed workers are unregistered self-employed workers, persons engaged in the production of goods for own consumption in private household plots, and unpaid family enterprise workers, a significant portion of whom are not covered by social protection and support.

^c Social expenditures: education; health care; social assistance and provision for social security and social aid; and culture, sports, tourism, and information.

Sources: Asian Development Bank, Ministry of National Economy, Ministry of Healthcare and Social Development, and Ministry of Energy.

STATUS OF COMPLIANCE WITH LOAN COVENANTS

Reference in Loan Agreement	Covenant	Status of Compliance
Article IV		
Section 4.01	(a) The Borrower shall cause the Program to be carried out with due diligence and efficiency and in conformity with sound applicable technical, financial, business and development practices.	Complied with
	(b) In the carrying out of the Program, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 4 to this Loan Agreement.	Complied with
Section 4.02	The Borrower shall make available, promptly as needed, the funds, facilities, services and other resources, as required, in addition to the proceeds of the Loan, for the carrying out of the Program.	Complied with
Section 4.03	(iii) The Borrower shall ensure that the activities of its departments and agencies with respect to the carrying out of the Program are conducted and coordinated in accordance with sound administrative policies and procedures.	Complied with
Section 4.04	(a) The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to indicate the progress of the Program.	Complied with
	(b) The Borrower shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.	Complied with
Section 4.05	(a) As part of the reports and information referred to in Section 7.04 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning (i) the Counterpart Funds and the use thereof; and (ii) the implementation of the Program, including the accomplishment of its targets and actions set out for the Program.	Complied with
	(b) Without limiting the generality of the foregoing or Section 7.04 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB annual reports on the carrying out of the Program and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.	Complied with
Schedule 4: Program Implementation and Other Matters		
Implementation Arrangements	1. The Borrower shall designate MOF as the Program Executing Agency and the Borrower's Ministry of National Economy, Ministry of Health and Social Development, Ministry of Energy, in each case, including any successor thereto, and the National Bank as the implementing agencies, who will be collectively responsible for monitoring the implementation of the Program, the countercyclical measures and determining their impact on key macro and financial indicators of the Borrower.	Complied with
Policy Actions and Dialogue	2. The Borrower shall promptly discuss with ADB problems and constraints encountered during the Program implementation and appropriate measures to overcome and mitigate such problems and constraints.	No specific problems

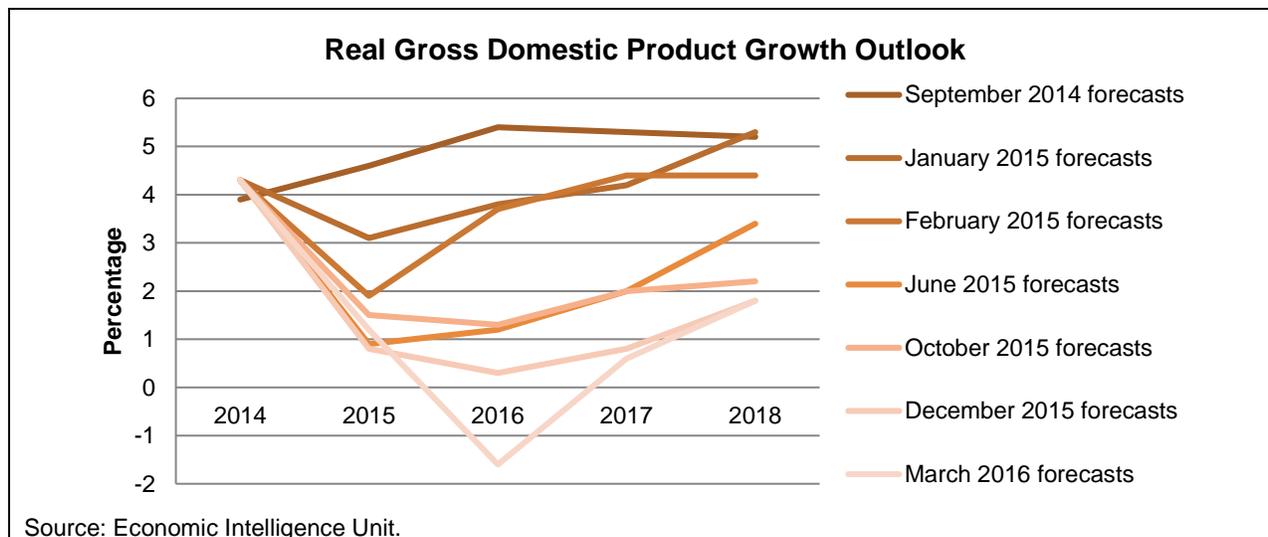
Reference in Loan Agreement	Covenant	Status of Compliance
	3. The Borrower shall keep ADB informed of policy discussions with other multilateral and bilateral aid agencies that may have implications for the implementation of the Program and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower shall take into account ADB's views before finalizing and implementing any such proposal.	Complied with
Use of Counterpart Funds	4. The Borrower shall ensure that the Counterpart Funds are used to finance the implementation of certain programs and activities consistent with the objectives of the Program.	Complied with
Governance and Anticorruption	5. The Borrower shall: (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Program; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.	Complied with
Monitoring and Review	6. The Borrower shall on an annual basis provide ADB with reports on: (a) macroeconomic and financial sector conditions; (b) expenditures made from the republican budget to support the countercyclical measures, as well as the budget execution; and (c) implementation of countercyclical measures, including progress in implementation of the Nurly Zhol, the Borrower's new economic policy, the Borrower's Employment Roadmap 2020 and meeting their established targets.	Complied with
	7. The Borrower shall ensure that within 8 months of Loan Closing Date, a program completion report is submitted to ADB.	Complied with

ADB = Asian Development Bank.

Source: Asian Development Bank.

MACROECONOMIC UNCERTAINTY IN KAZAKHSTAN IN 2015

1. Macroeconomic circumstances in early 2015 in Kazakhstan were of high uncertainty, especially with regards to the magnitude of the negative effects that were trickling down through the economy because of the three consecutive shocks that hit the country in 2013–2015 (main text, paras. 1–3). But real-time macroeconomic outlook forecasts by the Economic Intelligence Unit (EIU) also tried to factor in the countering effects that the sequence of fiscal countercyclical measures adopted since late 2014 could produce. Given the timing of fiscal expenditure decisions, and the lags in their execution and the direct and indirect effects on national expenditure flows in the economy, fiscal policy planning needed to be on a preemptive mode.



2. The figure illustrates the degree of macroeconomic uncertainty that fiscal policy stimulus decisions throughout 2015 faced. To facilitate comparability, we use the same source of macroeconomic forecasts: the country forecast reports of the Economic Intelligence Unit (also benefiting from the financial programming methodology that underpins their work).

KEY EXPENDITURE PLANS AND THEIR CURRENT EXECUTION UNDER THE NURLY ZHOL PLAN

Table A4.1: National Fund of the Republic of Kazakhstan Transfers to Nurly Zhol Program
(T'000)

	2015	2016 (budgeted)	2017 (plan)
NFRK Transfers related to Nurly Zhol Program, comprising: (A+B+C+D+E+F+G+H+I+J+K+L+M)	492,586,663	472,787,160	441,600,000
(A) Infrastructure Facilities (motor roads, railways, ferry complex and other infrastructure)	307,648,188	207,700,000	150,500,000
1. <i>Creation of an efficient transport and logistics infrastructure</i>	178,000,000	151,300,000	143,500,000
2. <i>Development of industrial and tourism infrastructure:</i>	100,648,188	46,400,000	
(1) construction of the SEZ "National Industrial Petrochemical Technopark"	68,499,931	10,000,000	
(2) construction of the SEZ "Horgos - East Gates"	12,348,187		
(3) construction of the second rail tracks at Shu - Almaty section	8,300,000	19,400,000	
(4) construction and operation of the ferry complex in the port of Kuryk	4,800,000	7,000,000	2,000,000
(5) Construction of "Borzhakty - Ersai" railway	6,700,070		
(6) construction of the new railway line "Zhezkazgan-Beyneu" (completion of project)		10,000,000	
3. <i>Reconstruction of passenger terminal and runway strip in Astana airport</i>	29,000,000	10,000,000	5,000,000
(B) Modernization (reconstruction and construction) of housing and utilities' infrastructure, heating networks, water supply and sanitation	59,790,636	89,956,507	53,000,000
(C) Allocation to Local Executive Bodies for Development and Construction of Engineering and Communication Infrastructure	17,500,000	77,861,125	57,400,000
(D) Development of Infrastructure in the Field of Education and others	49,073,708	60,371,837	79,400,000
(E) Providing infrastructure for the projects under the "Business Roadmap - 2020" Program	9,781,530	14,565,048	10,000,000
(F) Allocation for Loan-Financed Housing Projects Initiated Earlier by the JSC "ZhSSBK"	30,000,000		
(G) Improving the Competitiveness of AgriBusiness Entities (subsidizing of interest rates on agricultural loans and leasing to agribusiness entities via KazAgro)	18,792,601	25,000,000	
(H) Financing of RoK share in joint projects with international financial organizations		12,332,643	27,000,000
(I) Increasing charter capitals for implementing guarantees for pro-rata contributions		10,000,000	10,000,000
(J) Issue of targeted transfers for development to regional budgets, budgets of Astana and Almaty cities for construction of rental housing without a right of buy-out			25,000,000
(K) Seismic retrofit of schools			8,300,000
(L) Subsidizing of interest rates on funding raised by JSC "Baiterek Development" for construction of loan-financed housing			11,000,000
(M) Subsidizing of interest rates on funding raised by JSC "Kazakhstan mortgage company" and placed on special-purpose deposits in second-tier banks for subsequent issuing of mortgage loans to population			10,000,000

JSC = Joint Stock Company, RoK = Republic of Kazakhstan, SEZ = Special Economic Zone, ZhSSBK = Zhylstroyberbank of Kazakhstan.

Source: Government of Kazakhstan

Table A4.2: Bonded Loans from the National Fund of the Republic of Kazakhstan Transfers (Nurly Zhol Program)
(T'000)

	2015	2016 (budgeted)
"Bonded" loans from NFRK (Nurly Zhol Program) (1+2+3)	268,836,000	336,500,000
1. Improving Affordability of Housing for Citizens (NFRK loan to JSC "Kazakhstan Mortgage Company", via JSC "NMH Baiterek")	92,500,000	321,500,000
Loan from NFRK to JSC "Kazakhstan Mortgage Company" via NMH "Baiterek"		22,500,000
Loans for financing construction of rental and loan-financed housing via NMH "Baiterek" in 2016		202,000,000
Loans for financing of construction of commercial residential housing via NWF "Samruk -Kazyna"		97,000,000
2. Support for Entrepreneurship (NFRK loan to JSC "NMH Baiterek"):	91,336,000	
(i) Support for SMEs in Manufacturing (NFRK loan to JSC "Entrepreneurship Development Fund DAMU", via JSC "NMH Baiterek")	46,932,000	
(ii) Support for large business entities in manufacturing industry (NFRK loan to JSC "Kazakhstan Development Bank", via JSC "NMH Baiterek")	44,404,000	
3. Support of National Machine Engineering (via JSC "NMH Baiterek"):	85,000,000	15,000,000
(a) Lending to national car manufacturers	30,000,000	
(b) Lending to Exporters	50,000,000	15,000,000
(c) Lending to passenger railcars manufacturers	5,000,000	

JSC = Joint-Stock Company, NFRK = National Fund of the Republic of Kazakhstan, NMH = National Management Holding, NWF = National Welfare Fund, SME = small and medium-sized enterprise.

Source: Government of Kazakhstan