



Completion Report

PUBLIC

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Technical Assistance Number: 9650
July 2022

Kazakhstan: Developing Rural Financial Intermediation

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TECHNICAL ASSISTANCE COMPLETION REPORT

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| TA Number, Country, and Name: TA 9650-KAZ: Developing Rural Financial Intermediation | | Amount Approved: \$225,000.00 | |
| | | Revised Amount: Not applicable | |
| Executing Agency: Ministry of National Economy | Source of Funding: Financial Sector Development Partnership Special Fund (FSDPSF) | Amount Undisbursed: \$124,148.09 | Amount Used: \$100,851.91 |
| TA Approval Date: 25 September 2018 | TA Signing Date: 25 September 2018 | TA Completion Date | |
| | | Original Date: 30 June 2020 | Latest Revised Date: 30 June 2022 |
| | | Financial Closing Date: 18 April 2022 | Number of Extensions: 2 |
| TA Type: KSTA Knowledge and Support Technical Assistance | | TA Arrangement: Not Applicable | |

Description

Kazakhstan is an upper middle-income country with vast tracts of agricultural land. About 40% of the country's population (of 7.8 million in 2021) live in rural areas and rely on incomes generated from agriculture.¹ The agriculture sector employs about 20% of Kazakhstan's labor force. Agriculture productivity is low because of a weak agricultural support system, environmental constraints, land tenure issues, and ineffective state support programs which rely on significant input-oriented subsidies. Limited access to finance is one of the major challenges faced by the agribusinesses in the country. A key constraint to long-term credit is an underperforming financial sector that insufficiently responds to the needs of the private sector, especially in rural areas. Collateral-driven bank lending practices and underdeveloped credit risk management further constrain financing of the sector.

The TA 9650-KAZ: Developing Rural Financial Intermediation (TA) supported the Agrarian Credit Corporation Joint Stock Company (ACC), which is a state-owned financial institution mandated to provide affordable lending to farmers primarily through state-financed agriculture programs. As the dominant lender in the agriculture and agribusiness sectors, the ACC intended to continue improving access to finance of entities and households in rural areas.²

The technical assistance (TA) targeted to support ACC in becoming a key financial development institution in the agriculture sector of Kazakhstan through a set of measures, including stimulating the interest of financial institutions in Kazakhstan to fund the agriculture sector, financial support to credit unions (CU) and capacity building of agriculture sector enterprises.

The TA also aimed to assist ACC in implementing its long-term development strategy for 2017-2026 through: (i) developing a comprehensive and actionable business plan, (ii) improving corporate governance, (iii) strengthening the institutional capacity, (iv) developing its environmental and social management system, and (v) providing expertise for strengthening CUs and financial organizations in rural areas. The TA was included in ADB country operations business plan, 2019-2021 for Kazakhstan.³

Expected Impact, Outcome, and Outputs

The TA's expected impact was aligned with the accessible and effective system of agriculture financing that supports economic growth. The TA's expected outcome was to broaden the access to finance for agriculture sector entities' operations at a full production capacity in rural areas. The TA outputs were to cover (i) improved business processes of ACC, (ii) improved financial intermediation capacity of ACC, and (iii) comprehensive roadmap to broaden agriculture sector entities' access to finance in rural areas.

¹ Agency for Strategic planning and reforms of the Republic of Kazakhstan. 13 April 2022. Bureau of National statistics. [Adjusted statistics on population. Express data.](#)

² The ACC was entirely owned by the National Managing Holding KazAgro—a state-owned enterprise. Its rights of ownership and use of the state stock of holding shares were with the Ministry of Agriculture.

³ [ADB. 2018. Country Operations Business Plan: Kazakhstan, 2019-2021. Manila.](#)

Implementation Arrangements

As planned, ADB's Kazakhstan Resident Mission (KARM) implemented the TA in coordination with ACC and Ministry of Agriculture (MOA); the Ministry of National Economy (MNE) was TA executing agency. ADB recruited four individual consultants through the competitive process.⁴ The TA-financed activities complemented ongoing project preparatory work under another TRTA 6451-KAZ, which supported the processing of Livestock Value Chain Development Project, administered by the Environment, Natural Resources, and Agriculture Division (CWER) of CWRD.⁵ With the outbreak of COVID-19 pandemic and ensuing travel and other restrictions in March 2020, all project meetings during 2020-2021 were held virtually. Furthermore, TA activities were suspended in December 2020, due to institutional restructuring of ACC, which affected its mandate and business operations (details in the Conduct of Activities section). As a result, instead of 33.0 person months of initially planned consulting services (14.0 international and 19.0 national), actual consulting inputs amounted to 14.8 person-months (11.6 national and 3.2 international).

Conduct of Activities

The TA delivered one of its planned outputs. The TA was approved and became effective on 25 September 2018. The original TA completion date was 30 June 2020. The TA was extended twice (24 months in total) until 30 June 2022 to complete the remaining activities that were delayed due to ACC's restructuring and the global COVID-19 pandemic, and to conduct additional due diligence activities. Actual TA deliverables under each output are outlined below.

Under Output 1 (Improved business processes of ACC – Achieved). The TA supported ACC via: (i) preparation of the detailed strategy and corporate governance review; (ii) assessment of current and planned internal business processes-credit risk management, treasury operations, IT architecture, comprehensive financial projections, environmental and social management processes; (iii) consultations with KazAgro, ACC, MoA, and Association of CUs to understand strategic expectations, financing needs and areas of improvement of ACC operations, to be reflected in the new organizational structure and implementation roadmap; and (iv) recommendations on improved business processes.

These recommendations were presented to senior management of ACC and were well received, paving the way for business process reengineering within ACC. The consultants also prepared a roadmap with concrete milestones and actions. However, the roadmap was not implemented as TA activities were suspended twice, in December 2020 and October 2021, at the request of ACC.

Under Output 2 (improved financial intermediation capacity of ACC – Not Achieved) the planned activities under the TA were not achieved because in December 2020 ACC requested ADB to suspend all TA-related activities until September 2021. This initial delay was caused by the Government of Kazakhstan's decision to merge ACC's former sole shareholder and parent company (KazAgro NMH) with its new shareholder (Baiterek NMH), and ensuing institutional restructuring within ACC. The government did not provide specific reasons for the merger and cited the general need to improve the financial resilience of KazAgro, which has been plagued by chronic nonperforming loans, bailouts and write-offs. The merger took more than seven months, including restructuring of KazAgro's other subsidiary companies and transfer of some of their functions to ACC. Furthermore, during January-September 2021, Baiterek replaced ACC's senior management, including CEO and CFO, and reduced ACC's staff count.

Under Output 3 (Comprehensive roadmap to broaden agriculture sector enterprises' access to finance in rural areas - Partially Achieved) the TA consultants prepared the Environmental and Social Management Systems (ESMS) Assessment to evaluate ACC's program systems for managing environmental and social aspects. However, remaining activities under this output, including corrective action plan for ACC's ESMS gaps and trainings, were not delivered.⁶

From December 2020 to October 2021, ADB frequently met with Baiterek NMH and ACC to discuss resumption of TA activities. In October 2021, the ACC informed ADB that it was unable to resume TA implementation due to evolving corporate priorities of its parent company on new debt acquisition. ADB and MNE agreed that if the remaining TA activities were no longer a priority for ACC at this juncture, then the TA can be cancelled. Subsequently, the TA was canceled on 31 January 2022. Meanwhile, during TA implementation, the government and relevant stakeholders reaffirmed the relevance of the TA design and intended outputs to address capacity requirements for future rural

⁴ 4 out of the 5 originally envisaged consultant services selections were conducted, including one international and two national consultants (one consultant was engaged for two selections). The international/national micro credit expert was planned to be hired during the later stages of TA implementation (after initial screening), however the recruitment of this consultant became irrelevant due to delays in TA implementation.

⁵ The TRTA was closed in December 2021 at the request of the government and Baiterek Holding as ADB-financing was no longer planned for ACC.

⁶ The proposed financial intermediation loan to ACC was earlier requested by the government and subsequently included in approved country operations business plans.

intermediation projects. A total of \$100,851.91 (44.8%) was disbursed from the TA amount leaving a total undisbursed balance of \$124,148.09 (55.2%).

Technical Assistance Assessment Ratings

| Criterion | Assessment | Rating |
|--------------------|---|-----------------------|
| Relevance | The TA was aligned with ADB's Country Partnership Strategy for Kazakhstan (2017-2021). ⁷ The TA's rationale was generally well articulated. It supported the economic diversification by improving access to finance and Kazakhstan's state programs to develop the agriculture sector. The TA type, design and results chain were appropriate, relevant and in line with client's needs assessed during project identification. The resources were sufficient to properly address the TA requirements. Furthermore, during TA implementation, all relevant stakeholders including ACC, KazAgro (former shareholder) and Government re-affirmed the relevance of the TA's intended outputs for the sector, particularly the capacity strengthening of ACC to meet the capacity requirements of future rural financial intermediation projects. | Relevant. |
| Effectiveness | The TA is rated <i>less than effective</i> as TA results were not fully met. The first TA output was fully delivered, directly contributing to the outcome, and welcomed by the client. Output 3 was partially completed, as the TA supported the preparation of a broad ESMS assessment to ensure project's environmental and social aspects compliance with ADB requirements. Output 2 was not completed due to unexpected changes to ACC's corporate governance structure and deteriorating commitment to implement TA. And hence, the intended outcome was not achieved. | Less than effective. |
| Efficiency | The TA is rated <i>less than efficient</i> . While the TA had adequate resources, its implementation was hindered by COVID-19 related travel restrictions causing substantial delays (more than two years). The TA implementation was significantly delayed by the merger of KazAgro NMH (ACC's parent company) with Baiterek NMH. Interactions with ACC and other stakeholders were undertaken with virtual meetings, which limited the collection of data and information. Consequently, only 44.85% of allocated TA funds was utilized (Appendix 1). Moreover, the implementation was hindered by frequent changes of ACC's senior management (several times within 2021 alone). As a result, socioeconomic benefits of TA were insignificant. | Less than efficient. |
| Overall Assessment | The TA is rated <i>less than successful</i> . While the TA design was aligned with the development strategies of ADB and the government, its implementation was affected by unexpected institutional and associated changes that have weakened EA's ownership to effectively complete its intended outputs. | Less than successful. |
| Sustainability | This is <i>not applicable</i> as there is no expectation of the continuity of the TA activities. | Not applicable. |

Lessons Learned and Recommendations

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| Design and/or planning | The design of the TA was fully consistent with the CPS and appropriate to deliver TA outputs at the planning stage. The level of ownership generated during project preparation was moderate, especially among central government agencies (Ministry of Agriculture - MOA and MNE). The broader government appetite for external support to the agriculture sector decreased throughout TA implementation. Following ACC's transfer to Baiterek, ADB observed that it would be more challenging for ACC to coordinate and support TA activities, including basic operational procedures (e.g., reviewing outputs, agreeing on consultants' missions). In future, TAs supporting similar sector outcomes in Kazakhstan should be (i) based on careful assessment of the government demand of the TA, and readiness and corresponding capacity to implement the TA, and (ii) delivered through an empowered and adequately staffed project implementation unit. To improve ownership of similar TAs, government cofinancing should be considered and secured. Finally, there should be a comprehensive institutional coordination scheme owned by government and reflected in TA design. |
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⁷ ADB. 2017. [Country Partnership Strategy: Kazakhstan, 2017-2021 – Promoting Economic Diversification, Inclusive Development and Sustainable Growth](#). Manila.

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|-------------------------------------|---|
| Implementation and/or delivery | The unexpected change in ACC's ownership significantly affected TA implementation. ACC had not anticipated the merger and had no participation in this government decision. The new shareholder of ACC (Baiterek NMH) has no previous experience in the agriculture sector and, thus, took significant time to integrate agriculture sector operations into its business processes, which is still ongoing. In future, it is recommended to conduct a comprehensive analysis of the client's institutional sustainability and potential transformation, including risk of ownership change and corresponding mitigation measures by ADB and government. |
| Management of staff and consultants | The design of the TA and consultants' terms of references was appropriate to deliver TA outputs. ADB identified and engaged a team of credible, knowledgeable, and experienced consultants that were well received by ACC. However, the consultants were unable to deliver all planned outputs due to COVID-19-related implementation delays, suspension of key activities by ACC, and the subsequent decision of government to cancel TA. The challenges with TA implementation were not related to the quality of staff and consultant resources, which was adequate. |
| Knowledge building | The ACC diagnostic review was prepared, including recommendations for certain improvements for ACC aimed to fulfill gaps between ACC's current operations and international best practices. This review was shared with Baiterek and the government following the merger and is being used by the Agency of Strategic Planning and Reforms in developing a new set of reform measures in the agriculture sector. |
| Stakeholder participation | While ADB ensured broad stakeholder participation during project preparation, sustainability of support and non-financial commitment to TA benefits (especially from central government) were systemically declining as evidenced by delays and the decision to cancel the TA. MNE, MOF and MOA reduced their participation in TA implementation while keeping strict restrictions on ACC's decision-making. Furthermore, ACC's management was replaced several times during TA implementation. As a result, the institutional coordination was weak, and ACC was unable to move forward with TA activities. This was a systemic feature of government-SOE interaction in agriculture sector, which should have been more thoroughly assessed during project preparation stage. In future, ADB should require MOA to commit direct resources to support similar TAs implemented with sectoral SOEs. Prior to a TA's approval, ADB should also seek governmental concurrence and clearance at the highest possible level and request permanently functioning and properly authorized working groups/TA implementation units. |

Follow-up Actions

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| The institutional restructuring of KazAgro and Baiterek and diminishing government commitment to external support of agriculture sector have been the principal factors affecting output delivery. This has impacted not only ADB but also other development partners, as evidenced by cancellation of the World Bank's Program-for-Results (RBL) project on sustainable livestock development. ADB's future assistance to the agriculture sector should be based on careful assessment of institutional constraints and driven by comprehensive implementation arrangements with the government. | |
| Prepared by: Arystan Galiyev | Designation and Division: Project Officer (Natural Resources and Agriculture), KARM |

DESIGN AND MONITORING FRAMEWORK

| Impact(s) | | |
|--|---|--|
| Improved public health and facilitation of trade in agro-food products in CMCs. | | |
| Results Chain | Performance Indicators with Targets and Baselines | Achievements |
| Outcome Broadened access to finance for agriculture sector enterprises (ASEs) in rural areas | By June 2020: Number of ACC's intermediary loans to ASEs increased by at least 20% (2018 baseline to be determined during implementation) | Not Achieved. The TA delivered only one output, the remaining outputs were postponed and then cancelled in line with government decision; hence the outcome of the TA was not achieved. |
| Outputs 1. Improved business processes of ACC | 1a. By June 2019, strategic recommendations on improvement of business processes approved for implementation by ACC and KazAgro | Achieved. The TA prepared comprehensive diagnostic report on business processes of ACC and provided recommendations for improvements. This high-quality knowledge product was well accepted by ACC management. |
| 2. Improved financial intermediation capacity of ACC | 2a. By June 2020, the share of external finance in financial reports ACC's total portfolio of ACC; increased by 15% (2018 ADB review baseline to be determined mission; and during implementation) 2b. By June 2020, the share of wholesale finance intermediation in ACC's total portfolio increased by % (2018 baseline to be determined during implementation) 2c. By September 2019, 35% of ACC's staff is trained on management of External finance and wholesale finance services/products (2018 baseline to be determined during implementation) | Not Achieved. In December 2020, in the middle of TA preparation, ACC requested ADB to suspend <i>all TA related activities</i> until September 2021. This was due to the change of the shareholder and ensuing institutional restructuring and reforms of ACC. In December 2021, government advised ADB that the TA can be cancelled, as ACC could raise domestic currency financing at a lower cost. |
| 3. Comprehensive roadmap to broaden ASE's access to finance in rural areas | 3a. By March 2020 action plan of ACC development strategy with clear indicators, responsible entities, cost estimates, and timeline designed (2018 baseline to be Determined during implementation) | Partially achieved. The TA supported preparation of the ESMS assessment which assisted ACC in (i) improving their environmental and social policies, (ii) ESMS documentation system, and (iii) improving monitoring and reporting procedures. |
| Actual Key Activities with Milestones: | | |
| 1. Improved business processes of ACC (November 2018 - June 2019) 1.1 Prepared detailed strategy and corporate governance review. 1.2 Produced assessment of current and planned internal business processes-credit risk management, treasury operations, IT architecture, comprehensive financial projections, environmental and social management processes. 1.3 Conducted consultations with KazAgro, ACC, MoA, and Association of CU to understand strategic expectations, financing needs and areas of improvement of ACC operations, to be reflected in the new organizational structure and implementation roadmap. 1.4 Prepared recommendations on improved business processes. | | |
| 3. Capacity of value chain actors in implementing measures required to achieve international food safety standards strengthened 3.1 Delivered data collection and consultations on ESMS assessment, 3.2 Prepared ESMS assessment on ACC's The objective of the assignment is to assess the current status of ACC's ESMS and help ACC to make their ESMS fully compliant with ADB requirements. | | |

Actual Inputs

\$100,851.91 – financed from Financial Sector Development Partnership Fund (FSDPSF), supported by ADB and the Government of Luxembourg.

ADB = Asian Development Bank, CPS = country partnership strategy, ACC = Agrarian Credit Corporation, ASE = agriculture sector enterprises, ESMS = Environmental and Social Management System, Q = quarter, TA = technical assistance.

Source: ADB.

TECHNICAL ASSISTANCE COST

Table A2.1: Technical Assistance Cost by Activity
(\$'000)

| Item | Amount | |
|---|--------------|--------------|
| | Original | Actual |
| 1. Consultants | 172.0 | 100.9 |
| 2. Training, seminars, and/or conferences | 43.0 | 0.0 |
| 3. Miscellaneous TA administration | 5.0 | 0.0 |
| 4. Contingency | 5.0 | 0.0 |
| Total | 225.0 | 100.9 |

TA = Technical Assistance

Source: Asian Development Bank estimates.

Table A2.2: Technical Assistance Cost by Fund
(\$'000)

| | FSDPSF | Total Cost |
|-------------|--------|------------|
| 1. Original | 225.0 | 225.0 |
| 2. Actual | 100.9 | 100.9 |
| 3. Unused | 124.1 | 124.1 |

FSDPSF = Financial Sector Development Partnership Special Fund

Source: Asian Development Bank estimates.