



1. Project Data:		Date Posted : 08/12/2002	
PROJ ID: P008508		Appraisal	Actual
Project Name: Finance And Enterprise Development	Project Costs (US\$M)	72.91	29.1
Country: Kazakhstan	Loan/Credit (US\$M)	62.0	27.45
Sector(s): Board: EMT - Payment systems securities clearance and settleme (40%), Banking (31%), Central government administration (26%), General industry and trade sector (3%)	Cofinancing (US\$M)	10.9	1.65
L/C Number: L3867; LP266			
	Board Approval (FY)		95
Partners involved : none	Closing Date	09/30/1998	12/31/2001
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components			
a. Objectives			
<p>The original project objective was to support the private sector and government institutions in : (i) continuing privatization; (ii) preparing enterprise turnaround and liquidation; (iii) resolving bad debts; (iv) developing sound commercial banks which could finance restructuring and new investments and (v) ensuring efficient, rapid and secure payments within Kazakhstan. The project was restructured in 1998 to reflect emerging priorities of stock market development, pension reform, and modernization of the tax administration . The Government and National Bank of Kazakhstan requested that the project be restructured and the restructuring was approved by the Board of Executive Directors in August 1998.</p>			
b. Components			
<p>Original project components were: (i) enterprise reform (US\$16.8 m); (ii) financial sector reform (US\$39.25 m) for total of US\$56.05 m. In addition, US\$1.5 m was provided for project implementation assistance . The revised components were (i) stock market development through the institutional strengthening of the National Commission on Securities (US\$0.2 million); (ii) assistance for the development and implementation of pension reform (US\$12.7 million) and (iii) modernization of the tax administration system (US\$17.3 million) for a total of US\$30.2 m. The project was split into three independent operations . The pension and tax administration projects were treated as if they were free standing projects.</p>			
c. Comments on Project Cost, Financing and Dates			
<p>The numbers in the ICR don't always add up . For instance, it is unclear what the US\$4.45 million in the original project (US\$62 m-US\$57.55m) was allocated for. Also, US\$14.85 from original financial sector component and US\$12.65 m from the Enterprise component were used to support the revised components . But these add up to US\$27.5 m whereas revised project components in section b above add up to US\$ 30.2 million.</p>			
<p>The exact division of IBRD financial support for major components following restructuring is not given . If the allocations to various sub components are added then the division was as follows : (i) Enterprise Reform (\$3.84 million) ; (ii) Financial Sector Reform (US\$37m) of which the two main subcomponents were pension reform for US\$12.7m and long-term payment system for US\$ 15 million. (iii) Tax administration (US\$17.3m); (iv) National Commission on Securities (US\$.2 million). 75% of the enterprise reform component was disbursed mainly for privatization assistance, study tours, and for restructuring advisory unit . 19% of the financial sector component was disbursed, mainly for rehabilitation trust and pension reform . About 80 percent of funds allocated for pension reform were cancelled. 99% of the tax administration project was disbursed . Total disbursements were US\$27.45 m. US\$34.55 m was cancelled.</p>			
3. Achievement of Relevant Objectives:			

Achievement of the projects have to be assessed against what the restructured project was expected to support .
Enterprise reform: The achievements of privatization assistance (US\$0.52 million disbursed) were meager. The project envisaged financing fixed fees of consultants selected to prepare individual privatizations of very large enterprises. Preparation of tenders for selection of privatization consultants for 14 enterprises started but tenders were prepared for 7 enterprises. The State Privatization Committee decided to proceed with tenders for only 3 enterprises. None of the three materialized.

Study tours (US\$1.54m disbursed) facilitated transfer of know-how. A survey held after the completion of activities found improved operations in over 40% of the enterprises where executives participated in the program .

Restructuring Advisory Unit (US\$0.82 m disbursed): Money went for consultant services, study tours and a small amount of office furniture. Far fewer enterprises than planned benefited from the available advisory services .

Financial Sector Reform (US\$37m): Rehabilitation Trust (US\$2.17m disbursed) improved the trust's approach, skills and systems. Pension reform subcomponent disbursed only US\$2.46 m (US\$12.7 m was allocated).

Commercial banking development (US\$1.16 m disbursed) was utilized for twinning contracts of Kazak commercial banks with foreign banks. Funds allocated for automation of commercial banks were not utilized . Only US\$0.33 m was used for training for on-site Bank supervision. Bank complemented USAID training. Only US\$0.48 m of the Long-term payment system was disbursed. The National Bank of Kazakhstan (NBK) decided that these investments were not needed as the NBK, using its own staff and resources transformed the system . The Pension Reform implementation loan disbursed only US\$2.46 m but Bank staff through supervision of this loan contributed to meeting the objectives set out in the pension reform adjustment loan .

US\$0.07 m was disbursed for national commission on securities for training and marketing activities and development of a website. Further support was cancelled due to merger of NCS with the National Bank of Kazakhstan.

Tax administration System: US\$17.22 m was disbursed for expert advice, software development, hardware and other equipment purchase and training .

In sum, of the US\$62 million restructured project, US\$34.55 was canceled. Of the remaining US\$27.45, tax administration, study tours, and rehabilitation trust components achieved their objectives . They comprised US\$21.13 m or 77 percent of the disbursed TA.

4. Significant Outcomes/Impacts:

The tax administration component became a stand-alone project, the Tax Administration project. It developed the first phase of the tax administration system . Later it integrated the changes in the tax code in the software developed in the first phase. The new tax administration software has been piloted in a large oblast to determine its effectiveness in supporting tax administration . When fully operational, it will allow effective tax collection, improved revenue forecasts. The State Privatization committee has continued to use the privatization techniques developed during the project in several large privatization cases .

5. Significant Shortcomings (including non-compliance with safeguard policies):

The enterprise, financial sector and pension reform components did not fully achieve their objectives . The original design of the project was not sufficiently flexible and was overly complex . Frequent changes in government structure and counterpart arrangements affected project implementation . In case of the pension reform component, TA was provided for the project completion unit. The TA was not used to transfer knowledge to local staff . The financial and enterprise reform subcomponents suffered from frequent changes in task managers . This resulted at times in conflicting advice. The Government did not comply with certain project requirements, such as case by case privatization program, full independent status of the Restructuring advisory unit and independence of rehabilitation trust in lending decisions. The implementing agency, the Ministry of Labor and Social Protection did not make use of TA.

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Satisfactory	
Institutional Dev .:	Substantial	Substantial	
Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

(i) TA is effective when it becomes client rather than Bank driven . The Tax Administration Project was effective because it was driven by the Ministry in charge of revenues . (ii) Overly complex projects should be avoided . In this

case, it resulted in implementation and coordination problems . (iii) Bank should avoid large turnover in staff . This was partly responsible for under performance of the enterprise and financial sector components . (iv) Beneficiary agencies would benefit from assistance of an IT specialist familiar with International Competitive Bidding Procedures .

8. Assessment Recommended? Yes No

9. Comments on Quality of ICR:

The ICR falls short in four respects . (i) \$ amounts of components are confusing and don't always add up . (ii) Analysis of what the project achieved is mixed up with general developments in privatization and financial sector reform (section 4.1, paras.2 and 3). (iii) Outcomes appear positive in certain sections but negative in other sections . One example is State Privatization Committee . Section 5.3 says that the SPC was unwilling to use Bank's procurement procedures, so implementation of this component was limited . This is also the message in discussion under enterprise reform in section 4.2. But section 4.5 says that SPC has used techniques developed through the project in privatization of several large enterprises . Another example is the Rehabilitation Trust . The ICR says that "Rehabilitation Trust played a very important role in improving the health of the financial sector " but page 5 last para says that 88% of RT's loans to enterprises were extended in response to a Government decision and "this undermined the overall effectiveness of RT ." It is unclear how the "project helped to promote international banking standards" through financing twinning arrangements . It is also unclear how the "PRIL component had a significant impact on the administration of pensions ." (iv) The report did not contain key indicators of subcomponents (stock Market Development Strengthening, Assistance in the implementation of pension reform, tax administration modernization). This was also pointed out by the client in section 9.