

Document of
The World Bank

Report No: 62731-KZ

RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING
OF THE

AGRICULTURAL COMPETITIVENESS PROJECT
LOAN NO. 4774 KZ
April 28, 2005

IN THE INITIAL AMOUNT OF
US\$ 24.0 MILLION

AND

A RESTRUCTURED AMOUNT OF
US\$ 14.7 MILLION

TO THE

REPUBLIC OF KAZAKHSTAN

October 27, 2011

ABBREVIATIONS AND ACRONYMS

ACP – Agricultural Competitiveness Project
CGS – Competitive Grant Scheme
ICR – Implementation Completion Report
KZT – Kazakhstan Tenge
NRL – National Reference Laboratory
RVL – Republican Veterinary Laboratory

Vice President:	Philippe Le Houerou
Country Director:	Motoo Konishi
Sector Director:	Peter D. Thomson
Sector Manager:	Dina Umali-Deininger
Task Team Leader:	Sandra Broka



Restructuring	Status: Draft
Restructuring Type: Level two	
Last modified on date: October 27, 2011	

1. Basic Information	
Project ID & Name	P049721: AGRIC COMPETITIVENESS
Country	Kazakhstan
Task Team Leader	Sandra Broka
Sector Manager/Director	Dina Umali-Deininger / Peter D. Thomson
Country Director	Motoo Konishi
Original Board Approval Date	04/28/2005
Original Closing Date:	07/30/2010
Current Closing Date	06/30/2012
Proposed Closing Date [if applicable]	N/A
EA Category	F-Financial Intermediary Assessment
Revised EA Category	F-Financial Intermediary Assessment-Financial Intermediary Assessment
EA Completion Date	05/31/2003
Revised EA Completion Date	N/A

2. Revised Financing Plan (US\$)		
Source	Original	Revised
BORR	46.80	37.90
IBRD	24.00	14.70
ZBEN	12.30	12.30
Total	83.10	64.90

3. Borrower		
Organization	Department	Location
Ministry of Finance		Kazakhstan

4. Implementing Agency		
Organization	Department	Location
Ministry of Agriculture	Foreign Relations and Investments	Kazakhstan

5. Disbursement Estimates (US\$m)		
Actual amount disbursed as of 10/17/2011		14.40
Fiscal Year	Annual	Cumulative
2011	0.00	14.40
2012	0.30	14.70
	Total	14.70

6. Policy Exceptions and Safeguard Policies	
Does the restructured project require any exceptions to Bank policies?	N
Does the restructured projects trigger any new safeguard policies? If yes, please select from the checklist below and update ISDS accordingly before submitting the package.	N

7a. Project Development Objectives/Outcomes
Original/Current Project Development Objectives/Outcomes
The project's development objective is to increase the competitiveness of the agricultural sector in Kazakhstan. To achieve this objective, the project would facilitate access to markets by supporting measures to improve the quality and safety of agricultural products, enhance access to information, and harmonize standards. It will also help to increase the quality, quantity, and relevance of applied agricultural research and facilitate transfer of knowledge to farmers.

7b. Revised Project Development Objectives/Outcomes [if applicable]
N/A

KAZAKHSTAN
AGRICULTURAL COMPETITIVENESS PROJECT

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AGRICULTURAL COMPETITIVENESS PROJECT

RESTRUCTURING PAPER

SUMMARY

1. This Restructuring Paper seeks approval for the partial cancellation of loan funds for the Agricultural Competitiveness Project (ACP), and to make changes to the Performance Monitoring Framework. The main reason for the cancellation of funds, as requested by the Borrower on June 17, 2011, is the decision to postpone the construction of the National Reference Laboratory (NRL). The proposed cancellation would amount to US\$9,300,000 from the original amount of US\$24,000,000, from the Loan Categories Unallocated (US\$1,000,000), Civil Works (US\$5,300,000), and Goods (US\$3,000,000).

PROJECT STATUS

2. The project was approved on April 28, 2005. The objective of the project is to increase the competitiveness of the agricultural sector in Kazakhstan. Initially, the project was affected by start-up delays but since early 2009 has shown satisfactory progress and results almost in all components. Progress towards achievement of the project development objective is rated moderately satisfactory. Due to a temporary slowdown in loan disbursement, the implementation progress rating was downgraded to moderately unsatisfactory in December 2010. Total disbursements to date amount to US\$36.5 million, of which US\$13.2 million was financed from the World Bank loan, and US\$23.3 million from counterpart funds, higher than originally planned, demonstrating a strong commitment to the Project by the Borrower.

3. The project is very close to fully achieving its main outcome indicator targets and objective. Furthermore, a survey is underway to evaluate the project outcomes, quantify the project's contribution to the overall increase in competitiveness of the agricultural sector, and confirm achievement of the fourth objective in terms of beneficiary satisfaction. Despite the delay in completing the NRL, the third objective of improving testing of agricultural products would also be achieved due to other activities supported by the project in this area.

4. The project underwent a level two restructuring in July 2010 to extend the loan closing date from July 31, 2010 till June 30, 2012 in order to allow already-approved grants under implementation and financed from the loan (Part C 2(iii) of the project) sufficient time to fully disburse, and to complete design of a new building for the National Reference Laboratory in Part A.2 of the Project Description (Schedule 2 of the Loan Agreement) (National Reference Laboratory).

5. **Financial Management Status.** The project has no significant financial management issues. The project audit report for 2010 provides an unqualified (clean) opinion. It has been reviewed by the Bank's FMS and deemed satisfactory.

PROPOSED CHANGES

6. ***Partial Cancellation of Project Funds.*** As part of the first restructuring in 2010, it was agreed that due to the significant delays experienced during the procurement process for the design of the NRL, actual construction would not be feasible by the project's closing date, and the Borrower was required to decide on the need and/or allocation of the surplus funds. Through a letter from the Ministry of Finance dated June 17, 2011, the Borrower confirmed the decision to complete design of the NRL but postpone the construction phase of the laboratory and requested the cancellation of funds.

7. ***Amendments to the Loan Agreement.*** In order to comply with this request Part A.2 (i) Schedule 2 of the Loan Agreement would be amended to delete the sentence "including construction of a new building for laboratory and provision of equipment and training", and Schedule 1 of the Loan Agreement would be amended to reflect the cancellation of the corresponding amount of US\$ 9.3 million (details in Annex 2).

8. ***Revisions to the Results Framework.*** The proposed restructuring would also include revisions to the Project's indicators to improve the clarity of the indicators and their targets, as well as to correct inconsistencies in the original project documentation. To ensure consistency with the PAD, the changes to the Results Framework would also be reflected in the revised version of the Supplemental Letter. The draft revised Supplemental Letter on Performance Monitoring Indicators is attached as an Annex to the Notification to the Borrower on Partial Cancellation.

9. Project Costs will change as follows:

Project Costs (US\$m.)*		
Components/Activities	Current	Proposed
Quality and Safety Management of Agricultural Products	29.3	14.0
Agricultural Marketing	6.7	4.4
Applied Agricultural Research and Extension	28.9	27.8
Institutional Development and Agricultural Policy	5.9	6.4
Total	70.8	52.6

* The Project Costs exclude contributions by Beneficiaries

10. The Loan Expenditure Categories (Schedule 1 to the Loan Agreement) will be modified as follows:

Expenditure Category	As Per Loan Agreement (US\$)	Amended (US\$)
(1) Works	5,300,000	0
(2) Goods	6,700,000	3,700,000
(3) Grants	11,000,000	11,000,000
(4) Unallocated	1,000,000	0
TOTAL	24,000,000	14,700,000

ANNEX 1:
KAZAKHSTAN: AGRICULTURAL COMPETITIVENESS PROJECT
Results Framework and Monitoring

Project Development Objective (PDO): The project's development objective is to increase the competitiveness of the agricultural sector in Kazakhstan. To achieve this objective, the project would facilitate access to markets by supporting measures to improve the quality and safety of agricultural products, enhance access to information, and harmonize standards. It will also help to increase the quality, quantity, and relevance of applied agricultural research and facilitate transfer of knowledge to farmers.

Revised Project Development Objective: N/A

PDO Level Results Indicators*	Core	D=Dropped C=Continue N= New R=Revised	Unit of Measure	Baseline	Cumulative Target Values**				Frequency	Data Source/ Methodology	Responsibility for Data Collection
					YR 1	YR 3	YR 5	YR 7			
Indicator One: Number of farmers with increased income compared with 2005 levels.	<input type="checkbox"/>	R	Number	0	-	1,200	2,400	2,400	Annual evaluation starting on the second year	Official statistics and survey starting on the second year	Independent consulting company
Indicator Two: Value of agricultural exports, including livestock products, rises compared with 2005.	<input type="checkbox"/>	R	\$ US mln	774		795	820	1,400	Annual evaluation starting on the second year.	Official Statistics	Coordination Center
Indicator Three: Increased proportion of agricultural products that are tested and that meet international standards for quality and safety.	<input type="checkbox"/>	R	%	10		15	30	30	Annual evaluation starting on the second year.	Survey starting on the second year	Independent consulting company
Indicator Four: Satisfaction of potential direct and indirect beneficiaries of the project.	<input type="checkbox"/>	C	%	0	-	10	20	20	Annual evaluation starting on the second year.	Survey starting on the second year; measured as a % of surveyed project beneficiaries	Independent consulting company

Indicator Five: Increased profitability of farms, particularly small and medium-sized farms. At least 10 percent of farms in project area increase profitability.	<input type="checkbox"/>	D	Number	Total number of farms in project area: 120,000	-	2,000	3,500	6,000	Annual evaluation starting on the second year	Survey starting on the second year	Independent consulting company
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INTERMEDIATE RESULTS

Intermediate Result (Component One): Capacity to certify quality and safety of agricultural products increased

Revised Intermediate Result (Component One): N/A

<i>Intermediate Result indicator One:</i> Seven technical regulations, each consisting of a number of individual standards, are harmonized.	<input type="checkbox"/>	C	Number	0	1	4	7	7	Semiannual	Project monitoring and reporting	Component coordinator
<i>Intermediate Result indicator Two:</i> 60 laboratories are equipped according to international accreditation standards.	<input type="checkbox"/>	R	Number	0	2	31	60	60	Semiannual	Project monitoring and reporting	Component coordinator
<i>Intermediate Result indicator Three:</i> A total of 90 laboratories receive international accreditation(2 national, 9 at oblast level, 60 at rayon level, and 19 private).	<input type="checkbox"/>	D	Number	0	2	31	90	90	Semiannual	Project monitoring and reporting	Component coordinator

Intermediate Result (Component Two): Market-oriented infrastructure strengthened.

Revised Intermediate Result (Component Two): N/A

<i>Intermediate Result indicator One:</i> At least 140 market-oriented subprojects implemented under the CGS.	<input type="checkbox"/>	R	Number	0	10	80	120	140	Semiannual	Project monitoring and reporting	Component coordinator
Intermediate Result (Component Three): Efficiency of agricultural applied research and technology transfer increased											
Revised Intermediate Result (Component Three): N/A											
<i>Intermediate Result indicator One:</i> 600 applied research and extension subprojects implemented under the CGS	<input type="checkbox"/>	R	Number	0	20	300	600	600	Semiannual	Project monitoring and reporting	Component coordinator
<i>Intermediate Result indicator Two:</i> At least 40 scientists under age of 40 receive advanced education.	<input type="checkbox"/>	C	Number	0	-	12	40	40	Semiannual	Project monitoring and reporting	Component coordinator
Intermediate Result (Component Four): Institutional structure to implement project activities established											
Revised Intermediate Result (Component Four): N/A											
<i>Intermediate Result indicator One:</i> Governing Board, Coordination Center, and the roster of independent peer reviewers established and operating, as demonstrated through minutes of the meetings.	<input type="checkbox"/>	N	Number	0	2	6	10	10	Semiannual	Project monitoring and reporting	Component coordinator
<i>Intermediate Result indicator Two:</i> Governing Board meets at least every six months as shown by the minutes.	<input type="checkbox"/>	D	Number	0	2	6	10	14	Semiannual	Project monitoring and reporting	Component coordinator

