PROJECT PERFORMANCE ASSESSMENT REPORT

KAZAKHSTAN

PETROLEUM TECHNICAL ASSISTANCE PROJECT
(LOAN No. 3744-KZ)

April 7, 2003

Sector and Thematic Evaluation Group
Operations Evaluation Department
Currency Equivalents (annual averages)

(Exchange Rate Effective June 5, 2001)
Currency Unit = Kazakhstan Tenge (KZT)
US$ 1 = 146 KZT

Abbreviations and Acronyms

GoK  Government of the Kazakhstan
IOCs  International oil companies
TCA  Technical Cooperation Agreement
PL  Petroleum Law
PRC  Petroleum Revenue Code
TAP  Technical Assistance Project
NEAP  National Environmental Action Plan
PTAP  Petroleum Technical Assistance Project
MEFR  Ministry of Energy and Fuel Resources
KSC  Kazakhstan CaspiShelf
JVA  Joint venture agreements
PITC  Petroleum Industry Training Center
EU TACIS  European Union Technical Assistance

Measures and Equivalents

One barrel = about 0.16 cubic meter
One cubic foot = 0.028 cubic meter
One cubic meter = 37.3 cubic feet
1000 cubic meter natural gas = 34800 Mjoules
1000 cubic meter natural gas = 0.83 Ton Oil Equivalent
one ton oil = approximately 7.2 barrels (Kazakhstan’s oil average density)

Fiscal Year

Government: January 1 to December 31

Director-General, Operations Evaluation: Mr. Gregory K. Ingram
Director, Operations Evaluation Department (Acting): Mr. Nils Fostvedt
Manager, Sector and Thematic Evaluation: Mr. Alain Barbu
Task Manager: Mr. Andres Liebenthal
MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Performance Assessment Report on Kazakhstan Petroleum Technical Assistance Project (Loan No. 3744-KZ)

Attached is the PPAR on the Kazakhstan Petroleum Technical Assistance Project (PTAP). The project was supported by a loan of $15.7 million, which became effective on September 8, 1995, and was closed on March 31, 2000; a total of $2.34 million was cancelled.

The energy sector was a central element in the strategy of the Bank and the Government of Kazakhstan to restore the country’s economy. However, developing the country’s huge base of discovered but undeveloped oil and gas fields required a major inflow of capital and technology, which could only be provided by direct foreign investment. The Bank had been assisting the government to establish a legislative, regulatory, and taxation environment that would attract foreign investments into the sector since it started to assist Kazakhstan in 1992, first through the Technical Cooperation Program, and subsequently through a Technical Assistance Loan. The PTAP was designed to focus on attracting foreign investment to the sector by completing critical sector legislation, and supporting efforts to complete negotiations with foreign investors on the development of major fields and attracting further foreign investment by commercializing and privatizing other oil fields. The project was also intended to promote the efficiency and long-term financial viability of the petroleum sector by attracting foreign investment and helping to formulate economically sound investment and organizational strategies for the integration of domestic primary petroleum production, processing, transport, and distribution activities.

The design of the project was highly relevant to the needs of the country at the time. The government could not afford to develop these important resources by itself. Furthermore, its own sector institutions needed substantial upgrading in the skills necessary to provide efficient support for and monitoring of private sector petroleum activities.

Project outcome was moderately satisfactory. The results were mixed, but significant benefits did accrue. The implementing legislation for the petroleum sector was established, but the legislative framework for sector taxation policy designed under the project was only partially implemented. While the technical assistance for completing the negotiations for the major concession areas was successful, the Bank’s input into this activity was marginal: it took over the payment of consultants under ongoing contracts, which the government would have continued to pay in the absence of the Bank project. While some of the other project components were successes, notably the petroleum training center, and some of the studies were helpful (the oil pipeline study), other major project components were not completed, including the privatization of Uzenmunaigas and the establishment of a sector-level information system for Kazakhoil.
The project had a substantial impact on institutional development. The legal and regulatory framework for the petroleum sector was significantly improved, and the improvements provided the basis for the greatly expanded foreign investment in the sector that has taken place over the past five years.

Sustainability of the anticipated benefits is likely. There are a large number of oil companies in Kazakhstan—more than 30 foreign oil companies were operating in Kazakhstan at last count—and the institutional framework is adequate for them to remain and continue to explore and develop new oilfields.

Borrower performance was unsatisfactory. The borrower was fully supportive of the technical assistance provided for negotiating the major ventures. It was also supportive of the initial efforts to privatize Uzenmunaigas. However, the process was far from transparent and eventually got sidetracked by the promise of a highly speculative oil export pipeline to China. During this period, the petroleum sector went through several major reorganizations. Changes in senior management of the sector made it difficult to maintain a consistent outlook toward the project’s primary objectives. By the time the China pipeline fell through, the government was no longer interested in pursuing the privatization option. New management in the successor implementing agency cancelled the integrated geoinformation and electric documentation management system without discussing it with Bank staff. The government has yet to act on the recommendations of the gas transport and utilization study.

Bank performance was satisfactory. The quality of supervision is judged to have been satisfactory, as was the quality of project preparation. The Bank made every effort to support the needs of the borrower while maintaining the objectives of the project. It spent considerable time and effort in reviewing the offers for privatization of Uzenmunaigas, including a full critique of the difficulties inherent in the government’s decision to establish a joint venture for the Uzen oilfield separately from the privatization of Uzenmunaigas.

Experience with this project suggests the following lessons:

- Financing the continuing work of contract advisors who are already advising the government is a questionable practice, since it makes it extremely difficult for the Bank to fulfill its quality control function. Bank funding should primarily support activities when the Bank can contribute to the success of these activities, if in no other way than by reviewing the reports and recommendations of the consultants.

- The contracts that were negotiated with legal advice from advisors financed by the Bank remain confidential documents. The Bank should make every effort to get governments to agree to make public the basic financial elements of agreements and contracts that are negotiated with foreign companies. Public review of such contracts is the best way to establish transparency and accountability in dealing with the exploitation of national resources such as oil. In particular, the Bank should only provide technical assistance for the negotiating of contracts that are intended to become part of the public domain (at least in their broad terms).

Attachment
OED Mission: Enhancing development effectiveness through excellence and independence in evaluation.

About this Report

The Operations Evaluation Department assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank’s self-evaluation process and to verify that the Bank’s work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, OED annually assesses about 25 percent of the Bank’s lending operations. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons. The projects, topics, and analytical approaches selected for assessment support larger evaluation studies.

A Project Performance Assessment Report (PPAR) is based on a review of the Implementation Completion Report (a self-evaluation by the responsible Bank department) and fieldwork conducted by OED. To prepare PPARs, OED staff examined project files and other documents, interviewed operational staff, and in most cases visited the borrowing country for onsite discussions with project staff and beneficiaries. The PPAR thereby seeks to validate and augment the information provided in the ICR, as well as examine issues of special interest to broader OED studies.

Each PPAR is subject to a peer review process and OED management approval. Once cleared internally, the PPAR is reviewed by the responsible Bank department and amended as necessary. The completed PPAR is then sent to the borrower for review; the borrowers’ comments are attached to the document that is sent to the Bank’s Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

About the OED Rating System

The time-tested evaluation methods used by OED are suited to the broad range of the World Bank’s work. The methods offer both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. OED evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (more information is available on the OED website: http://worldbank.org/oed/eta-mainpage.html).

Relevance of Objectives: The extent to which the project’s objectives are consistent with the country’s current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). Possible ratings: High, Substantial, Modest, Negligible.

Efficacy: The extent to which the project’s objectives were achieved, or expected to be achieved, taking into account their relative importance. Possible ratings: High, Substantial, Modest, Negligible.

Efficiency: The extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. Possible ratings: High, Substantial, Modest, Negligible. This rating is not generally applied to adjustment operations.

Sustainability: The resilience to risk of net benefits flows over time. Possible ratings: Highly Likely, Likely, Unlikely, Highly Unlikely, Not Evaluable.

Institutional Development Impact: The extent to which a project improves the ability of a country or region to make more efficient, equitable and sustainable use of its human, financial, and natural resources through: (a) better definition, stability, transparency, enforceability, and predictability of institutional arrangements and/or (b) better alignment of the mission and capacity of an organization with its mandate, which derives from these institutional arrangements. Institutional Development Impact includes both intended and unintended effects of a project. Possible ratings: High, Substantial, Modest, Negligible.

Outcome: The extent to which the project’s major relevant objectives were achieved, or are expected to be achieved, efficiently. Possible ratings: Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry and supported implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of the project). Possible ratings: Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower assumed ownership and responsibility to ensure quality of preparation and implementation, and complied with covenants and agreements, towards the achievement of development objectives and sustainability. Possible ratings: Highly Satisfactory, Satisfactory, Unsatisfactory, Highly Unsatisfactory.
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This report was prepared by Richard Berney (consultant) under the supervision of Andres Liebenthal (task manager). The report was edited by William Hurlbut; Soon-Won Pak provided administrative support.
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* The Implementation Completion Report (ICR) is a self-evaluation by the responsible operational division of the Bank. The Evaluation Summary (ES) is an intermediate OED product that seeks to independently verify the findings of the ICR.

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Preface

This is a Project Performance Assessment Report (PPAR) on the Kazakhstan Petroleum Technical Assistance Project. The loan was approved for $15.7 million on August 15, 1993, and became effective on September 8, 1995. The loan closed on March 31, 2000 and $2.36 million was cancelled.

The PPAR presents the findings of a mission to Kazakhstan June 24 to July 5, 2002, by the World Bank Operations Evaluation Department (OED). The mission gathered data and interviewed officials of the Government of Kazakhstan, the relevant ministries, Kazakhoil, Uzenmunaigas, private sector oil companies, and staff of the project and the Bank. The cooperation and assistance of all the stakeholders, the government officials, and the officials of oil sector institutions is gratefully acknowledged. The PPAR draws on the Memorandum and Recommendations of the President and associated Technical Annex (Report No. P-6178-EZ, May 5, 1994), the Implementation Completion Report (Report No. 19988, June 15, 2000), and other related documents.

Following standard OED procedures, copies of the draft PPAR were sent to the borrower for comments before being finalized. The comments received are included as Annex B to this report.
COUNTRY SECTOR BACKGROUND

1. The energy sector is central to the process of transforming Kazakhstan’s economy, and structural reforms in the sector are a sine qua non for reform of the industrial sector. In 1995, the energy sector accounted for an estimated 32 percent of industrial output, 30 percent of industrial employment, and 8 percent of formal employment in the economy. The sector was in severe financial straits in the early 1990s, and was being progressively decapitalized by the effects of low domestic energy prices; low prices, largely unrelated to world market levels, for exports to the country’s traditional markets; major transport constraints on the country’s ability to diversify export markets; and inadequate pressures and incentives for organizations to be commercial. Crude oil and condensate production in 1995 had fallen by about 23 percent from a peak of 27 million tons in 1991, mostly as a result of increasing backlogs in the workover of wells as a result of the straitened financial condition of the oil enterprises. Most of the decline in oil production has been absorbed by reductions in exports.

2. The petroleum sector, particularly the oil subsector, was (and still is) Kazakhstan’s most promising source of exports and economic growth in the medium term. Oil exports were about 40 percent of the country’s total exports in 1994. It was believed that, given the currently level of sector productivity, plus the current pipeline of approved foreign investments in the sector, oil production could feasibly be doubled by 2003 from under 1 percent of proven reserves (17 million tons in 1995) to close to 2 percent of proven reserves (40 million tons per year). This increase in production would enable net crude oil exports to increase from the 1995 level of 5 million tons per year to about 25 million tons per year.

3. The implications of such an increase in exports for the economy are enormous: oil export revenues would increase by US$2.0 billion and incremental government fiscal revenues would amount to around US$800 million per annum, equivalent to about 35 percent of the government’s 1995 budget. However, realizing this potential would require stabilizing production from existing fields and creating the transport capacity to export oil to markets with world market-related oil prices. The energy sector was the only sector with good prospects for attracting foreign investments, provided that an appropriate framework of laws and regulations could be put in place.

4. During the 18 months before implementation of the Petroleum Technical Assistance Project (Ln. 3744), the government had made great progress in formulating policies to address most of the sector’s critical issues. The key policy measures already in place and the outstanding issues for further action are described below.

Energy and the Environment

5. Energy production and supply activities in Kazakhstan are characterized by many environmentally unsound practices, including, significantly:

   - Environmental controls are lacking or ineffectual in coal and uranium mining;
   - Oil production involves extensive and wasteful flaring of associated gas, widespread spillage of oil, and improper disposal of produced fluids; and
Power generation involves the large-scale use of high-ash and low-grade coal and large volumes of ash handling and disposal without adequate emission control systems.

6. Kazakhstan, like most of the countries of the former Soviet Union, is characterized by highly intensive and inefficient energy use. Domestic consumption of energy was about 25 percent greater than that in the major economies of Western Europe with per capita incomes about four times greater than Kazakhstan’s. The scope for rationalizing energy use was, and still is, great, and the government, supported by a number of bilateral agencies, has started on a comprehensive program of energy audits and conservation promotion. The absence of financial incentives for the efficient use of energy, and the concomitant widespread use of energy inefficient and obsolete technologies in industry, coupled with the priority given to heavy and energy-intensive industries, resulted in an energy production strategy that contributed both to the wasteful use of key energy resources and to their accelerated depletion.

7. Reversing this legacy of environmental degradation will require significant investments to remediate past environmental damage and to reduce future damage. It will also require price reforms to promote the efficient use and production of energy resources, strengthening of environmental standards, and implementation of systems for monitoring and promoting compliance with those standards.

Sector Concerns

8. The energy sector was a central element in the strategy of the Bank and the government to restore the country’s productive capacity. The efficient and secure production and supply of energy from the huge base of discovered but undeveloped oil and gas fields was seen as critical to economic recovery and export growth. Implementing this resource development program required a huge inflow of capital and technology, which could only be provided by direct foreign investment by major international oil companies (IOCs). External interest in the petroleum sector of Kazakhstan was high in the early 1990s, but investors were being deterred by considerable delays in concluding contracts, in gaining government approval for those contracts, and in implementing the investment program envisaged once all approvals had been obtained. The main factors behind these delays were:

- The absence of a coherent petroleum legal and contractual framework for petroleum operations;
- The lack of a clear taxation regime for petroleum operations, particularly provisions for taxation of potential profits in excess of adequate rates of return to investment in sector operations;
- The relative complexity of participation terms and structures offered by potential investors in relation to the limited (but growing) domestic capacity and experience in evaluating and approving investment proposals; and
- Investor uncertainties about potential access to transport facilities for export of crude oil and natural gas to international markets.
Role of the Bank

9. The World Bank started working with the Government of Kazakhstan (GoK) even before it became a member of the World Bank on July 1, 1992. This earliest work concerned the Economic Advisory Services that the Bank was to provide under the Technical Cooperation Agreement (TCA) that had originally been signed with the Soviet Union in November 1991. During these discussions, the government made it clear that it considered revitalization of Kazakhstan’s petroleum exploration and production sector to be critical to the country’s overall economic recovery. A TCA project document was signed on April 30, 1992, under which the Bank undertook to provide specialized, expert assistance to the GoK for the preparation of, and, to the extent feasible, the subsequent enactment of, modern petroleum legislation designed to attract significant new foreign investment into the sector and to protect the interests of GoK and its enterprises in the development of this vital natural resource. The TCA included three clearly identified tasks in the petroleum sector:

1. Petroleum Legislation: together with GoK counterparts, prepare a legislative package to address the key elements of an investment framework for petroleum exploration and production, including a draft Petroleum Law (PL), draft model agreements/contracts (MC) governing the relationship between the GoK and petroleum sector investors, and a draft Petroleum Revenue Code (PRC) for petroleum operations.

2. Institutional Development: recommend changes needed in the existing institutional structure needed to meet the challenges of a market economy, and suggest an appropriate program of petroleum enterprise reform.

3. Training: provide specialized training to GoK counterparts in petroleum legal, contractual, and economic matters and in the conduct of petroleum agreement negotiations with IOCs.

Previous Sector-Related Operations

10. The GoK implemented many of the proposed reforms in conjunction with the Bank-supported Structural Adjustment Loan (Loan 3900-KZ; board date August 3, 1993; effectiveness date December 22, 1993), which provided US$13.4 million for technical assistance related to privatization and private sector development. The reform legislation supported under that loan resulted in (i) formal liberalization of crude oil and petroleum products pricing and trade, (ii) dissolution of the state-owned monopoly wholesale and retail distributor of petroleum products, and (iii) privatization of all petroleum-related retail distribution activities. The drafting of a tax code for petroleum and minerals was also initiated under this operation.

11. In 1993, the Bank’s technical assistance support shifted to the Technical Assistance Project (TAP) (Loan 3642),¹ as the TCA program began to wind down. The objectives of the TAP were: (i) to provide assistance in the design and development of the government’s economic reform policies and programs; (ii) to build the institutional

¹ Approved by the Board in August 1993.
capacity and skills base for implementing these reforms; and (iii) to initiate policy work for development of key sectors of the economy. The project included two components relevant to the petroleum sector. One supported formulating environmental priorities and strengthening governmental capabilities in environmental review and audit. This included the design and preparation of the National Environmental Action Plan (NEAP). The other supported the ongoing development of policy, legal, and institutional frameworks for promoting and regulating foreign investment. The focus was on very specific professional issues (development of the standard incentive package, legislation on oil and subsoil use, design of the political risk insurance scheme to promote foreign investments, and professional training), as well as on supporting foreign investments in non-extracting sectors. With the assistance provided under this project, the GoK revised the Law on Oil and Law on Subsoil Use, establishing the basis for foreign investments in the extracting sector, and created for foreign investors a standard bid information package that provided more transparency in the decision-making process. Many of these activities, which were unfinished in 1995, were subsequently transferred to the Petroleum Technical Assistance Project (PTAP), which is the subject of this PPAR.

**THE PROJECT**

12. As defined in the Memorandum of the President, the objectives of the US$15.7 million technical assistance project were to assist the government to strengthen the capacity of key petroleum subsector agencies to:

   A. Attract foreign investment into the sector;
   B. Promote the efficiency and long-term financial viability of the petroleum sector industries; and
   C. Formulate economically sound investment and organizational strategies for the integration of domestic primary petroleum production, processing, transport, and distribution.

14. These strategic objectives were well aligned with the government’s short- and medium-term tactical goals. The short-term tactical goals were (i) to create a legal, taxation, and institutional framework conducive to attracting foreign investment; and (ii) to conclude negotiations for the development of new or partly developed fields and for exploration of new areas. The medium-term tactical goals were (i) to promote economically efficient investments in domestic petroleum processing, transport, and distribution; (ii) to create efficient and adequate transport access to international markets for its oil production; and (iii) to develop domestic capacity to manage the sector and its enterprises on an efficiently commercial basis.

**Project Components**

15. The project components included *advisory services* (US1.2 million), *studies* (US1.8 million), and *training* (US$3.3 million).

- Under objective A, *advisory services* were to be provided to (i) support the formulation and implementation of petroleum-related legislation, including
revamping the petroleum taxation regime; (ii) review existing investment proposals from potential foreign investors and assist with the negotiations for foreign equity participation for these projects; and (iii) appraise and structure selected new investment projects and assist with establishing foreign equity participation in those projects. In addition, training programs helped develop local skills needed to negotiate with foreign investors.

- Under objective B, advisory services were used to (i) help develop and implement a restructuring, commercialization, and privatization program for sector enterprises; and (ii) strengthen the capabilities of the sector’s major government institutions; (iii) conduct a feasibility study for an infrastructure and operations base to support foreign exploration and production activities in the Caspian Sea; and (iv) establish a training institution to provided courses in all technical and managerial areas of sector development.

- Under objective C, feasibility studies were to be implemented to evaluate alternative pipeline transport systems for (i) domestic crude oil and oil products; and (ii) natural gas distribution.

**Implementation**

16. The project components were well designed to address the main focus of both Bank and GoK priorities for the sector. The main risks identified at appraisal were, first, the risk of implementation delays due to inexperience in project management, and second, the risk of failure of government agencies to accept that investment decisions should be made on primarily economic and commercial grounds.

17. The loan was approved by the Board of Executive Directors on June 2, 1994. Effectiveness was greatly delayed, primarily because the Bank had insisted that the GoK agree to and submit a sector-restructuring plan as a condition of effectiveness. The Ministry of Energy and Fuel Resources (MEFR) was expected to do this within 60 days of Board Approval, but reaching internal consensus on a specific proposal proved impossible within this time period, forcing a delay in project effectiveness. The MEFR decided against creating a dedicated PIU, and instead took this responsibility within the Office of the Minister. When the minister changed, responsibility for project implementation was allocated to several of the departments in MEFR. The lack of a staffed, dedicated PIU meant that there was no group to provide a full-time interest in and focus on putting together a politically acceptable restructuring program. Further delay was an inevitable result. The project was eventually made effective on September 8, 1995, more than a year behind schedule. During the delay there were several changes in leadership and staffing at the MEFR, as well as at most of the other agencies with significant interest in implementing the project. As a result, tasks managers had to repeatedly reestablish a common understanding of the project’s aims and objectives with each new set of government officials.

**Individual Project Components**

18. **Support for establishing petroleum legislation [A(i)]:** The project was initially supposed to support technical assistance for finalizing the Petroleum Law. This work,
which was already being supported under the TCP loan, was to be transferred to the
PTAP. However, all the work on the law was completed before the loan was made
effective. The petroleum law was presented to parliament in mid-1995, and became
effective in January 1996 through a Presidential Decree with Force of Law adopted while
parliament was out of session. This law was a milestone. It was the first modern
framework legislation for enabling foreign investment in the petroleum sector in the
Former Soviet Union, and it laid the foundation for the subsequent rapid rise in oil sector
foreign investment and, subsequently, in oil production.

19. The PTAP did, however, finance technical assistance for writing the critical
supporting regulations and instructions needed to make the most important parts of the
law operational. Ten decrees with supporting regulations were promulgated in 1996. In
1999, the GoK revised the petroleum law in ways that establish barriers for future foreign
investment. These changes have negated somewhat the benefits of the previous
legislation. The most significant change was the canceling of all international arbitration
clauses, and their replacement with a requirement that all contract disputes be resolved in
Kazakhstan courts. Petroleum enterprises that were already implementing their
development programs undoubtedly will continue their planned investment programs.
However, the 1999 code revisions are likely to increase significantly the perceived risk of
investing in Kazakhstan, and this higher risk profile will likely be reflected in the terms
that these companies are willing to offer for future PSAs. Notwithstanding the changes in
the petroleum code, foreign investment in the sector rose dramatically from 1996 through
2000, as the table below shows: the overall impact of the Bank’s technical assistance
efforts in this area is judged highly satisfactory.

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<td>210</td>
<td>641</td>
<td>507</td>
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20. **Support for preparing taxation legislation [A(i)]**: Tax regulations and accounting
provisions were designed for several model contracts in order to maximize the benefits to
Kazakhstan while minimizing the total worldwide tax liabilities of the oil companies, and
enabling legislation was drafted to implement these provisions. However, the government
decided to not implement these legislative proposals. While the GoK did include some of
the recommendations in subsequent legislation, this was done in a piecemeal fashion and
the overall impact has been marginal. Therefore, the impact of this major technical
assistance component has been marginal.

21. **Support for negotiations with international oil companies [A(ii)]**: The GoK
requested that the Bank support a continuation of legal advisory services needed to
support negotiations on several extremely large and important investment transactions,
including the Karachaganak offshore gas/gas condensate project and the
KazakhstanCaspShelf Consortium offshore geophysical exploration project. In both
cases, advisors had been assisting the GoK in its negotiations since 1992. While the Bank
originally proposed that the contracts be awarded by competitive tender, it eventually
agreed with the government that changing advisors in the middle of these complex
negotiations would be highly inefficient and disruptive. The Bank therefore agreed to
finance the continuation of existing contracts on a direct tender basis.
22. The negotiations for the Karachaganak field and the Caspian Shelf were successfully completed. Karachaganak is the largest gas/gas condensate field in Kazakhstan. The joint venture involves a consortium of IOCs, including Agip, BP, Lukoil, and Texaco. The first phase of the new development program is expected to require a peak workforce of 14,000, of which 10,000 will be Kazakhstani. Upon completion, production is projected to reach 10.4 million tons per annum of condensate—the produced gas is to be reinjected into the field. For the Caspian Shelf, Kazakhstan Caspian Shelf OJSC (KSC), a State-owned geophysical company, formed a consortium with Agip, BP, Mobile, Shell, Statoil, Total, to implement a seismic survey covering the entire Kazakhstan sector of the Caspian Sea. The survey was successfully completed at a cost more than US$200 million and is expected to lead to substantial new offshore exploration ventures by members of the consortium.

23. The two projects have the potential for generating more than US$30 billion in new investment, and substantially more in new oil production. However, OED is unable to judge the effectiveness of the consultant or the appropriateness of the final agreements, since these agreements have been kept strictly confidential between the GoK and the companies involved. While both the government and the IOCs involved in the transactions claim that all appropriate environmental standards have been applied to the operation, verification is not possible. The outcome of this component is judged highly satisfactory. However, the Bank made only a minimal contribution to the process and the results. Thus, while the relevance of the activity to Kazakhstan’s development was substantial, the relevance of the Bank’s support to the achievement of the results was negligible. If Bank financing had been unavailable, the technical, financial, and negotiation support activities, which had been ongoing for three years before the Bank took over the financing, would have been continued in essentially the same manner until the contracts had been concluded.

24. Later joint venture agreements (JVAs) were negotiated with other IOCs with substantially less support from foreign advisors. However, the GoK’s shares in a significant number of these JVAs were subsequently handed over to other foreign companies in negotiations that appeared to be far from transparent. The development impact of these activities was minimal.

25. Appraise and structure investment projects for tendering to foreign partners [A(iii) & B(ii)]. This component focused on the privatization of the Uzen oilfield, which, at the time, was Kazakhstan’s second-largest onshore oilfield (after Tengiz). Legal, financial, and technical advisory services were provided to create the tender documentation for the sale of a majority interest in the company to a strategic foreign investor and for the evaluation of these tenders. The implementation of a process to privatize Uzenmunaigas was considered an essential condition for the Bank moving forward with the Uzen Oilfield Rehabilitation Pilot Project (Loan 4061).

2. In the 1997 deal, in which Hurricane Hydrocarbons purchased the Kumkol oilfields from Yuzhneftegaz, it also obtained GoK’s interest in the Kazgermunai JV (in which IFC was an equity holder and lender), and the Turgai Petroleum JV. There does not appear to have been a bidding process for these oilfields, and the reasons for including these properties were never fully explained.
26. The tender package and subsequent tender bid analysis prepared by the consultants was not considered of high quality by the borrower. There were several problems, including the lack of transparency and of a well-defined set of criteria for evaluating the bids. It did not help that the GoK had been unable to provide any guarantees related to access to facilities for export of produced oil. Three major international consortiums responded, headed by Amoco, CNCP, and Petronas (Malaysia). As might be expected from the weak framework provided by the tender documents, the bids were short on some important details. They were characterized by Bank staff as proposals designed to obtain the right to negotiate for the right to operate the field. The GoK and the Bank-financed consultants found it very difficult to come to a consensus on which was the best bid.

27. The process of choosing the bidder was far from transparent. The government chose CNPC as the appropriate partner for the rehabilitation and further development of the Uzen oilfield after CNPC added to its offer a promise to build a 3,200-kilometer oil pipeline from West Kazakhstan, where the field was located, to Xinjiang Province in Western China, at an estimated cost of at least US$3 billion. The General Agreement linked the establishment of the joint venture to develop the Uzen field with the development of the oil pipeline. This General Agreement left many critical issues to be resolved by more specific detailed agreements. Most important, it cast a shadow over the privatization of Uzenmunaigas, which was originally one of GoK’s main objectives. After reviewing the costs and benefits that could come from the proposed oil pipeline, CNPC appears to have decided that it was not economically viable, since it has yet to make any significant move to implement it.

28. This stalemate has been convenient for Uzenmunaigas and Kazmunaigas (the government’s apex petroleum institution), since as long as the General Agreement remains in force, no further action can be undertaken for the privatization of Uzenmunaigas. Now that the financial crisis in the petroleum sector has been eased by

3. At a minimum, the process to be used for judging the bids (including weights of various important elements) should have been established at the time the bids were requested, and an explanation of how the choice was made, based on this process, should have been made available to all bidders when the winner is announced.

4. Conceptually, this was a highly dubious proposal, since Xinjiang province is 4,000 kilometers from any major Chinese consumption center. There is no pipeline from Xianjiang, so the oil would have to be transported most of the way to its final destination by rail.

5. The legal and economic dimensions of the privatization proposed under the General Agreement (GA) of September 1997, which established the basic terms for the joint venture (JV), were substantially different from GoK’s original privatization objectives. In particular, it contemplated that Uzenmunaigas’s primary asset, the Uzen oilfield, would be contributed to the JV, and that Uzenmunaigas would enter into unspecified service agreements with the JV. This GA would have transformed Uzenmunaigas from an oil-producing company to a company that provided oilfield services and had a minority interest in a production joint venture. This new hybrid structure would have severely constrained the privatization of the restructured Uzenmunaigas. The GA provided only a broad framework for the JV, leaving unanswered issues concerning (i) the specific assets to be taken over by the JV; (ii) the impact of the secondment terms for Uzenmunaigas’s labor force; (iii) the legal obligations, if any, that Uzenmunaigas and the JV would have for previous environmental liabilities.

6. Kazmunaigas is the successor to Kazakhoil and the other ministry institutions concerned with the petroleum sector. It is both a holding company for State-owned oil resources and the institution responsible for regulating the sector.
the substantial increase in oil prices from their 1997 and 1998 lows, Uzenmunaigas has been able to obtain sufficient resources to begin the rehabilitation process itself. The company claims that oil production will be 4.2 million tons in 2002, up from a low of 2.5 million tons in the late 1990s. As a result, Kazmunaigas has taken the position that there is no longer any need to privatize this oilfield. The impact of the Bank’s technical assistance efforts in this area must therefore be considered highly unsatisfactory.

29. **Training [A (iv)]:** Training on the principal elements of a legal and contractual framework for petroleum operations and petroleum economics was first provided under the TCP. Subsequent courses were supported under the TA project. The PTAP provided training to Kazmunaigas and several government ministries on many of the same areas, including petroleum economics, investment appraisal, and investment negotiations. Feedback during supervision missions suggests that the courses were highly appreciated. However, the rapid changeover of senior staff at Kazmunaigas makes it unlikely that much of the newly acquired knowledge has been put to practical use. The assessment mission was unable to meet with anyone who had taken the courses. Hence, there is no way to judge how effective this training has been in strengthening the performance of these institutions.

30. **Support for petroleum industry restructuring and corporatization [B (ii)]** was provided through advisory services for writing legislation to redefine the roles of state petroleum institutions. When the oil and gas industry was restructured in 1995, the originally defined project implementing entities ceased to exist and were replaced by 16 newly independent State-owned oil and gas entities. These entities were subsequently unified under the holding company Kazakhoil. In 2002, a further reorganization combined all the State’s oil and gas entities (including Kazakhoil) into Kazmunaigas, which now has subsidiaries that handle all of GoK’s relations with foreign companies as well as other subsidiaries that operate their own oilfields. The Bank has continued to recommend that Kazmunaigas be separated into two totally independent entities, one that is responsible for owning and operating oilfields (separately or as a participant in a joint venture), and the other that is an independent regulator of the operations of all oil and gas fields, independently of their ownership structure. The government has yet to concede that an independent authority, without any financial incentive to favor one party over another, is an essential element in a transparent regulatory environment. The outcome of this component is therefore only moderately satisfactory.

31. **Under strengthening petroleum sector institutions [B (ii)]** one project component focused on efforts to help upgrade the capabilities of Kazakhoil, the government’s major oil holding company. An integrated geoinformation and electric documentation management system was to be established for the collection, storage, and management of Kazakhstan’s oil-related geological and geophysical data. The project financed consultants to study the status of the existing systems and develop a program for the creation of a modern system, including the specification of hardware and software and integrated systems needed for implementation. The consultant studies were completed, but by that time, Kazakhoil had been restructured and the new senior management failed to see the strategic importance of this component and subsequently dropped the

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7. This work was initiated under the Technical Cooperation Project and transferred to the PTAP.
implementation program. The importance of this program will continue to grow in line with the growth of Kazakhstan as a major petroleum-producing region. Another project component was intended to provide assistance in establishing procedures and systems for administration of contracts with foreign companies. This component was not implemented. There is still no systematic organization for the administration of contracts within Kazmunaigas. The outcome of these activities, to date, has been negligible.

32. *Activities to promote sector efficiency [B (iii)].* A feasibility study was implemented to establish the financial potential of joint venture infrastructure and an operations base to support the foreign Caspian Sea exploration and production operations. This study was completed, and the investment programs associated with it appears to be going forward. The environmental aspects of the project, which is to be developed in the highly environmentally sensitive shallow water of the northern Caspian sea (the center of a billion dollar a year fishing/caviar industry) was studied in detail, and recommendations to minimize ecological impacts were included in project design specifications. Since the investment program has yet to be implemented, *it is not possible to evaluate the outcome.*

33. *Pipeline feasibility studies [C(i)]*: Two oil pipeline feasibility studies were to be implemented, including a study on the technical and economic merits of petroleum product pipelines versus rail transport; an economic feasibility and optimization of crude oil pipelines; and the preparation of tender documents for engineering and construction of pipelines that are approved. The only study actually carried out was an economic evaluation of West Kazakhstan-Kumkol pipeline. It showed that it was not economically viable, and the investment proposal was dropped. The GoK obtained grant financing from USAID and other bilateral donors for three domestic transportation review studies, which were subsequently dropped from the Bank project. Since this outcome helped to dissuade the Government from an otherwise uneconomic investment, *the outcome is satisfactory.*

34. *National Petroleum Training Institute*: The project provided equipment, materials, and training services (including training of trainers) for the establishment of the Petroleum Industry Training Center (PITC) in Almaty. PITC is now being used by all of the country’s petroleum institutions, public and private. Its efficacy and efficiency is highly praised by both governmental institutions and international oil companies who use it to train much of their local managerial and technical staff. PITC has received support from European Union Technical Assistance (EU TACIS) and oil companies that use and support its facilities. It now charges commercial fees for enrollment in its courses and has become financial self-sufficient. In 1999, it established a Regional Training Center in Atyrau, which was also financed under the project. *The outcome of this component was highly satisfactory. Its impact appears to have been substantial.*

35. *The National Gas Investment Strategy Study [C(ii)],* which was initially to be financed under the project, was implemented in 1997 through the Bank’s ESMAP technical assistance program. The output was a substantial three-volume work that identified the policy initiatives that needed to be implemented for the sector to regain its momentum. The initiative for gas trading with Gasprom, which will bring gas to Kazakhstan’s northeast is currently under discussion. Other recommendations, which are as relevant today as when
the study was completed, do not appear to have been implemented. *While the study was successfully completed, its impact has been negligible.*

36. **Other activities:** Late in 1998, the Bank agreed to finance a feasibility study for the development and exploitation of hydrocarbon fields that Kazakhoil wanted to develop on its own, without foreign participation. Kazakhoil felt that the development of these fields could greatly strengthen its economic and production bases. The results of the study appear to have been helpful to Kazakhoil. However, there was no clear justification for the Bank supporting this work, since its purpose was to assist the national oil and gas company to develop its own oilfields. It may have been justified at the time by the desire to improve the sector efficiency [B(iii)], since it was used to establish field development optimization programs. However, this component did not fit into any of the project’s technical assistance categories, all of which were clearly focused on assisting the privatization of the sector. In addition, it was inconsistent with the Bank’s guidelines for the petroleum sector, which provide for assistance to profit-oriented activities by government-owned enterprises only when they contribute to efforts to privatize those enterprises. *This component must, therefore be judged as highly unsatisfactory.*

**PROJECT RESULTS**

**Relevance:** Were the project objectives right?

*Relevance is the extent to which the project’s objectives are consistent with the country’s current development priorities and with current Bank country and sectoral assistance strategies and corporate goals.* This assessment rates the project objectives as highly relevant.

37. **Sector objectives:** The project objectives were highly relevant. At the time the project was designed the government ministries had no understanding of the legislative, institutional, and taxation needs and expectations of IOCs, no experience negotiating with these companies, no framework for privatizing State enterprises and selling State-owned assets, and little grasp of the modern economic concepts that underlie rational economic decision making for investments, in particular on such matters optimum choice of oil and gas pipeline investments and long-term natural gas utilization strategies. The technical assistance provided was extremely helpful to managers of Kazmunaigas (the restructured Kazakhoil), the Ministry of Oil and Gas, and the national pipeline company, since these were still struggling to develop an in-depth understanding of sector issues. The sectoral objectives were, for the most part, satisfactorily met.

38. **Environmental objectives:** This project was classified category “C”. It probably should have been classified as a category “B”, because substantial aspects of the technical

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8. This impact could be greatly enhanced if it were to be recirculated to the appropriate ministries and made available to all relevant staff, not just to the most senior ministerial managers, who seem to move in and out of the relevant ministries with excessive frequency.

9. Alibekmola, Kozhasay, and Urikhtau
assistance related to supporting the furtherance of physical investment projects.\textsuperscript{10} This would have provided the opportunity for the Board documentation to discuss and explain how potential environmental concerns were being handled. This oversight did not affect Bank performance, since Bank involvement in the sector was fully cognizant of the environmental issues. The preceding TA project (Loan 3642) had already financed the implementation of a major national environmental review. Under that project, environmental priorities were formulated, a National Environmental Action Plan was prepared, and governmental environmental review and audit capabilities were strengthened. The PTAP under assessment here took into account environmental considerations in each of the components with physical investment potential. Each of the proposed feasibility studies included a review of potential environmental impacts and, where investments were contemplated, on recommendations for environmental impact mitigation. The project also helped finance the environmental review of the proposed Uzen Oilfield Development project, which was subsequently financed by the Bank (Loan 4061). Environmental issues are also an integral part of the training program of the PITC. The project’s environmental objectives were satisfactorily met.

39. Nevertheless, the long-term environmental impact of the rapid expansion of petroleum production in Kazakhstan is still uncertain. The environmental operating standards of IOCs are far stricter than those of the local companies during the Soviet and recent post-Soviet eras, and the IOCs are being held to a much stricter level of environmental performance than were national companies, so that the environmental problems associated with the sector are generally declining. Nevertheless, there is always the possibility of a significant accident on an offshore drilling platform in the Caspian Sea, or involving the transport of this oil by ship in the Caspian Sea, the Black Sea, the Marmara straits, or the Mediterranean. Any oil development projects involve an inherent risk that a tanker accident could do extensive environmental damage.

40. \textit{Social objectives}: In the context of the privatization of Uzenmunaigas, there were concerns about what would happen to the workers displaced when a more efficiency-minded private company took over its operation. These concerns were addressed in the privatization bidding process, where certain warranties were to be given by the winning bidder. However, Uzenmunaigas was not privatized, so the issue became moot. The project had no other direct social objectives.

41. \textit{Macroeconomic objectives}: The macroeconomic contribution of the project would be to revitalize Kazakhstan’s petroleum sector, which was anticipated to become the country’s main engine of economic growth.

\textsuperscript{10} The Environmental Assessment Source Book Update (April 1993) on Environmental Screening notes that “while most technical assistance (TA) projects should fall into Category C, since they involve no physical works, certain TA operations are designed to pave the way for major investments or privatization (often in a particular sector). In such cases, it is appropriate to undertake a limited review of the environmental institutional and regulatory framework for the sector and recommend improvements (as needed). Category B is normally the correct classification for such projects.”
Efficacy: Did the project achieve its stated objectives?  
*Efficacy is the extent to which the project’s objectives were achieved, or expected to be achieved, taking into account their relative importance. This assessment rates the project’s overall efficacy as substantial.*

42. **Attracting foreign investment:** On the most important objective, the project provided effective assistance to GoK to strengthen the capacity of key petroleum subsector agencies to attract foreign investment into the subsector. It financed the continuation of technical, financial, and legal advisory services that were critical to the conclusion of two major Caspian Sea projects. These contracts were signed and large-scale investment programs are underway to exploit their oil and gas resources. Many additional contracts were subsequently negotiated with foreign oil companies. By early 1996, there were 37 local and foreign members of the Kazakhstan Petroleum Association, all active in oil and gas exploration and production, compared with fewer than a handful of major companies that were negotiating contracts in 1993. On the negative side, the effort to privatize Uzenmunaigas, the Kazakhstan’s largest State-owned oil-producing enterprise, and a centerpiece of the Bank-funded technical assistance program, failed to produce any results. The efficacy of this project component is rated as high.

43. **Enhancing sector efficiency and financial viability:** While the privatization process did help GoK promote the efficiency and long-term financial viability of the upstream oil and gas exploration and production activities, it failed to make any contribution to promoting the efficiency and long-term financial viability of downstream petroleum industries. Given that the upstream activities had a much greater value added and were therefore of much greater importance for the economy as a whole than were the downstream activities, the efficacy of this component is rated as substantial.

44. **Formulating sound strategies for sector integration:** The project made only limited progress on assisting GoK to formulate economically sound investment and organizational strategies for the integration of domestic primary petroleum production, processing, transport, and distribution—the third of its objectives. This component was to be implemented by oil and gas pipeline feasibility studies and by the National Gas Investment Strategy study. The domestic oil pipeline studies demonstrated that the investment proposals under consideration at the time could not be justified on economic grounds, and these proposals were subsequently dropped. A small additional study covering the processing of gas liquids was of some assistance in the expansion of one processing plant. The Gas Utilization and Transport study established several criteria to be used for future policy making in this area, but Kazmunaiagas, the government agency in charge of such activities, appears to have done little to follow up these recommendations. The efficacy of this project component is rated as negligible.

Efficiency: Was the project cost effective?  
*Efficiency is the extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. This assessment rates project efficiency as modest.*

45. Assistance with negotiation of the most important, large exploration/production contracts was provided without much Bank input, primarily for work that was already in
progress and would have been completed even if Bank funding had not been available. Thus, while the efficacy of this component was high, the efficiency of the Bank support for this component is rated as modest.

46. A substantial portion of project financing was to provide financial and legal technical assistance for the privatization of the Uzenmunaigas, the operator of the Uzen oilfield. The privatization process went off track when GoK’s privatization decision was swayed by an offer by CNPC to build an economically questionable export pipeline to China. When this promise remained unfulfilled, Uzenmunaigas continued to use its long-standing Soviet-era organizational and operating procedures, with their accompanying lack of concern for economic efficiency or environmental pollution. The efficiency of this project component was negligible.

47. Assistance for formulating the Petroleum Law was limited because the basic law had passed parliament before the project became effective. Project funds were not used on this activity. Instead, they were used to provide assistance for drafting the enabling legislation for the Petroleum Law. This support was extremely important and highly efficient, as was assistance for drafting tax legislation. The efficiency of these components is rated as high.

48. Support for technical training in the Ministry of Oil and Gas, and its subsequent transformations, Kazakhoil and Kazmunaigas, has had less of an impact than had been hoped, primarily because there has been such a rapid turnover of managers in these organizations that most of the knowledge has been dissipated. The major institution-building activity, the integrated geoinformation and electric documentation management system was not implemented. The efficiency of these activities is rated as modest.

49. The Petroleum Training Institute established under the project, on the other hand, has used its limited resources to create an institution of excellent reputation, and has effectively made the transition from state subsidies to full financial independence, on the basis of fees paid by the users of its services. This is a remarkable achievement. The efficiency of this component is rated as high.

Institutional Development Impact: Has the project led to better management of human, natural and financial resources?

Institutional development impact is the extent to which a project improves the ability of a country or region to make more efficient, equitable and sustainable use of its human, financial, and natural resources through better definition, stability, transparency, enforceability, and predictability of institutional arrangements. This assessment rates the project’s institutional development impact as substantial.

50. The legal and regulatory framework for the petroleum sector was substantially improved. The improvements provided the basis for the greatly expanded foreign investment in the sector. The other major institutional component, which was to establish a national petroleum training institute that would continue to support sector development, was also highly successful.
**Sustainability**: Are the results likely to last?

*Sustainability is the resilience to risk of net benefits flows over time. It is evaluated by assessing the risks and uncertainties faced by the project and by ascertaining whether adequate arrangements are in place to mitigate against the impact of known operational risks.* This assessment rates project sustainability as likely.

51. The project helped to finalize the investment agreements for the Karachaganak and Kazakhstan Caspian Shelf operations. It also supported a study on the infrastructure and operations base requirements needed to support the offshore oil operations of Caspian Sea operators, which is now being implemented through a joint venture. These projects are progressing well, with strong IOC investment support.

52. IOC presence will continue to expand in Kazakhstan, and oil output will continue to grow rapidly. There has been periodic friction between the GoK and the foreign oil companies. For instance, in the second quarter of 2002, the government was trying to renegotiate certain taxation and royalty agreements with some of the largest companies to compensate for the loss in revenue from the national, across-the-board cuts in VAT and payroll taxes that were introduced earlier this year, while the oil companies have taken the position that the contracts that they entered into should be sacrosanct, and therefore, that there should be no renegotiation of any part of them. In the long run, however, Kazakhstan does not have the technical or financial capability to develop its extensive oil resources on its own in a timeframe that would meet GoK’s macroeconomic objectives. It needs the IOCs to develop its oil resources, and the IOCs will continue to be eager to join in this effort.

**Outcome**

*The outcome criteria take into account extent to which the project’s major relevant objectives were achieved, or are expected to be achieved, efficiently.* This assessment rates the project outcome as moderately satisfactory.

53. The most important contribution of the project was the introduction of independent technical experts who were able to teach Kazakhstani government officials about the workings of the international petroleum industry within the context of a market economy. The assessment mission found universal praise for this process at a time when Kazakhstan was being introduced to the objectives and ways of the international petroleum industry.

54. The project’s results were mixed. Some significant benefits were achieved, but many of the components failed to meet their objectives. Critical implementing legislation was established for the petroleum sector under this project, but the legislative framework for sector taxation policy designed under the project was only partially implemented. While the technical assistance for completing the negotiations for the major concession areas was successful, the Bank’s input into this activity was, at best, marginal—its contribution was limited to taking over the payment for existing contracts, which the government would have continued to pay for in the absence of the Bank project. While some project components succeeded, including the Petroleum Training Center, and some of the studies were helpful (the oil pipeline study), other major project components were unsuccessful, including the privatization of Uzenmunaigas and the establishment of an information system for Kazakhoil/Kazmunaigas.
Bank Performance

The rating of Bank performance is an assessment of the extent to which services provided by the Bank ensured quality at entry and supported implementation through appropriate supervision. This assessment rates Bank performance as satisfactory.

55. Quality at entry: There was no formal QAG Quality at Entry review. This assessment is in full agreement with the conclusion of the ICR that the project objectives were consistent with the Bank’s Country Assistance Strategy for Kazakhstan, and its strategy to support privatization of the petroleum sector. These objectives were well aligned with GoK priorities. Specific project goals were clearly identified. However, much of the difficulty in making the project effective was a result of the strategic error of bringing it to the Board before the government had agreed on sector restructuring, and the tactical error of failing to insist on a dedicated PIU within the MEFR. The quality at entry is therefore judged to have been unsatisfactory.

56. Quality of supervision: Bank staff made every effort to support the needs of the borrower while maintaining the objectives of the project, through a long process, during which time there were many changes in senior government officials, and their persistence in demonstrating the importance of the project objectives to the new officials. In this way they overcame the project’s initial handicaps, and brought the project to a successful conclusion. The project team also spent considerable time and effort in reviewing the offers for privatization of Uzenmunaigas, including a full critique of the difficulties inherent in GoK’s decision to establish a joint venture for the Uzen oilfield separately from the privatization of Uzenmunaigas. The Bank did, however, go beyond the mandate of the project when it agreed to finance the evaluation of three oilfields that Kazakhoil wanted to develop on its own, since this added activity was not consistent with any of the project’s original objectives or components. Nevertheless, the quality of supervision is judged to have been satisfactory.

Borrower Performance

The rating of borrower performance is an assessment of the extent to which the borrower assumed ownership and responsibility to ensure quality of preparation and implementation, and complied with covenants and agreements, towards the achievement of development objectives and sustainability. This assessment judges the borrower performance as Unsatisfactory.

57. The borrower was fully supportive of the technical assistance provided for negotiating on the major ventures. It implemented the proposed petroleum sector enabling legislation, but on taxation policies, which are an integral part of the petroleum package, it was unable to implement the proposed legislation. It was also supportive of the initial efforts to privatize Uzenmunaigas. However, the process was far from transparent and eventually got sidetracked by the promise of a highly speculative oil export pipeline to China. During this period, the petroleum sector went through several major reorganizations. Changes in the sector’s senior management made it difficult to maintain a consistent outlook toward the project’s primary objectives. By the time the China pipeline fell through, the government was no longer interested in pursuing the privatization option. New management in the successor implementing agency cancelled the integrated geoinformation and electric documentation management system without
discussing its importance with Bank staff. The government has yet to act on the recommendations of the gas transport and utilization study.

LESSONS AND RECOMMENDATIONS

58. Late in the implementation phase, the Bank accepted an additional project component that was not consistent with the original project design objectives. When additional project components are proposed during the implementation of a technical assistance project, the Bank needs to be especially careful to undertake a full process of establishing a justification within the context of the original project objectives and components.

59. The financing of the continuing work of contract advisors who are already advising the government is a questionable practice, since it makes it extremely difficult for the Bank to fulfill its quality control function. The Bank funding should primarily support activities when the Bank has a role that will contribute the success of these activities, if in no other way than by reviewing the reports and recommendations of the consultants.

60. The agreed terms of oil development contracts between GoK and private companies remain confidential, even though the contracts were negotiated with assistance financed by the Bank. The Bank should make every effort to get governments to agree to make public the basic financial elements of all agreements and contracts that are negotiated with foreign companies. Public review of such contracts is the only way to establish transparency and accountability in dealing with the exploitation of national resources such as oil. In particular, the Bank should only provide technical assistance for the negotiating of contracts that are intended to become part of the public domain (at least in their broad terms).
Annex A. Basic Data Sheet

PETROLEUM TECHNICAL ASSISTANCE PROJECT (LN. 3744-KZ)

Key Project Data *(amounts in US$ million)*

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Project Dates

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ML=Mission Leader; TL=Team Leader, SOIE=Sr. Oil Industry Expert, PTE=Petrology Expert, PPFE=Pipeline and Production Facility Expert, PE=Pipeline Expert, SORE=Sr. Oil Refining Expert, LW=Lawyer, OA=Operational Advisor, RA=Research Assistant, TS=Training Specialist, PS=Procurement Specialist, PTS=Petrology Specialist, PTE=Petrology Engineer, EG=Engineer, OAn=Operational Analyst, LS=Legal Specialist, SLC=Sr. Legal Counsel, FA=Financial Analyst, FMO=Financial Management Officer, OPO=Operations Officer
## Other Project Data

**Borrower/Executing Agency:**

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<th>Ln/Cr no.</th>
<th>Amount (US$ million)</th>
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Annex B. Borrower Comments

Всемирный банк
Группа секторальной и тематической оценки
Департамент по оценке деятельности
Г-ну Элану Барбу

На № 03/110 от 24.02.03 г.
Кас.: Проекта технической помощи нефтяному сектору (заем 37440)
Проекта отчета по оценке эффективности проекта

Уважаемый Г-н Элан Барбу!

Министерство экономики и бюджетного планирования Республики Казахстан, рассмотрев проект отчета по оценке эффективности Проекта технической помощи нефтяному сектору (заем 37440), сообщает, что замечаний и предложений к вышеуказанному документу не имеет.

При этом, отмечаем, что реализация Проекта технической помощи в определенной мере способствовала развитию нефтегазового сектора Республики Казахстан.

Надеемся на дальнейшее плодотворное сотрудничество.

С уважением,

Вице-Министр

А. Дунаев

Исп.Усманов Р.И.
71-81-21
Translation

Re: Evaluation of TA-Oil Sector (Loan 37440)

Ministry of Economy & Budget Planning of Kazakhstan has revised the draft report evaluating effectiveness of the oil sector TA project (loan 37440). We would like to notify you that we have no suggestions or objections regarding this document.

We would like to emphasize that implementation of this project to a certain extent has contributed to the development of the oil and gas sector in Kazakhstan.

We look forward to further fruitful cooperation.

With best regards,

Vice Minister

A. Dunaev