I endorse the proposed Bank Group’s Assistance Strategy for Kazakhstan and commend the Staff for the preparation of this thorough, frank and well written document. We would also like to thank Mr. Kodera and Mr. Konishi for the useful informal briefing on the CAS prior to its Board discussion.

We congratulate the Kazakh authorities on the rapid and significant progress that has been made in setting up a stable macroeconomic environment. Kazakhstan also deserves high commendation for its strong performance to date in implementing the structural and policy reforms agreed in the previous CAS, as well as the investment projects financed by the World Bank.

We encourage the authorities to maintain the reform momentum and strengthen their efforts in the face of the remaining challenges. At the same time I believe that the caution expressed in the CAS paper against ill-prepared and overly rapid transformations should be taken into full account.

Remarks and questions

The CAS paper states that the proposed World Bank strategy was discussed extensively with the Government of Kazakhstan. However it provides no further information in this regard. I would appreciate more specific comments on the setting, substance and spirit (“SSS”) of the CAS consultations with the authorities.

It looks somewhat at odds that while discussing Kazakhstan’s development objectives and priorities for the next medium-term period, the CAS refers to a document on the reform program for 1996-1998. Since its adoption by the Council of Ministers in December 1995 a great deal has been done in Kazakhstan, on the one hand, and quite a number of new pressing...
challenges has evolved, on the other. As a result the overall set of the Government’s reform priorities has changed, albeit some of the issues identified earlier remain high on the agenda.

A probability of active participation by NGOs in the implementation of some components of Bank projects in Kazakhstan is mentioned in the CAS report (para. 34). I wonder if the Staff could give some details in this regard.

New program of assistance

I share the Staff’s optimism about the continued close cooperation between the Bank and the Government in the coming years and agree with the according of the greater probability to the high-case scenario. In our opinion, the size and composition of the Bank Group’s lending and non-lending program for FYs 1998-2000 reflect properly the new realities and needs of the country. Given the necessity to fill the gap in the Bank’s knowledge base and thus underpin the capability for policy dialog and advice, a stronger accent on the non-lending component is quite appropriate. We are pleased to note that the program contains some quite innovative approaches and instruments which relate to the private sector development. I shall comment on that more specifically a little later.

Clearly, in view of an extensive involvement in Kazakhstan of many other multilateral and bilateral aid institutions, the World Bank Group can and should be strategically selective. The CAS suggests that over the next three years the Group concentrate its main on promoting private sector-led growth and strengthening social protection and services. I think this choice is right because: (a) a sound development of the private sector becomes crucial for further transformation and recovery of Kazakhstan’s economy but continues to be constraint by many factors; (b) the social sphere is in a protracted crisis which involves a precarious accumulation of unresolved day-to-day problems and unmet expectations of the common people; and (c) in the two selected areas the World Bank has comparative advantage, furthermore in some respects it has no competitors at all.

Private sector development

We welcome the joint World Bank Group strategy and priorities for private sector development in Kazakhstan. I note with particular satisfaction the deepening understanding within this institution of how important is the restructuring of large industrial enterprises for economic revival and reform sustainability in the transitional countries. The planned IFC’s involvement in the post-privatization restructuring of Ispat-Karmet steel plant -- one of the largest enterprises in the FSU -- is very good news.

An innovative and very promising idea of creating a joint IBRD/IFC/MIGA Rapid Response Team which would advise the Government on PSD/FDI policy issues should be firmly supported. We believe that a combined expertise and concerted efforts of these institutions will be very helpful in promoting private sector development and foreign direct investment in Kazakhstan.
Social protection

To date the social costs of Kazakhstan's speedy transition from a centrally-planned economy towards a market one have been very high. The living standards of the population have fallen dramatically. At this juncture social issues in Kazakhstan -- as well as in other ECA countries with rapid pace and broad scope of reforms -- require increased attention and carefully thought-out and coordinated actions on several fronts. Otherwise, the wide-spread transitional poverty will inevitably turn out deeply entrenched and chronic. Also, as time goes by it will be more and more difficult to stop further deterioration of social indicators and restore their relatively high historical level.

The elderly are the most numerous category of the “losers” who stand the least chance of making up their losses associated with the transition. Inflation has destroyed their savings. The pension system inherited from the past can’t work any longer. Accumulation of pension arrears is the most vivid symptom of this crisis. Against this background the Government’s intention to speed up a major pension reform is fully understandable. Therefore we would urge the Bank to explore every opportunity of advancing the Pension Reform Loan from FY99 to an earlier period of time.