Statement by Todd Crawford  
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Kazakhstan: Country Assistance Strategy

Overview and Key Challenges:

1. We thank staff for a timely and informative briefing in advance of this Board discussion. This CAS finds Kazakhstan in a far more stable macroeconomic condition than it was twelve months ago. Yet the source of that stability is also the potential source of great instability. At a time of fiscal surpluses and peaking world oil prices, the authorities appear less motivated to undertake critical reforms. Furthermore, projections for oil prices over the CAS period suggest that a financing gap may not materialize that would necessitate the large volume of adjustment lending proposed under the high-case scenario even if high-case triggers were met. The Bank may want to consider other creative ways to pursue the objectives of the proposed adjustment loans, through project loans or IFC or MIGA operations.

2. We concur with the broad focus of the CAS: to address public sector reform, broad-based private sector development, poverty reduction, and environmental protection. We also share staff's view that this represents a critical juncture at which to engage the Kazakhstan authorities. The spike in oil revenues, with prospects for even greater hydrocarbon wealth over the next few years, offer a prime opportunity to ensure that these revenues are used in a transparent and fully accountable manner to fund critical reforms. At the same time, it is essential to ensure that the wealth is equitably shared across Kazakhstan's population.

3. We share staff's concerns about "Dutch Disease" and excessive reliance on energy exports as the key engine of growth and poverty reduction. As we have observed in other countries, world price fluctuations can be devastating to growth projections. Furthermore, the enclave nature of the energy sector often limits the degree to which hydrocarbon wealth reaches the bulk of the population. The revenues from these oil exports will be irrelevant if the institutional capacity is not in place to use them effectively. It is important that Kazakhstan avoid the mistakes made by other resource-rich developing countries in squandering their opportunities.

4. We welcome the authorities' decision to create a National Oil Stabilization Fund. Such a fund can serve as a vehicle for addressing multiple, intertwined problems in Kazakhstan by

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insulating non-oil sectors from oil price volatility, protecting permanent income flows for future generations, and enforcing fiscal discipline. We strongly support the statement in paragraph 36 that it is critical that the National Fund be designed and operated in a transparent way, with expenditures subject to the budgetary process, cast in a medium-term framework, and subject to public accountability. It is imperative that the authorities work closely with both the Bank and the Fund to outline clear rules for accumulation and disbursement of revenues, clarify what kinds of spending will be undertaken during times of economic downturn, and ensure that future spending enhances the productive capacity of the economy. How will the proposed Note on Revenues, which is a follow-on to last year’s PER, advance this process of transparent accounting of oil revenues?

Lending Program:

5. **Instruments**: We understand the rationale for staff’s view that adjustment lending is appropriate to bring about needed reforms, conditional on Kazakhstan’s compliance with baseline or high-case triggers and need to fill financing gaps. In view of Kazakhstan’s mixed performance record and questions about the National Fund, we would emphasize the need for very careful monitoring of these triggers before adjustment loans are brought to the Board. Such lending should entail strong, explicit criteria, including performance and fiduciary requirements based on thorough, ex ante diagnostic work.

6. **Poverty**: We share staff’s concern that poverty indicators have risen. The emphasis on social protection and improving life for Kazakhstan’s poor is appropriate. We welcome the discussion of poverty issues in Box 1. The proposed Poverty Assessment and Labor Market Study should help to fill some of the data gaps for effective assessment and characterization of poverty in Kazakhstan. In addition, we would like to see greater efforts by the Kazakh authorities to implement poverty-targeted public works at lower levels of Bank financing. In the Agriculture sector, we appreciate that the second phase of the Agricultural Post-Privatization Assistance Project (APPAP II) will expand activities to poorer areas, following successful Phase I activities.

7. **Expenditure Management**: We welcome the PER completion last June and that its findings and recommendations have formed the basis for a number of lending and non-lending operations under this CAS; Box 2 summarizing PER recommendations is very helpful. The Bank’s use of budgetary transparency and sound fiscal management as triggers for future lending is entirely appropriate given the prominent role oil plays in the economy and ongoing problems obtaining reliable data on critical economic linkages in Kazakhstan. We welcome the high-case trigger of a "satisfactory review by the IMF under an EFF or SMP" (paragraph 87). Completion of the IMF review hinges on the authorities providing critical data on revenues and expenditures, underscoring the importance of producing and releasing fiscal data.

8. **Governance/Transparency**: We support the Bank Group’s strategy for public sector reform, and its plans to address the root causes of corruption. We also commend the
authorities’ efforts to step up provision of data on linkages between the oil sector and the budget. Clear accountability for the state’s earning from its non-renewable hydrocarbon resources, and their use, is critical to allaying concerns about corruption and other possible leakages associated with this windfall. As such we welcome plans for a CFAA in FY02.

9. **Private Sector Development:** We welcome the Bank Group’s support for the broad-based private sector-led growth, and appreciate the integration of IFC and MIGA plans into this CAS. A vibrant private sector is critical to a broader, more stable rate of growth and a more equitable distribution of income. We therefore concur with the Bank’s efforts to develop a long-term growth strategy in Kazakhstan. But we lament the authorities’ limited progress on privatization in recent years. This standstill, particularly on the “blue chips”, reflects a mistaken notion that the current oil boom environment will continue indefinitely and deeper structural reforms can be deferred. We commend the Bank for making privatization a benchmark for assessing lending levels going forward, and we welcome the IFC’s engagement.

10. **Education:** We agree that the Bank does not need to be involved in this sector. Nonetheless we share staff’s concerns over the decline in enrollment rates and threats to educational quality due to inadequate funding at the local level.

11. **Health:** We appreciate the update from staff on the HIV/AIDS infection rate and we share staff’s concerns that the Government has yet to formulate or implement an effective program to address this growing public health problem. We were dismayed to learn that the Health Project is currently rated unsatisfactory due to procurement problems. How will the Bank address this issue if the ongoing Health Project remains in the unsatisfactory mode?

12. **Environment:** While the CAS acknowledges Kazakhstan’s most severe environmental problems, it does not offer a very ambitious or integrated program to address them. Given the scope and far-reaching impact of Kazakhstan’s environmental issues (health problems associated with tainted water supplies, macroeconomic impacts of oil spills and residual nuclear and chemical wastes), these issues must be mainstreamed into the Bank’s lending program, as IDA donors and the GEF Council have urged. We would have preferred greater CAS analysis of issues pertaining to water projects with important environmental impacts listed in paragraph 58, including some discussion of their trans-boundary effects.

13. **Gender:** Last month’s ECA Workshop on Gender and Labor Markets in Warsaw found that women have been differentially adversely affected by the social costs of the transition period, restructuring, and the reduction of social expenditure in many transition countries. We hope that the planned IDF Grant on Gender and Violence (para. 65) will shed light on the situation in Kazakhstan.

14. **Trade:** We note that Kazakhstan is seeking to speed up its WTO accession process. Increasing the integration of Kazakhstan’s non-extractive sectors into the global trading system would be useful for broadening private sector-led growth. Will the Growth Strategy study...
underway examine issues related to this? Have the Kazakh authorities approached the Bank about advisory services related to their WTO accession process?

15. **Donor coordination** in Kazakhstan has been excellent. We welcome the description of the division of labor among donors in Table 5.

16. **Labor:** Have Bank staff met with ILO representatives to discuss labor market issues in the context of the SPRAL and any proposed initiatives in the labor markets area, including the planned poverty/labor markets assessment? We urge that measures to enhance labor market flexibility (as envisaged in the 2000 Labor Law) be accompanied by measures to strengthen authentic workplace representation and promote collective bargaining, in conformity with the ILO's Declaration on Fundamental Principles and Rights at Work.

17. **Conclusion:** With its recent oil windfalls, Kazakhstan is in an excellent position to maximize its growth potential. We regret that the authorities have shown a limited commitment to sustained reforms. Exporting oil and importing everything else may seem attractive at the moment, especially with oil prices so high. Such an approach is far easier than undertaking the reforms needed to create a real market economy. However, as we have seen in many other countries, it is dangerous to base an economy on one commodity, especially one with a price horizon as volatile as oil. Kazakhstan has a window of opportunity to use its oil riches responsibly. Otherwise, Kazakhstan could find itself with a stagnant economy, and a more impoverished society, having squandered a unique opportunity.