Board Meeting of August 26, 1997  
Statement by Luc Hubloue

Kazakhstan: Country Assistance Strategy

Dramatic changes for the better have taken place in Kazakhstan's economic outlook since the discussion of the first Country Assistance Strategy four years ago. Yet, the cost of transition in terms of output, income and social protection losses has been substantial and the agenda of reforms is unfinished.

When Kazakhstan gained independence in December 1991, its political leaders realized that they had to move with speed and determination in order to establish the foundations of their new country and the pillars of a market economic system. This first phase has been accomplished successfully but has, in some areas, inevitably focused on the directions of change rather than on the institutional and social relationships expected to emerge at the completion of the transformation process. The speed at which reforms were initiated has also overtaken the objectives of the Bank's initial CAS. In some sectors, the country has started up complex reforms which were not even envisaged in the original program; in others, initial ESW prepared by the Bank has formed the basis for lending activities by other development agencies; and overall, the reallocation of resources required for supervising the young portfolio has led to a depletion of ESW on emerging reform challenges and new lending opportunities.

This is why my Kazakh Authorities are particularly pleased to extend and consolidate their cooperation with the World Bank Group in the framework of this new Assistance Strategy. They look forward to share in the benefits of the new client focus promised under the Compact and fully agree with the two organizing principles of the CAS: the promotion of private sector-led growth, implying further legal, institutional and infrastructure rehabilitation,
and the establishment of a viable social protection system meeting all efficiency and effectiveness requirements of a modern state. As illustrated by Table 3 of the document, the new three-year framework, will also clarify the coordination between the principal bilateral and multilateral agencies operating in Kazakhstan.

Critical steps towards the achievement of the two general objectives of the CAS have already been initiated in the run-up to the Public Sector Resource Management Adjustment Loan which is submitted for Board consideration in conjunction with the CAS. In several respects, this comprehensive adjustment operation will be a linch-pin between the first and second generation of reforms: it will restructure and downsize most public service functions in line with the new relationship between state and market established in the initial years and it will equip the public sector to address more efficiently the complex challenges to be met in the coming years.

The need for social sector reform, including the mitigation of transitional poverty, has become imminent. The Government has already launched an ambitious Pension Reform for which it hopes that financial assistance from the World Bank and from the ADB will be forthcoming in the first half of 1998. The CAS's frontloading of ESW on poverty and labor market issues is to be strongly welcomed in light of the high priority attached to social reform. My Authorities also look forward to the continued support from EDI in assisting them with skills development and public awareness promotion on the challenges of social policy reform.

On private sector development, they have high hopes on the creation by the World Bank Group of a PSD/FDI Rapid Response Team. Despite considerable progress achieved so far, Kazakhstan is still faced with many challenges in this area, extending from financial to environmental regulation and from institutional to physical infrastructure. Rapidity of response, quality of advice and coherence in the strategic options are all elements of an effective assistance program in this field. As part of the PSD-program, my Authorities will also continue to explore opportunities for accepting the Bank's offer to make more use of its Guarantee Instruments. However, I should also add that experience has taught them this is an area in which governments committed to prudent fiscal policies can be hardly cautious enough.
IFC continues to have an important developmental role in the mobilization of private investment in Kazakhstan and this is why the country has been included in the Corporation’s Extended Reach Program. My Authorities are confident that the diversified presence of IFC in the Kazakh economy which they hope to see unfold, will help them to realize the country’s potential for broad-based, resilient industrial growth. Potential risks of Dutch disease referred to in the document, should thus be averted successfully.

I am sure that they will be even happier if the Bank Group’s successful program in Kazakhstan will over time permit them to replicate in some of the successes of the Dutch model.