Kazakhstan: Country Assistance Strategy and Public Sector Resource Management Adjustment Loan

1. First, we would like to welcome Mr. Kodera back to the Bank. We look forward to working with him in his new capacity as Country Director for Kazakhstan, Kyrgyz Republic, and Turkmenistan. We commend Bank staff on the quality of the joint Country Assistance Strategy for Kazakhstan. This is a truly integrated IBRD/IFC product and we strongly agree with the emphasis on private sector development and social sector reform.

2. We would like to commend the Government of Kazakhstan for the economic reform steps taken to date, and encourage the GOK to continue along this path. Continued reform provides the best assurance that sustainable growth will resume and living standards improve. We would like to make special note of the GOK's efforts to institute international accounting standards in Kazakhstan, the first country within the NIS to take this important step.

3. We are pleased that the Public Sector Resources Management Adjustment Loan is being considered along with the CAS. A streamlined and more effective public sector, following practices of good governance, will provide an important context for continued economic recovery and growth. Vigorous efforts to ensure consistent adherence to transparent legal and regulatory processes is vital to promote private sector confidence. We are pleased to note that USAID is tackling the issue of corruption through its work on legal reform. We urge the GOK to establish a systematic approach to implementing laws. We are also pleased that work on a strong procurement law for public goods is being undertaken in the Bank's proposed loan.

4. We believe transparency and maintaining a level playing field for investors will be critical to the ability of Kazakhstan to continue to attract the foreign investment needed for economic expansion. Therefore we are very concerned about the provision within the State Support for Direct Investments Law which introduces a highly discretionary case by-case system for granting tax incentives to investors in certain sectors. As noted in the CAS, this provision weakens transparency, introduces distortions into the tax structure, results in potential losses of needed tax revenue, and presents potential opportunities for corruption. Furthermore the benefits of tax
exemptions in actually attracting foreign investment are unclear. This provision represents a step backwards from Kazakhstan's sound general tax code, adopted in 1995.

5. We agree that it will be important to promote balanced growth so that economic benefits flow beyond the extractive industries sector. The Bank's efforts to focus on development of agriculture and small and medium enterprises, as a means of promoting balanced growth, are well-advised. A strong push toward policy and institutional reforms in the agricultural sector, such as revision of land ownership and use rights and creation of the legal basis for the collateralization of agricultural loans, are critical to meaningful agricultural restructuring.

6. We also encourage continued attention to the environment, and in particular to the Aral Sea crisis. Last week's loan to Uzbekistan highlights some of the difficulties and challenges which need to be addressed in a regional context.