Statement by Andrei Bugrov  
Date of Meeting: February 8, 2001

**KAZAKHSTAN: Country Assistance Strategy**

To begin with, I would like to thank the country team for the preparation of this CAS document and express our overall support for the proposed Bank Group strategy for the Republic of Kazakhstan.

The oil and gas sector is playing a dominant role in Kazakhstan’s economy. Ensuring transparent and efficient management of increased revenues coming from this sector presents a major challenge for the Government. Therefore we welcome the Bank’s support of reforms which are critical for improving public sector resource management and the delivery of public services.

We strongly support CAS focus on the fostering a dynamic private sector, particularly in the non-extractive industries and agriculture. The Bank, IFC, and MIGA should assist the Government in its efforts to create a friendly business environment and avoid the Dutch disease syndrome. We welcome CAS discussion on Kazakhstan’s small and medium enterprise sector which remains an area of unrealized potential. The private sector development strategy (CAS Annex 14) contains an interesting analysis of the SME issues and highlights key constraints faced by SMEs. We encourage IFC’s ongoing and planned activities which attempt to facilitate SME development in Kazakhstan.

As regards large SOE, we are not surprised that the pace of privatization has slowed. At the beginning of the transition a strategic choice was made in favor of speed versus quality of the privatization process. Little consideration was given to such important issues as corporate governance, the role of effective owners, transparency and rule of law, social responsibility of businesses, etc. Today many enterprises sold under mass privatization remain ineffective. To privatize further without putting due measures in place to mitigate this risk would be to court disaster.
The CAS paper recognizes that thus far reforms have not improved living standards of the majority of the Kazakhstan population. In fact, poverty and inequality have increased significantly and major social indicators have deteriorated. Therefore we fully support the call for a stronger Bank stance on social protection issues which was made by CODE Subcommittee in its report on Kazakhstan Country Assistance Evaluation. The proposed CAS places the main emphasis of Bank assistance in this sphere on short-term measures and also envisages two projects that would be indirectly beneficial to the poor. We certainly welcome these plans, but would like to see them further advanced into a more comprehensive social sector strategy.

We note that the Bank Group's strategy is quite consistent with the Government's own medium term priorities which are outlined in its Program of Actions. At the same time CAS makes a note of some areas wherein the Bank and the Government differ. Since those areas remain within the focus of the CAS and the paper is not always clear what exactly the differences are (for instance, on improving business environment, targeting social assistance, increasing employment), we would appreciate further elaboration in this regard.

Clearly Kazakhstan's poor portfolio performance is a cause for concern. Project implementation has been affected by several factors that are discussed in the CAS and in the latest CPPR. Hopefully, some of them are now in the past. For instance, we expect that the initial negative impact of the elimination of PIUs at the end of 1999 is over, and the benefits of the transfer of project management responsibilities to the ministries will materialize soon. We are pleased to note that the remaining problems of project implementation have been clearly identified, and the Government and the Bank are determined to work together to improve the situation. We also welcome the set of concrete measures which are being taken to address those problems, including strengthening the Country Office, giving it more portfolio responsibilities, and building up better working relations between its staff and their Government counterparts.

Given the current status of structural reforms and the Bank's portfolio, I agree with the low-case scenario as the starting point for the CAS. I can also broadly agree with the proposed Bank lending program with its three possible cases and triggers. However I would like to make the following comments. In essence, the three lending scenarios presented in the CAS differ only in terms of adjustment operations (see Table 3). Accordingly, the triggers have either no relation to the non-adjustment lending (in FY01-02 the investment and TA operations would be the same under any scenario), or only a partial relation (in FY03 there would be no difference between the base-case and high-case non-adjustment lending, while the low-case would be "minus two projects", totaling $75 million). At the same time, the CAS recognizes that the amount of adjustment lending will depend upon Kazakhstan's financing needs which in turn depend upon its oil revenues.

One can make a legitimate assumption that as a result of high oil prices and high oil revenues there may be no need for adjustment loans. In the absence of adjustment operations, the level and composition of Bank lending would remain practically the same under any of the
three existing scenarios, and the proposed system of lending triggers would not make much sense. This necessitates an alternative lending program that could ensure our strong support for reforms without the adjustment loans. Obviously such program should include operations that, in a sense, would substitute SPRAL, PSRMAL-2 and CSAL and enable the attainment of the CAS goals in such important areas as social protection, public sector resource management, and private sector development.

We strongly agree with the OED's conclusion in its Kazakhstan Country Assistance Evaluation that the Bank needs solid analytical work to focus its assistance. While the importance of economic and sector work was emphasized in the last CAS, we regret to note that the quantity and depth of the Bank's ESW has been limited by the tight budget constraints. One clear manifestation is that the new CAS in its poverty and inequality discussion refers to the Poverty Assessment based on July 1996 data. The proposed program of analytical and advisory services for FY01-03 includes a new Poverty Assessment, and as a whole it seems appropriate. However, we would like to be reassured that sufficient resources would be devoted for its implementation.

In conclusion, we wish the Government and people of Kazakhstan every success in meeting the challenges ahead.