Statement by Balmiki Prasad Singh  
Date of Meeting: February 8, 2001

Kazakhstan - Country Assistance Strategy

We welcome the discussion on the Country Assistance Strategy for Kazakhstan and compliment the Staff for this highly analytical and comprehensive document.

2. We are pleased to note the leading role played by Kazakhstan, despite many shortfalls and weaknesses, in carrying out market oriented reform in the Central Asia Region. Transition from the controlled economy to a market oriented one is really a painful process and we should appreciate the difficulties being encountered by new countries like Kazakhstan. Though there is no room for complacency, there is no need to be cynical too. In this context, we appreciate the commitment displayed by the Government of Kazakhstan to a continuing agenda of policy and institutional reforms.

3. Fortunately, the oil price hike has played a major stabilizing factor in Kazakhstan’s economy. The new oil reserves will provide a major impetus for the growth of Kazakhstan. The Bank should not be worried about the negative fall out of improved revenue from the oil sector. While going through the document, we have a feeling that the Staff is too much concerned about the increased oil revenue and the so called “Dutch disease”. Kazakhstan possesses enormous untapped fossil fuel reserves as well as plentiful supply of other minerals and metals. Developing and expanding the abundant energy resources is a challenge both to the Government and the Bank. If Kazakhstan makes best use of its oil reserves, we should encourage. Of course, we do acknowledge that too much dependence on oil alone will make Kazakhstan highly vulnerable to external shocks. It is here that Bank should use its innovative approaches to mitigate the potential risks. In this connection we strongly encourage the Bank to expedite its work on ‘Commodity Risk Management Program’ so that countries can productively manage their natural resources while the poor and vulnerable can be protected from the external shocks. We would like to know where do we stand in this regard.

4. Another area where we need to concentrate is the reform in agricultural sector and land management. Kazakhstan is the second largest of the former Soviet republics in territory and has considerable agricultural potential with its vast lands, both in livestock and grain production. For the Bank which aims at poverty reduction, through widespread growth, agriculture development should be the priority sector. Our concentration on agriculture will also help Kazakhstan to reduce its over-dependence on oil and minerals. We, however, regret to note that intervention in
agriculture sector has been planned only for the year 2003 and that too as a base case. We feel that this strategy needs revision.

5. Another area of concern is corporate governance. Though the Government has taken a number of steps for privatization, the outcomes are mixed due to poor corporate governance. In the transition process Kazakhstan lost heavily with GDP falling 40 percent, mostly affecting the poor and marginal farmers. We need to focus more on protection of the poor. Safety networks need to be formulated in this behalf. Though Kazakhstan is better off in terms of absolute poverty, it has been documented that about 1/3rd of the population live below subsistence minimum income. Most striking is the regional disparity and the urban gap. The issue of gender and the effective use of public resources also needs adequate attention. The Bank needs to intensify its activities in all these areas.

6. We welcome the positive roll being played by I.F.C. in the private sector development in Kazakhstan. We would particularly like the I.F.C. to make use of the abundant energy reserves available in the country and to play a catalyst role in developing downstream projects in the oil and mineral sector. This will enlarge the area of growth and strengthen the industry base.

7. We also get the impression that the portfolio performance of the Bank's projects suffered severely due to poor implementation. The ignorance of rules and regulations and the cumbersome procurement procedures of the World Bank are mainly responsible for this state of affairs. We have to appreciate the administrative and institutional problems in the transition countries and steps should be taken to overcome these impediments. WBI should step in with the help of local training institutions to strengthen the implementation capacity of various government agencies. Poor portfolio performance of the recent past should not come in the way of increased lending, provided the Government commits itself for improved portfolio performance.

8. Kazakhstan continues to face external risk due to adverse commodity prices, particularly on hydrocarbon sector. So it is not necessary to worry too much about the negative fall out of the oil boom. On the contrary, we should engage comprehensively and adequately. In this connection we are concerned about the management's recommendation for starting with a low case scenario. In fact, we should start with the base-case so that the policy reforms required in the area of social protection and agriculture can be addressed immediately and adequately. If there is any deterioration in the policy atmosphere then only we should revert to the low case scenario. The Staff, in our view, have adopted a very conservative approach. We would, however, like the Bank to play a more pro-active role so that the transition economies can get enough strength and positive signals will be sent to the international investment community.

9. We would like the Government of the Republic of Kazakhstan to pursue the goals of stabilizing the living standards of the population, strengthening the rule of law, and giving poverty reduction special emphasis in the development programs. We expect this Country Assistance Strategy document would mean a more cooperative partnership between the World Bank Group and the Government of Kazakhstan in service of people of this new nation-State.