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Report No. 21862

Republic of Kazakhstan

Country Assistance Evaluation

February 20, 2001

Operations Evaluation Department

Document of the World Bank

Abbreviations and Acronyms

AABK	ABN AMRO Bank Kazakhstan
ADB	Asian Development Bank
CAS	Country Assistance Strategy
CEM	Country Economic Memorandum
CIS	Commonwealth of Independent States
EBRD	European Bank for Reconstruction and Development
ECA	Europe and Central Asia
ERR	Economic Rate of Return
ESW	Economic and Sector Work
EU	European Union
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Service
FRR	Financial Rate of Return
FSAL	Financial Sector Adjustment Loan
FSU	Former Soviet Union
GAO	General Accounting Office
GDP	Gross Domestic Product
GOK	Government of Kazakhstan
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IMF	International Monetary Fund
IPF	Investment Privatization Fund
KEGOC	Kazakhstan Electricity Grid Operating Company
LACI	Loan Administration Change Initiative
LSMS	Living Standards Measurement Survey
M&E	Monitoring and Evaluation
MIGA	Multilateral Investment Guarantee Agency
NEAP	National Environment Action Plan
NGO	Nongovernmental Organizations
OED	Operations Evaluation Department of The World Bank
OEG	Operations Evaluation Group of IFC
OECD	Organization for Economic Cooperation and Development
PER	Public Expenditure Review
PHC	Primary Health Care
PSA	Private Sector Assessment
PSD	Private Sector Development
PSRMAL	Public Sector Resource Management Adjustment Loan
QAG	Quality Assurance Group
RB	Rehabilitation Bank
SAL	Structural Adjustment Loan
SAR	Staff Appraisal Report
SEF	Small Enterprise Fund
SME	Small and Medium Enterprise
TA	Technical Assistance
TATF	Technical Assistance Trust Funds
TACIS	Technical Assistance to the Commonwealth of Independent States
USAID	United States Agency for International Development

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Office of the Director-General
Operations Evaluation

February 20, 2001

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Kazakhstan Country Assistance Evaluation

This country assistance evaluation prepared jointly by OED, OEG and MIGA assesses the relevance and efficacy of the World Bank Group assistance to Kazakhstan. A draft of this evaluation was discussed by CODE on January 8, 2001 and a report of that discussion is attached as Annex F. This report is now being re-issued for the purpose of public disclosure.

From December 1991 (when Kazakhstan secured its independence) to March 30, 2000, IBRD approved 21 loans amounting to $1.8 billion. Through adjustment lending (comprising three-fifths of total lending), and some investment lending/technical assistance, the IBRD supported macroeconomic stabilization, structural reform to develop competitive markets, public sector reform and social protection. Other lending was directed mainly toward transport, energy and agriculture. In the same period, IFC approved 17 investments in 13 companies, primarily in the financial sector, providing $390 million in financing while MIGA issued $35.5 million in coverage for four projects.

IBRD adjustment lending was successful in promoting policy reforms. Prices and trade were liberalized, and much of the economy has been privatized. The financial sector has been strengthened. A framework of market-based legislation is in place. The inflation rate declined from over 2,000 percent at the start of the transition to single digits in 1998. Foreign direct investment increased from less than $500 million in 1993 to over a billion dollars in 1998. Despite these achievements, the economic and social deterioration of the country over the past decade has been severe. Per capita GDP has dropped by 40 percent, poverty has grown significantly, major social indicators have worsened and public financial accountability remains poor.

IBRD could not have prevented the rapid decline in GDP since it was caused by the enormous dislocations that characterized the early years of the transition. Indeed, without the Bank Group, the deterioration would probably have been deeper and more prolonged. But in hindsight, the IBRD along with other donors, was overly optimistic in its expectation that the transition from a planned to a market economy in the former Soviet Union countries could be accomplished in a short time and at low social costs. The strategy did not focus forcefully enough on institutions, protection of the poor or gender issues. Critical analytical work needed for poverty reduction was not undertaken until late in the transition. IBRD did emphasize reform of the public sector, but it was ineffective in promoting rural development and it was late in focussing on environmental sustainability and on building domestic capacity for monitoring and evaluation and strengthening public financial accountability. Economic and sector work was constrained by a lack of resources and a majority of investment projects did not fare well due in large part to a lack of country ownership, low implementation capacity on the part of the Government and frequent changes in Government personnel. On balance, the overall outcome of the IBRD program is rated as partially satisfactory; its contribution to institutional development is considered modest and its sustainability uncertain.

The review of the World Bank's assistance to the private sector shows that the IBRD helped to improve the policy framework. On the other hand, privatization outcomes exacerbated social inequities and poor corporate governance contributed to enterprise decapitalization. The environment for private sector development remains constrained by endemic corruption, excessive government intervention, arbitrary tax enforcement, a relatively small banking sector, a weak regulatory framework and a poorly functioning judiciary.

The role of IFC, particularly in the financial sector, was timely and effective. Five of the seven evaluated investments rate satisfactory or better on development outcomes. Many planned investments did not materialize and IFC will have to continue to be selective because sponsorship and enabling environment risks remain high. The involvement of MIGA in Kazakhstan has been modest. However, the two MIGA projects evaluated in-depth were both rated positively and the support by MIGA and IFC of a major foreign bank has proved critical for catalyzing foreign investment.

Based on its findings, the evaluation recommends greater focus on: protection of the poor; public financial accountability; and the enabling environment for private sector development. An updated participatory poverty assessment should be prepared, and public expenditures management should focus on sustainable poverty reduction. Due diligence requires the early conduct of a country financial accountability assessment jointly with the Government and the donors. For private sector development, the focus should be on transparent privatization procedures, clarity in the legal framework, judicial reform, and an improved enabling environment. The World Bank Group CAS should incorporate lessons from IFC and MIGA transaction experiences and exploit fully the mix of instruments available to the World Bank Group.

Robert Picciotto
by Gregory K. Ingram

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An evaluation of IBRD assistance was prepared by a team consisting of Ms. Poonam Gupta (Task Manager), Mr. Baran Tuncer (Overview), Ms Anna Maria Inverso and Ms. Gita Gopal (Gender), Ms. Deepa Chakrapani, Mr. Raju Sharan and Mr. Vinod Sahgal (Public Financial Accountability), and Mr. Keith Mackay (Monitoring and Evaluation). Ms. Dinara Seijaparova contributed to the mission and to all aspects of this evaluation. Mr. Rene Vandendries and Mr. Robert Buckley were peer reviewers for the report. Mr. John Johnson (OEDCR) provided advice on methodology issues. Ms. Betty Casely-Hayford and Ms. Agnes Santos provided administrative support.

The evaluation of IFC assistance was prepared by Mr. Kyle Kelhofer. The evaluation of MIGA assistance was prepared by Ms. Ethel Tarazona. A joint OED, OEG, MIGA mission visited Kazakhstan in March, 2000.

Preface

On December 16, 1991, Kazakhstan broke away from the Soviet Union. Covering an area of 2.7m sq. km-larger than Western Europe, its population is only 15 million. It is landlocked, bordering Russia in the North and, the Kyrgyz Republic, Turkmenistan, Uzbekistan and China in the South and the West. It is divided into 16 administrative regions (14 oblasts and 2 cities-Astana and Almaty). The President and the Parliament are elected. The President appoints the Prime Minister and the heads of the local administrations (Akims of 14 oblasts and 2 cities).

Kazakhstan joined the IBRD in July 1992, the IFC in September 1993 and MIGA in August 1993. IBRD's first loan (technical assistance) was approved in July 1993. Through March 30, 2000, IBRD has approved 21 loans amounting to $1.8 billion, IFC $390 million in financing, and MIGA $35.5 million in coverage. Between1993-99, IBRD assistance has averaged $250m a year, about twice the annual average of bilateral assistance, but only a fourth of the average annual inflows of net foreign direct investment of $1 billion a year, and a small fraction of the nominal GDP of almost $22 billion. Adjustment lending accounted for three-fifths of the total IBRD assistance. Most IFC investments have been in the financial sector. Investors benefiting from MIGA insurance have been from the Netherlands, Turkey, Switzerland and Germany.

This evaluation provides an independent assessment of the role of the World Bank Group assistance to the Republic of Kazakhstan during 1992-99. Chapter 1 describes the challenges of transition and Kazakhstan's progress in economic, social and institutional development. Chapter 2 evaluates World Bank Group assistance from the bottom up; it assesses the Bank Group's products and services: economic and sector work, strategy and policy dialogue, participatory processes, resource mobilization, aid coordination, and lending. Chapter 3 evaluates the Bank Group's development impact, with particular focus on important thematic areas. It then presents a summary assessment of outcomes, institutional development and sustainability. Chapter 4 attributes the development results to the IBRD, IFC, MIGA and the country. Chapter 5 presents the recommendations.

The evaluation draws on extensive interviews with Government officials, World Bank Group staff at headquarters and in the resident mission in Kazakhstan, IMF staff, donors, private sector and civil society. OED, OEG and MIGA benefited from the excellent cooperation received from Mr. Nadir Burnashev, Assistant to the Executive Director, International Monetary Fund. A joint OED, OEG and MIGA mission visited Kazakhstan from March 6th to March 15th, 2000 (A list of people interviewed is attached). On the way to Kazakhstan, the team met with operational and evaluation staff of EBRD in London.

There was a constructive dialogue between the region and OED throughout the evaluation. Mr. Fred King, the Senior Country Officer for the Kazakstan program, commented on numerous drafts of the report. The draft report was also reviewed by the Government of Kazakstan. The comments of regional staff and those received from the Government have been fully reflected in the report.

1. Overview

Initial Conditions and Challenges

1.1 When Kazakhstan declared its independence from the Soviet Union in December 1991, the prospects of its economy seemed bright. The disadvantages of being land-locked were thought to be offset by an abundance of natural resources. Proven oil and natural gas reserves were second only to Russia's within the Former Soviet Union (FSU). The country also possessed vast mineral resources. Equally important were its favorable social indicators, a well-developed infrastructure, a comprehensive system of social protection, and agricultural exports of grain, meat and wool. The economy had been deeply integrated with the FSU countries through trade and production arrangements and regional energy pipelines.

1.2 The Soviet planners had set up large factories in each republic which distributed their products to and received their inputs from the whole of the FSU. Some of the largest factories in Kazakhstan produced steel and tractors for the country and the rest of the FSU. An intricate system was used to settle payments among enterprises and between enterprises and banks. Following independence, the input supplies, traditional lines of production and trade routes were severely disrupted since inter-enterprise payments now required market-based transactions and formal settlement between nations. The sharp output decline in conjunction with the end of financial transfers from the Soviet budget (over 10 percent of GDP in 1990) triggered unsustainable fiscal deficits. The negative impact from these structural dislocations was aggravated by high inflation in the wake of price liberalization and the monetization of the fiscal deficits.

1.3 When Kazakhstan joined the IBRD in July 1992, the first challenge was to stabilize the economy and to support the authorities' reform agenda of price liberalization and privatization of state-owned enterprises. However, privatization in transition economies such as Kazakhstan proved a much more complex issue than in other IBRD clients in part because these state-owned enterprises owned and operated many social facilities that included hospitals, polyclinics, kindergartens, summer camps, sports, housing and other utilities. In addition, the Government's extensive social protection system administered through multiple channels covered the bulk of the population rather than being targeted to the poor. This pattern of social service provision could not be sustained as enterprises sought to compete in a market economy.[1] In parallel, the social protection system had to be reshaped to target individuals affected by transition, and macroeconomic stability had to be re-established through fiscal adjustment in conjunction with a rationalization of public expenditures.

[1] The system consisted of guaranteed employment with generous pensions, sickness and maternity benefits and subsidies for food, fuel, transport and a range of consumer items. Social assistance included universal child allowances and benefits targeted at specially identified groups (single pensioners, veterans of war, victims of environmental disaster, nuclear testing). The same handicapped person (not necessarily poor) received assistance for gas or other fuel, housing, electricity and transportation through different channels.

1.4 These were extraordinary challenges especially since Kazakhstan had inherited from the Soviet era a budget management system that did not focus on efficient delivery of services. With the transition, limited financial resources had to be directed toward priority needs. This required strengthening budget formulation as well as improving budgetary coverage and implementation. A new set of institutions had to be developed. These included a legislature to oversee the use of public funds, an external auditor to attest to the propriety of public expenditures, evaluation capacity to inform policy and promote enhanced public sector performance, a free press and a voluntary sector in a country with weak institutional capacities and little knowledge of participatory processes.

1.5 In addition to these structural and social constraints, Kazakhstan authorities had inherited severe and complex environmental problems. The shrinking of the Aral Sea to about half its original size due to massive and ill conceived irrigation programs had led to a sharp deterioration in water and land resources. The Northern Caspian Sea containing the bulk of Kazakhstan's vast hydrocarbon reserves had suffered from oil spills while numerous abandoned oil fields posed threats to marine life. The Northeast suffered from environmental pollution of mercury, kerosene and other elements from industrial plants. Finally, Kazakhstan had to deal with the environmental consequences of large scale nuclear testing.

Economic, Social and Institutional Progress

1.6 Between 1993 and 1999 Kazakhstan made progress in stabilization and structural reforms. The fiscal deficit was brought under control. The inflation rate dropped from over 2000 percent in 1993 to single digits in 1998. By 1996, all key prices (except for utility tariffs) had been liberalized, and export restrictions largely removed. Progress was made in the privatization program, financial sector reform, enacting market-based legislation and in reorganizing the public administration (Chapter 3). In the oil and gas sector, the legal base for property rights, foreign investment activities, and the extraction of mineral resources was created; the tax system was simplified; and the management of the extraction sector was transferred away from the Ministry of Energy to the state oil company Kazakhoil. Kazakhstan's achievements in structural areas were reflected in EBRD's transition indicators (Box 1.1). The Bank's own internal ratings for country policies and institution showed even more impressive progress.

1.7 The IMF's 1999 World Economic Outlook shows that in terms of foreign direct investment (FDI) Kazakhstan compared well with the CIS.[2] It also compared favorably in terms of increased labor productivity and export growth. The major beneficiary of FDI has been the oil and gas sector; 67 percent of a total of almost a $1 billion in 1998-- up from 43.9 percent in 1993-96. This sector now accounts for 15 percent of GDP.

1.8 Annual GDP growth data from 1992-99 show that a continuous decline in GDP over 1992-95 was arrested and growth of 0.5 percent and 1.7 percent, respectively, was achieved in 1996 and 1997 (Annex 1.1 a and b) driven by construction, trade and industry. The pick-up in construction is largely due to the decision to turn Astana into the national capital. Industrial recovery occurred as foreign investment in the energy

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[2] See Attachment 1 of Annex 3.1.

sector expanded. Trade picked up as the economy became increasingly dependent on the provision of services away from manufacturing. External developments in 1998 slowed the recovery. First, the price of oil as well as those of nonferrous metals declined; these products represented nearly 60 percent of Kazakhstan's exports. Second, the Russian ruble depreciated in August 1998, hitting Kazakhstan's exports. Third, the financial crises in Russia and Asia led external investors to re-evaluate their emerging market portfolios. Finally, Kazakhstan, a major grain producer in the Commonwealth of Independent States (CIS), suffered from a severe drought. The economy has since rebounded: growth rate for 1999 is estimated at 1.7 percent and for 2000 at 5.5 percent.

Box: 1.1 EBRD Transition Indicators for Kazakhstan

The EBRD indicators cover enterprise reform, financial sector reform, legal, trade and market reform, and infrastructure. The rating scale is from 1 to 4+ with 4+ indicating the most progress.

Price liberalization (3), Trade policy and foreign exchange system (3)

Financial sector: Banking reform &interest rate liberalization (2+), Securities market & nonbank financial institutions (2*). Competition Policy*: 2

Legal Transition indicators: *commercial law* Extensiveness (3+), Effectiveness (3*)*

Legal Transition indicators: *financial regulations* Extensiveness (3), Effectiveness (3-*)*

Privatization: Large scale (3), Small scale (4), Governance and enterprise restructuring (2)

Infrastructure: Telecommunications (2+), Railways (2), Electric Power (3+), Roads (2), Water and water waste (1+)

Source: EBRD Transition Indicators, 1999.

1.9 Despite the recovery GDP per capita in 1999 was almost 40 percent lower than at the start of the transition (Table 1). A third of the population was below the poverty line -- twice the pre-independence level. Key social indicators were lower than at the start of the transition. Income distribution had worsened. Growth rates in major sectors (industry, agriculture, construction, transport and communication) were negative for most of the period between 1993-98 (Annex 1.1c). The decline in agricultural production has been particularly dramatic with three out of six years showing a negative rate of real

Table 1.1: Comparison of Selected Human Development Indicators

Indicator	***1991***		***Latest available***	
	Kazakhstan	**Middle-income countries**	***Kazakhstan***	***Middle-income countries***
GNP per capita (Atlas, current US $)	2,180	1,360	1,340	1,890
Primary school enrollment % gross),	88	112	98	114
Secondary school enrollment (% gross),	96	58	87	70
Infant mortality (per 1,000 live births)	26	40	24	34
Maternal mortality (per 100,000 live births)	53		59	
Life expectancy	68	68	65	69
Male	63	66	60	67
Female	73	70	70	71
Death rate, crude (per thousand)	8.0	7.7	9.8	7.7

Source: WDI 1999 and UNICEF, 1999.

GDP growth of 20 percent. The drought in 1998 exacerbated the agricultural decline. Meat production was down from over 2000 metric tons to 1200 metric tons in 1998 and wheat production from over 9000 metric tons to under 5000 tons in 1998. Kazakhstan's large livestock population also declined. Cattle population halved. Sheep, goats and poultry declined to a third of their population levels in 1993.[3] The poor were adversely affected since 57 percent of them were living in rural areas.[4]

1.10 A glance at the status of Kazakhstani women suggests that the impact of transition has not been gender-neutral (Annex 1.2 and 1.3). Women were affected more by unemployment than men because they were employed in sectors such as health, education and light industry, which underwent early restructuring and labor force downsizing.[5] Wages in the female dominated sectors were about half of the average official wage.[6] Rising unemployment and reduced welfare provisions increased drug abuse, and domestic violence against women.[7]

1.11 In 1998, Kazakhstan was among the bottom 20 percent countries on Transparency International's Corruption Perception Index. It also ranked low on the Index of Economic Freedom for 160 countries based on ten factors including property rights, regulations, tax and trade policies, and economic freedom.

Enabling Environment for Private Sector Development (PSD)

1.12 While the private sector has developed during the transition period, the Kazakhstan PSD environment remains challenging—albeit much better than the enabling environment in neighboring countries. Kazakhstan offers a stable macroeconomic environment, enormous natural resource endowments, a resourceful labor force, strong banks, improving accounting and legal firms, and a generally competent and motivated upper echelon of government. Nonetheless, the operating environment for broad-based private sector-led growth remains constrained by major impediments that include:

- *Endemic Corruption;* Pervasive at all levels, corruption "taxes" business activity, impeding sustainable private sector development.
- *Excessive Government Intervention*; Rational day-to-day business operations are difficult in an environment rife with excessive intervention by corrupt and/or incompetent government officials.
- *Arbitrary Tax Enforcement;* Tax rates are not considered exceptionally high, instead the difficult tax system—including bank account confiscation—plagues businesses.
- *Small Banking Sector*; By most measures, the banking system (deposit base) is considered small relative to the size of the economy.
- *Weak Regulatory Frameworks and Poorly Functioning Judiciary*; Unclear legal codes and frequent amendments have made legal compliance difficult for businesses.

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[3] IMF, Recent Economic Developments, 1999.
[4] Kazakhstan Living Standards During Transition, World Bank Report No. 17520-KZ.
[5] Social Protection Project SAR, 1995. Volume II, Annex 2A and Kazakhstan Living Standards During the Transition, 1998.
[6] Kazakhstan Living Standards During the Transition, 1998.
[7] United Nations Economic and Social Commission for Asia and the Pacific, 1998.

A further elaboration of these issues, based on IFC and MIGA experiences and field discussions, is detailed in Annex 3.1.

2. World Bank Group Products and Services

2.1 This chapter evaluates Bank Group assistance from the bottom up. It assesses each of the services and products deployed by the IBRD: economic and sector work, engaging in strategy and policy dialogue, fostering participatory processes, mobilizing resources and lending. This is followed by an evaluation of IFC and MIGA activities.

I. IBRD

Economic and Sector Work

2.2 The IBRD did not devote sufficient resources to ESW. The average ESW staff years in 1993-98 were less than the average of the ECA region. The average dollar costs per $1000 of net commitment were low because of insufficient ESW (reference Table 5). At the start of the transition, one IBRD staff was appointed to work on human development issues in 6 CIS countries (Kazakhstan, Kyrgyztan, Tajikistan, Azerbaijan, Turkmenistan and Uzbekistan). The first Living Standards Assessment was completed in FY98 as was the Private Sector Assessment and a National Environmental Action Plan (NAEP). The first full-fledged Public Expenditure Review (PER) was completed in FY00. The last Country Economic Memorandum (CEM) was in FY97 and it was on the special topic of budgetary issues. Insufficient economic and social analysis handicapped country assistance management.

2.3 With the recent rise of oil prices and production, sustainable development hinges on avoiding the "Dutch disease," on diversifying the production base and on efficient use of the windfalls originating from the hydrocarbon sector. Although early ESW recognized the importance of agriculture, a strategy was defined after an Agriculture Sector Review in FY95. Following this review, new work was completed in FY99-00 on farm restructuring, grain marketing, seeds and farm debt but officials were of the view that it may not be enough to formulate an agricultural strategy. No work was done on the state of the livestock sector and water policy although the importance of both was recognized in 1992.[8] A Livestock Study and a Water Sector Study are proposed for FY02 in the FY01 CAS.

2.4 The inadequacy of resources for analytical work was highlighted in the July 1997 CAS. As a result, several pieces of work were carried out. Work on health sector was done in preparing the Health Project in FY99 and a note on the education sector was

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[8] A senior advisor in commenting on the FY93 CEM noted that although Kazakhstan's future lies in oil and mining these sectors are likely to generate Dutch disease and very little direct employment. "Apart from the production of food for the local markets…, the country's main comparative advantage will be in extensive livestock production." The NEAP noted that the water needs of the Republic of Kazakhstan were three times the existing supply and it ranked last amongst the CIS in water supply per capita.

prepared in the PER (00). However, important work on labor markets planned for FY98, and a poverty/labor market update planned for FY00 were not undertaken. The CAS FY01 has proposed an updated poverty assessment and a labor market study for FY02.

2.5 **Efficacy**: While the impact of timely ESW on the IBRD program has been substantial its influence on the authorities has been mixed. The CEM of FY97 formed the basis of the PSRMAL I. With the completion of a NEAP the critical role of the environment on health and economic growth became evident and an environmental strategy is expected to underlie the upcoming CAS. Interviews with past and current Bank staff at headquarters and officials in Kazakstan suggest that informal work on the financial sector prior to the Financial Sector Adjustment Loan (FSAL) of FY96, the CEM of FY97, the NEAP of FY98 and the PER have had an influence on the authorities. By contrast, the earlier CEMs, the FY98 Living Standards Assessment, the FY98 Private Sector Assessment, some of the work on agriculture and studies on pension reform under an early technical assistance project have not had a similar impact.

2.6 The variable impact of advisory services on the authorities is explained by the following factors: (i) their major interest has been in lending, although they have gradually come to appreciate the value of analytical work; (ii) the pace of reform has been fast, the behavior of the economy has been unpredictable, and there has been a rapid turnover of government officials; (iii) the interest of the authorities was concentrated on macro-fiscal and financial issues; (iv) the authorities own capacity to be involved in analytical work has been meager and the IBRD's dissemination tools and quality of dialogue have not always sparked the interest of authorities and did not draw transparently on the Bank's global experience.

Strategy and Policy Dialogue

2.7 The IBRD took up the challenge of assisting Kazakhstan. The dialogue between the IBRD and the Government about the reform agenda has been frank and fruitful with the exception of agriculture and the environment. But in the early years, the efforts to assist Kazakhstan were complicated by conflicting views among Bank shareholders about the extent of Bank support to be extended to FSU countries, and an incomplete understanding about the role of the IBRD among country authorities. The crisis situation demanded extensive resources which could not be quickly marshaled. Logistical problems, unclear guidelines for communications with the authorities and within the IBRD, compilation of rosters of consultants, the setup of a resident mission dominated Regional preoccupations. Conversely, IBRD efforts have also been hampered by a rapid turnover of key Government officials, and the often unpredictable pace of reform.[9]

2.8 The overall IBRD strategy for Kazakhstan has been articulated in its country assistance strategy documents and its adjustment loans. The thrust of the strategy in the first CAS prepared in July 1993 was focussed on the short-term: stabilize the economy through balance of payments support and start some structural reforms to lay the basis for private sector development (Box 2.1). The CAS did not contain a strategy to protect the

[9] For instance "overnight" liberalization of prices in January 1992, an early 1997 plan to privatize one-third of Kazakhstan's health facilities, the introduction of pension reforms by January 1998 following approval of legislation in June 1997, and the sudden dismantling of employment offices in 1997.

poor against the hardships of the transition as (i) poverty reduction was expected to be achieved by the resumption of growth and by minimizing the length of the transition period and (ii) there was an impression among some members of the IBRD country team that the vast majority of the households would be able to cope with the difficulties of the economic transition because of access to vegetable plots, and the availability of housing due to the emigration of almost one million Russians and Germans. Environment and agriculture were also low on the hierarchy of issues to be addressed.

Box 2.1: IBRD Objective, Areas of Focus and Instruments in the two CASs, FY94 and FY98

The objective of structural reforms under the FY94 CAS was enterprise restructuring, privatization and financial sector restructuring. The CAS proposed a TA loan to be followed by adjustment support. After an agreement with the IMF (in July 1993), the IBRD approved its first adjustment operation in September 1993. The second CAS in July 1997 emphasized policy advice and non-lending and a narrow focus in sector lending to agriculture, infrastructure and social. No support was to be given to the energy sector which was attracting large amounts of foreign investment. Adjustment assistance was to be provided in areas of IBRD's comparative advantage, public sector management. The CAS placed great importance to the further development of the private sector. The strategy was relatively silent on pension reform which subsequently has been an important focus of IBRD assistance because Government interest in IBRD support for pension reform was not foreseen at that time.

Source: FY94 and FY98 CAS documents

2.9 The immense social costs of the transition and the importance of protecting the poor were evident when actual growth declined by over 12 percent in 1994 and 8 percent in 1995 (compared to a predicted decline of 5 percent in 1994 and zero growth in 1995) but since the first Living Standards Assessment was finished in end 1997, and little other work had been done in the social areas, the FY98 CAS could not present a strategy for mitigating the adverse impact of the transition on the poor. Social aspects during the transition were included in adjustment lending and projects were approved by IBRD that addressed social protection issues but the overall relevance of the strategy was low (Chapter 3). In the area of environment, the FY98 CAS recognized the severity of the problems. It recommended Bank involvement in the Regional Aral Sea Program, the Caspian Sea problem and support for the Government's NEAP.[10] It envisaged projects consistent with these initiatives but could not base them on a clear diagnosis of the problem as has now been finally done in the FY01 CAS; the NEAP was only completed after the FY98 CAS. The continued support for private sector development and public sector reforms in FY98 CAS were relevant but in hindsight the IBRD should have given more attention to governance (Chapter 3).

2.10 The relevance of the IBRD strategy would have been greater if the environmental, social, agricultural sector, and governance issues had been explicitly recognized earlier but even if they had been, absorptive capacity would probably have constrained action and the IBRD could not have prevented the severe economic decline, the corresponding

[10] In early 1994, Kazakhstan joined its Central Asian neighbors in seeking solutions to the Aral Sea problem through the Aral Sea Basin Program.

rise in poverty, or the continued environmental degradation.[11] It is likely that the Bank did help moderate the economic and social deterioration. On the other hand, it is possible that a more comprehensive diagnostic and a firmer stance by the IBRD may have protected critical social services for the poor, started the process of strategy formulation to address environmental concerns earlier in the transition, increased the effective use of public resources, encouraged greater efforts against corruption (for example, through increased transparency in privatization and enforcement of regulations on the Investment Privatization Funds) and made the post 1995 recovery stronger. Visible IBRD concern for these issues in the policy dialogue would also have increased its credibility with the public and helped to nurture public support for the reform process.

Fostering Participatory Processes

2.11 In its recent client survey, IBRD was perceived as weak in disseminating its findings and assessments to wider audience, and in involving non-governmental entities. On the other hand, the Resident Mission was given relatively high grades which suggests that it should be given more responsibility in the country dialogue. Past IBRD strategy has not been developed through extensive consultations with stakeholders. Discussions with the Government and civil society during the evaluation mission to Kazakhstan indicated that the population's expectations from the economic transition had been high and IBRD could have explained to population groups adversely affected by reforms what its programs and strategies were trying to achieve. That IBRD could do more to foster participatory processes is also evident from IBRD's social development database which shows that the involvement of stakeholders in IBRD projects from FY94-98 has been lower in Kazakhstan than in the rest of the ECA region (19 percent in Kazakhstan compared to 35 percent in ECA).

Resource Mobilization and Aid Coordination

2.12 The IBRD has mobilized resources for co-financing adjustment support and technical assistance. Discussions in Kazakhstan indicated that there has been good collaboration between the IBRD and the IMF, and between the IBRD and other bilateral and multilateral donors. This has led to greater selectivity and coordination in donor assistance. The Government and donors value the current IBRD resident representative and his long association with Kazakhstan, especially with frequent changes in the Government and the reorganization of the region in 1997/98.

2.13 IBRD has also attempted to build greater capacity for country driven aid coordination. The IBRD used an IDF grant to set up an aid coordination unit in the Ministry of Finance to manage the flow of external resources, as well as to manage the Consultative Group and local coordination processes.[12] Subsequent assistance to this unit came from UNDP. However, the Government did not take the lead in coordinating the sector activities of various bilateral and multilateral donors although improvements in

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[11] The sharp fall in GDP was not unique to Kazakhstan; all CIS countries contracted with the exception of Uzbekistan. In Kyrgyz Republic, Azerbaijan, Tajikistan and Turkmenistan the initial cumulative declines during 1992-95 were greater than in Kazakhstan. In Uzbekistan the disruption was less and real GDP declined cumulatively by only 17 percent during 1992-95. IMF Occasional Paper 183, 1999.

[12] OED Aid Coordination Study, 1999.

this area are now expected. Between 1993-98, the aid coordination unit was reorganized several times.

IBRD Lending

2.14 During FY94-99, total adjustment support was $1.1 billion and sector investment loans, an adaptable program loan, and technical assistance have together accounted for another $ 609 million. In FY 2000, only one loan for $140 million was approved. Following the first CAS, three adjustment operations accounting for 56 percent of lending, a technical assistance loan and two sector investment loans (accounting for another 15 percent) supported enterprise reform, privatization, financial sector reforms, and social protection (Annex 2.1 and Table 2.1). Agriculture and energy received 8 and 13 percent, respectively. The remaining 8 percent supported transport, water supply and sanitation, a real estate registration pilot and the modernization of the treasury. Following the second CAS, adjustment support (74 percent of total lending in FY98-99) was given for the authorities pension reform ($300m) and for public sector management ($246m).

2.15 OED's evaluation ratings (consisting of four adjustment and two sector investment loan) show that they were higher than the ECA region and higher than Bank-wide. The levels of risk of the active portfolio were below ECA and the Bank average.

Table 2.1: IBRD Commitments by Sector and CAS Period, FY1994-99

FY	*1994-97*		*1998-99*		*Total*	
	US$m	***%***	***US$m***	***%***	***US$m***	***%***
Agriculture	80.0	8.3	15.0	2.1	95.0	5.7
Human Development	41.1	4.3	342.5	47.5	383.6	22.8
HPN	0.0	0.0	42.5	5.9	42.5	2.5
Social	41.1	4.3	300.0	41.6	341.1	20.3
Public Sector	25.8	2.7	246.5	34.2	272.3	16.2
Energy	124.7	13.0	0.0	0.0	124.7	7.4
Finance	242.0	25.2	0.0	0.0	242.0	14.4
Transport	40.0	4.2	100.0	13.9	140.0	8.3
Water Supply & Sanitation	7.0	0.7	16.5	2.3	23.5	1.4
Multisector	398.0	41.5	0.0	0.0	398.0	23.7
Total	958.6	100.0	720.5	100.0	1,679.1	100.0
Memo Items:						
Adjustment	540.0	56.3	530.0	73.6	1,070.0	63.7
Commitments Per Year	240		360		599.9	

Source: World Bank Business Warehouse

2.16 The sector investment loans, an adaptable lending program loan and technical assistance have been less relevant and efficacious than adjustment lending. Fifteen loans (non adjustment) were approved until FY99. Two completed loans have been rated by OED. The technical assistance loan for the petroleum sector for $16 million (FY94) was rated by OED as having satisfactory outcomes, substantial institutional development and likely sustainability. The Urban Transport Project for another $40 million (FY94) was audited and rated as having marginally satisfactory outcome, substantial institutional development and uncertain sustainability.[13] The loan was appraised at a time when Kazakhstan was still in the ruble zone, an agreement with the IMF had not been reached, and counterparts were complaining that the Bank had been coming to Kazakhstan for up to 16 months, and had as yet provided little in the way of financial support. In this evaluation, 7 of the rest of the 13 loans for $463 million (out of a total of $553m ongoing or recently completed) were assessed to be of low or modest relevance and/or efficacy as of October 2000 (Annex 2.2). These include two of the three projects designed to mitigate directly or indirectly, the adverse environmental effects of earlier investments when Kazakstan was part of the Soviet Union.[14] The IBRD has restructured some projects to support other loans/objectives. The Financial and Enterprise Development Project, for instance, is also supporting tax administration capacity and pension reform. EBRD experience with technical cooperation provides lessons that could be relevant to the IBRD program (Box 2.2).

Box 2.2: EBRD-Lessons of Experience with Technical Cooperation from Kazakhstan

<u>Mining Sector</u>: The privatization of the mining sector showed that project efficacy can be improved by a consideration of the following factors: (i) the human and social dimensions involved in the privatization of large economic entities; (ii) the readiness of the beneficiary for market-oriented procurement processes; (iii), low client commitment, and ownership for technical cooperation (TC) provided on grant basis and driven by the strategic interests of EBRD rather than the client's; (iv) the desirability of allowing TC beneficiaries to procure consultants with only support and monitoring of the process by EBRD, and finally (v) that project site supervision intensity is also determined by project site accessibility and projects that need more supervision may not get it if the project site is not easily accessible.

<u>Aktau Port Rehabilitation</u>: This EBRD project provided the following lessons: (i) identify suitable and dedicated counterparts; (ii) adopt an approach that allows for good cooperation between expatriate consultants and local staff; (iii) plan technical and know-how transfer at the design stage, (iv) provide an institutional building component to develop the monitoring capacity of the guaranteeing agencies and finally (v) in case of a public sector sovereign-guaranteed investment, there is a tendency on the part of the policy maker to intervene in ways detrimental to the transition process if there are difficulties in the project's financial viability and sustainability. In the last case, the EBRD monitoring process should flag difficulties early on and simultaneously alert the EBRD management for the need to enter into a policy dialogue with the Government.

Source: EBRD Staff

[13] In the Urban Transport project, about one quarter of project funds were to help improve the institutional and policy framework within which the urban transport system was organized. This component was relevant and efficacious. The private sector now dominates the provision and financing of transport services in many cities in Kazakhstan and the project's contribution to this is commendable. On the other hand, the relevance of the investment component, i.e. the acquisition of new buses in support of the state-owned bus companies which absorbed three quarter of the funds, was low, as was its efficacy. Judging from experience in other countries, once an appropriate policy framework is in place for urban transport, private operators are ready to fill the gaps in capacity. In fact, according to the Minutes of White Cover Staff Appraisal Review Meeting, "the project could hinder rather than enhance private sector participation and competition in urban public transport". The procurement process for buses resulted in misunderstandings between the IBRD and the Government of Kazakhstan, and according to the ICR, "this reputational risk should be taken seriously". With regard to the efficacy of the investment component, both the ICR and the audit report suggest that maintenance is deficient and expected to lead to a gradual decline in utilization of the equipment and in the rate of return on the funds invested.

[14] Uzen Oil Field Rehabilitation ($109m), and Irrigation and Drainage project ($80 m).

2.17 Problems encountered with investment lending have many sources. The most important was that the transition has been rapid and by the time projects were prepared, the situation had changed. There were also design issues in some loans. Technical assistance by donors has not always been timely or of good quality. The authorities have preferred adjustment loans particularly because of their fiscal concerns. Counterpart funding has been a constraint and authorities have sometimes failed to make timely payments on contracts. Inadequate ownership for the reforms embedded in the projects and a lack of project prioritization skills within the GOK have been major impediments to the efficacy of project assistance. The top policy makers, highly skilled themselves, have not fully utilized technical assistance to develop skills at the lower levels. The authorities are of the view that poor economic forecasts affected adversely project planning. Unforeseen economic decline (as in 1998) led them to cut projects across-the-board. The unstable economic situation also led to excessive preoccupation with macroeconomic management at the expense of project efficacy. As a result, on some projects implementation delays have been considerable and disbursements rates have been generally low (Annex 2.3).

2.18 Some critical investment projects were approved later in the transition and some foreseen in the FY98 CAS were not undertaken. In environment, a project related to the Aral Sea, a project for municipal rehabilitation of Kzryl-Orda (also in the Aral Sea Basin and among the poorest communities), and a second Irrigation and Drainage project foreseen in the FY98 CAS for the FY99-00 lending program were postponed. The first major project in environment, Atyrau Pilot Water Project, was approved in FY99 although additional IBRD projects and ESW are now under preparation.[15] In agriculture, the FY98 CAS lending program included five projects of which one (a combination of two projects) was undertaken. A project to strengthen the judiciary was approved only in FY99 as was the first health project. In the transport sector many donors are active (ADB, EBRD, EU, Germany and Japan) and needs are vast, but the IBRD could have left financing of buses and major roads in its transport sector projects to the private sector.

2.19 The large proportion of adjustment in total lending to Kazakhstan stands out in comparisons to other transition economies. Until FY99, adjustment lending in Kazakhstan amounted to 64 percent of the total compared to 55 percent in the CIS, 38 percent in Southeastern Europe, and 35 percent in Central and Eastern Europe and the Baltics (Annex 2.4 and Annex 2.5). In addition, IBRD adjustment support has focussed more directly on private sector development related activities and agriculture in Central and Eastern Europe, the Baltics and Southeastern Europe than in Kazakhstan (Annex 2.6).[16] In Kazakhstan the focus in the last four years has been on public sector management and pension reform. Poor public sector management is an impediment to private sector development but the lending program may need to address more directly

[15] Within the framework of the Caspian Environment Program, the IBRD is currently an executing agency for one component of the Global Environment Facilities'(GEF) regional project on the Caspian.

[16] In other transition economies, a large proportion of adjustment support has gone for enterprise and industrial restructuring. This is not to suggest that a similar strategy be adopted for Kazakhstan. Many of the enterprises inherited from the FSU could not be restructured to suit the needs of a market economy but there is an issue of whether adjustment support could support private sector development more directly.

the constraints to the development of agriculture, the private sector and the efficiency of privatized enterprises.

Efficiency of IBRD Program

2.20 The average dollar cost per project, over 1991-99, has been $805,000, compared to $941,000 for the ECA region.[17] These costs are lower than those for comparator countries.

IBRD Overall Assessment

2.21 The bottom up evaluation yields a partially satisfactory outcome for IBRD products and services (see Annex 2.7 for the rating methodology used in this and subsequent sections).

II. IFC

2.22 Between 1993 and 1999, IFC approved 17 investments in 13 enterprises, totaling $388 million in financing (including two B loans) contributing to $1.43 billion in total project financing. IFC's Kazakhstan portfolio is comparatively large (in disbursed dollars), nearly eight times greater than in each of the neighboring Central Asian CIS countries. Much of IFC's efforts have been in the financial sector. IFC is involved with four of the five largest banks (the fifth is state controlled), collectively comprising nearly 70% of the deposit base. IFC has supported intermediaries providing non-traditional services including a leasing company and several SME-targeted facilities.

2.23 IFC has also invested in the privatized Ispat-Karmat steel works, an integral part of the Kazakhstan economy providing over 5% of the country's GDP; a mid-size oil extraction and export project; and several smaller manufacturing and consumer services projects (see Attachment 2, Annex 3.1). As in other countries, IFC project efforts far outnumber actual approved and disbursed projects. During the past six years IFC efforts have encompassed over 50 potentially separate and diverse transactions ranging from alternative energy sources, leasing operations supporting rural agriculture and potentially innovative financial intermediary operations--to more traditional manufacturing projects.

2.24 The overall volume of IFC approvals fell short of what was foreseen in the 1997 CAS because of: constraints in the business environment, constraints in IFC's staff resources; and the dominance of the oil and gas sector, where few major multinationals have so far evinced need for IFC financing, thus proscribing IFC's ability to add-value in environmental and social impact quality. IFC--and other donors-- were also excluded from potentially viable privatizations by sponsor and process transparency issues coupled with rapid government decision-making.

2.25 *IFC's non-investment activities*: All three Technical Assistance Trust Funds (TATF) assignments concerned potential investments, though none subsequently materialized. The Financial Investment Advisory Service (FIAS) had three assignments.

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[17] These costs include only costs for lending, supervision and ESW.

The FY95 diagnostic study articulated many of the still-existing investment environment concerns. In 1998, FIAS aided the reformulation of the investment law and contributed to the FY98 joint private sector assessment with an investment impediments study. The SEF program includes an Almaty staff presence, but shows few approvals thus far.

III. MIGA

2.26 *MIGA* has facilitated approximately US$96 million of foreign direct investment into Kazakhstan through $35.5 million in insurance coverage, aiding the creation of an estimated 260 new jobs. Clients have included ABN AMRO Bank Kazakhstan (see Box 3.2) and Coca-Cola Almaty Bottlers (including a joint relationship with the sponsor's Kyrgyzstan operation). More recently MIGA has made efforts in the telecoms sector.

3. The Development Impact of Bank Group Assistance

3.1 This section evaluates Bank Group assistance by assessing the contribution to Kazakhstan's development outcomes. This is done by examining the relevance of the strategy and its efficacy in four important thematic areas:

- IBRD, IFC and MIGA assistance for the development of the private sector to achieve growth.
- IBRD assistance to protect the poor and address gender issues.
- IBRD assistance for promoting public sector management and accountability to the public for the effective use of public resources.
- IBRD assistance to strengthen Government Monitoring and Evaluation.

3.2 These areas were selected for detailed treatment because (i) the July 1997 was a joint IBRD, IFC and MIGA CAS; (ii) they have been a focus of IBRD's $1.8 billion lending program; (iii) social assessments (demographic studies, household surveys and focus group discussions) conducted for an IBRD project[18] and discussions in Kazakhstan show that they were perceived to be important by stakeholders. Finally, the large IBRD budgetary support and oil revenues require that institutions that ensure accountability to the public for the use of resources be evaluated.

3.3 The conclusions reached parallel those of the previous section i.e., IBRD's assistance has been partially satisfactory. Adjustment lending largely achieved its objectives, but the overall relevance of the IBRD strategy would have been greater if more emphasis had been placed on protecting the poor, sound privatization procedures, strengthening of the judiciary, broader institutional reform to strengthen public financial accountability and to improve Government monitoring and evaluation systems. In hindsight, adjustment lending could have been contingent on targeting assistance to the poor, transparency in privatization and regulation of the Investment Privatization Funds.

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[18] *Improving Lives through Kazakhstan's Water, Sanitation, and Health Project* in Social Assessments for Better Development Case Studies in Russia and Central Asia, World Bank Report No. 17041, June 1997.

The Development of the Private Sector

I. IBRD

3.4 *Strategy*: IBRD's early private sector strategy consisted of macroeconomic stabilization and structural reforms (price and trade liberalization, privatization, enterprise restructuring, passage of laws and regulations for private sector activity, financial sector reform) to develop competitive markets. The IBRD strategy was relevant but in hindsight the relevance would have been greater if more attention had been devoted to privatization procedures and to strengthening of the judicial framework early in the transition. Following the second CAS (FY98), the legal and judicial framework were priorities in the Legal Reform Project (FY99).[19] Non-lending work in the CAS was planned in the power and gas sectors, industrial sector and for the development of the financial and capital markets. A new and unique feature of the CAS was the formation of a joint IBRD/IFC/MIGA Rapid Response Team to provide quick turnaround advice on urgent policy issues for the promotion of an enabling climate for the private sector.

3.5 *Efficacy*: On the macroeconomic front, IBRD's financial and policy support through adjustment lending together with its organization of donor financing and coordination with the IMF's ongoing programs were critical to economic stabilization. The budget deficit declined from over 7 percent in 1992 to 3 percent in 1997-99. In 1997 this was primarily due to privatization receipts equivalent of 3 percent of GDP but in 1998-99 substantial improvements were also seen in the tax revenue to GDP ratio. However, the external debt as a share of GDP rose from 30.7 percent in 1994 to 49.9 percent in 1999. Looking ahead, Kazakhstan will have to tackle the symptoms of "Dutch disease" following an increase in the oil prices and projected increases in production and exporting capacities with the completion of the contracted Caspian and Chinese pipelines.

3.6 Important progress was made in *price and trade liberalization* and in *dismantling monopolies*. Kazakhstan has one of the most open trade regimes in the region. As part of the SAL, monopolies in grain marketing and for petroleum distribution were dismantled.

3.7 Progress in *privatization* has been mixed. *Small scale privatization* has been a success. The auction approach to *mass privatization* covering medium enterprises achieved its objective of bringing private shareholding into the bulk of the country's medium sized firms but it also led to asset stripping and a loss in share value for the citizens. By mid-1994, the vast majority of eligible citizens had received allotment coupons and over 90 percent of these had been invested in 169 Investment Privatization Funds (IPFs). Auctions were undertaken exchanging coupons for shares in enterprises but with an inadequate system of financial reporting, monitoring and auditing, as well as severe liquidity problems in the enterprises, the flow of dividends to the IPFs evaporated. The enforcement of regulations on IPFs was weak. The OED audit of the rehabilitation loan in mid-1997 suggested that asset stripping, "off-book" transactions, embezzlement and improper or postponed plant maintenance have drastically reduced the firms' worth.

[19] Preparations for a Legal Reform Project (FY99) had started in 1995 but Government ownership for this project was weak and was a factor in delaying the project.

The rapid decline in gross fixed investment and limited access to bank credit reflects continued weak corporate governance (Annex 3.1, Attachment 1).[20]

3.8 According to the OED audit of the SAL, case-by case privatization of the country's larger enterprises was slower than envisaged initially but improved in subsequent years. For large firms facing serious problems of mismanagement, large inter-enterprise arrears and large social assets, enterprise management contracts were given to private sector groups to improve enterprise performance. This issuance of management contracts has been controversial as they were signed mostly with Kazakhstani companies and in some cases without a tender process. These contracts were kept confidential. Management firms were expected to pay a bonus to the government which should have gone into the budget but publicly available information does not allow verification. The use of nontransparent processes has slowed the emergence of competitive markets.

3.9 With hindsight, the Bank Group should have taken a more proactive stance towards management contracts and corruption in case-by-case privatization through loan conditionality, policy dialogue at the highest levels, mobilizing civil society, and adopting a coordinated stance with its partners. In June 1999, the Government adopted a comprehensive strategy to cover ten "Blue Chip" companies and fifty-eight other large enterprises. This program specifies that privatization will be conducted through open, competitive bidding and sets tight schedules for the completion of sales.

3.10 Privatization even if carried out imperfectly could be viewed as superior to continued state ownership of enterprises. Privatization contributed to reducing pressures on the consolidated budget and strengthening macroeconomic stability as well as to establishing the culture of private ownership. However, weak enforcement of investment funds in the mass privatization program and the resulting weak governance of those funds, meant that the majority of citizens benefited less from ownership participation than expected. It allowed for the accumulation of assets in the hands of a few participants.

3.11 A Rehabilitation Bank (RB) was established in March 1995 as part of the SAL to help *restructure* some of the larger loss making enterprises. Viability assessments and restructuring plans had a slow start-up and reached only some of the firms. For the largest companies, restructuring decisions were taken by the Cabinet. Most funding appropriated for the RB was held back by the Ministry of Finance, making it difficult to make agreed payments under restructuring plans. Despite these problems, the RB was able to achieve a number of results. The SAL required that legal proceedings for liquidation or other form of debt resolution would be initiated against a group of at least four enterprises. This has been done although with some delay. The RB has adopted policies and operational guidelines linking access to its resources to drastic downsizing measures, leading to either liquidation or privatization.

[20] The annual growth of gross fixed investment (a proxy for the degree of capital renewal) has averaged –15 percent (worse than the average of CIS of –1.3).

3.12 The government passed *laws and regulations* to enable the development of a robust private sector. The IBRD funded legal advisory team played a central role for over two years between 1993-96 in drafting legislation in collaboration with the Ministry of Justice. Conditions and actions were included in the SAL and the FSAL. In early 1995, the first part of the Civil Code focusing on property and contractual rights was adopted. Further legislation was enacted to cover secured lending and collateral rights. A bankruptcy law (a condition under the SAL) gave rights to secured creditors. Securities markets laws were promulgated in 1997.

3.13 The laws and regulations are not being consistently enforced (Box 3.1). An early review by the IBRD of the enforcement capacity of Kazakhstan's authorities could have been useful. A reform of the judicial system, and training of its judges (and other officials) on the concepts and application of the new laws and institutions was important for the efficacy of the wide ranging legal reforms that were being rapidly instituted. The bankruptcy law was adopted under the SAL but the legal recourses established under the law were not regarded as genuinely enforceable by creditors, and only 90 cases were registered in the country in 1996. Amendments to the bankruptcy law were adopted in June 1998 and will be reviewed in 2000.

Box 3.1: Contract and Property Rights Enforcement in the Urban Transport Sector

The Urban Public Transport System was deregulated to allow private sector participation. While many private operators entered the market and provide competitive services, the private sector does not make the necessary large scale and long-term investments needed to maintain the quality of services. This is because of the government's discretionary and arbitrary power in enforcing contract and property rights in the urban public transport sector.

The provision of urban transport services is organized under a route franchise system where operators have an exclusive right to provide services in routes for which they win the franchise through a competitive bidding process. However, their property right to the franchise is eroded by arbitrary enforcement of contractual rights. The regulators, often under pressure from the municipal governments and rent-seeking activities from potential providers, design an overlapping route and franchise it to another provider. The overlap between the old and new routes was often up to 80%. As a result, the first winning bidder has a new, unexpected competitor on the route where he is supposed to be the exclusive provider.

Source: OED Audit of the Urban Transport Loan

3.14 *The Financial sector* was strengthened and withstood the crises in Russia and Asia in 1998. From mid-1993 to mid-1997 licenses of 196 problem banks were cancelled. Under the FSAL, restructuring/privatization of three of four major banks was carried out. Privatization is almost completed with only two banks remaining in state control. The FSAL also helped improvements in property rights legislation, the adoption of new chart of accounts and accounting standards, and a reduction in the number of banks in which the government had shares from 73 in 1996 to 5 in 1998. The entry of foreign banks was eased and 20 out of 82 banks now have foreign participation. The banking sector is stronger but financial sector is small and financial intermediation has not much improved. *Broad money to GDP* (indicative of the financial sector's overall size), was *below the CIS average*. Private bank credit relative to GDP (a proxy for the information, monitoring, and risk management services provided by the sector) was also low although slightly above the CIS average. After the crisis the financial sector has shown a strong recovery and this is being reflected in broad money to GDP and other indicators. For the development of a capital market the IBRD relied on donor support which did not turn out to be effective.

3.15 Expectations for ESW in the FY98 have not been fully realized. The IBRD prepared a report on privatization of the power and gas sectors, but the Industrial Sector Update and Financial and Capital Markets Development Review planned were not prepared. ESW has not yet examined what is happening in post privatized firms, what are the restructuring constraints, and what should be the IBRD role. A joint Bank/IFC/MIGA assessment team as envisaged in the CAS was not formed but rapid response funds have been used to provide advice to the authorities on targeted issues.

II. *IFC*

3.16 *IFC Strategy*: IFC's CAS inputs tend to be expectations. The actual realization of these expectations is constrained by the demand-driven nature of private sector involvement. Without significant private sponsor investment, IFC's investments cannot take place (under IFC policies). Both CASs identify specific IFC priorities; in their pursuit IFC has attempted to execute over 50 separate investments, but only 17 have been approved and only 11 disbursed to date.

3.17 In the 1993 CAS, though Kazakhstan was not then a member of IFC (membership was later that year), the private sector development strategy included IFC in its support for foreign investment in the banking sector. Other IFC priorities included leasing, mining activities, infrastructure, telecommunications, and hotels. During this time the Bank Group strategies were less well integrated, with IFC contributions tending to be the latest project pipeline. In this CAS, the foreign bank investment was ABN AMRO Kazakhstan. Further credit lines went to ABN AMRO and to Kazkommertsbank, another major bank, by 1997. Other priority areas featured no investments.

3.18 The 1997 CAS had identified six priority areas:

- *Enterprise Reform*—supporting post-privatization restructuring, small and medium enterprises (SMEs), and linkages to large industries. IFC's post-privatization support includes only the banking and steel sectors. The SME-oriented Small Enterprise Fund (SEF) program is operating.
- *Banking Reform*—including support to local banks. IFC approved transactions, including privatization support, with four of the five largest banks.
- *Capital Markets Development*—including a leasing company (with legal assistance), share registry company, corporate finance houses, and equity funds. Approved leasing investments were dropped (sponsors withdrew during various financial crises). With the recent leasing law, developed by EU-TACIS utilizing USAID/IFC work, additional leasing projects are being pursued. An IFC share registry investment was crowded out by the government. IFC has not supported a corporate finance house (local banks are competitive providers) or equity fund (donors experiences are poor).

- *Rehabilitation of Infrastructure*—including power generation and distribution, pipelines and railways. IFC pursued a major power project but withdrew with regulatory and sponsor concerns. No other infrastructure results; much remains state-owned. Railways and Telecoms have not been privatized; EBRD supports each.
- *Agriculture Support*—no results, though an ag-leasing project is going forward.
- IFC advisory participation was expected in the innovative joint IBRD/IFC/MIGA private sector rapid response team. This team never materialized.

3.19 *IFC Outcomes*: As summarized above, most of the areas highlighted by the CAS were tackled by IFC. However due to a confluence of events including changing government priorities, a poor private sector enabling environment, other donor-related financier efforts (particularly EBRD), and a prudent and cautious approach by IFC, actual investment transactions transpired in only selected areas. Thus far, the performance of the more mature transactions can be considered fairly successful. In this challenging business environment of Kazakhstan, the primary reason for the positive outcomes continues to be IFC's co-investing with strong, credible sponsors (a repeated but not always respected lesson). Seven of the pre-1999 approvals are considered mature enough for evaluation. On the basis of project and company performance, and contributions to growth of the economy, living standards, and productive private enterprise, OEG rates five of these seven investments as having satisfactory-or-better emerging outcomes (Attachment 4, Annex 3.1 details the evaluation framework). Although a small sample, this compares favorably to results in similar CIS countries as well as to the more mature transition economies of Eastern Europe (see Attachment 3, Annex 3.1).

3.20 IFC's banking sector involvement is substantial; it is involved with four of the five largest banks (the fifth is state controlled), collectively comprising nearly 70% of the deposit base (see ABN AMRO Box 3.2). IFC has supported intermediaries providing non-traditional services including leasing companies and SME-targeted facilities. Recently IFC's SEF facility disbursed a credit line, via an IFC client ("wholesale" channel) supporting SMEs in the Karaganda region. IFC has not supported a corporate finance house (local banks are competitive providers) or equity fund (other DFIs' experiences have been poor).

3.21 The Ispat-Karmet steel works is an integral part of the Kazakhstan economy, providing over 5% of the country's GDP (and balance of payments support) and directly employing over 60,000, with much of the Karaganda region's economy directly or indirectly dependent on the steel works and mines. IFC and EBRD jointly financed this privatized entity (IFC's largest to date), and for this study IFC and EBRD conducted a joint evaluation concluding that it has been very successful. Before privatization, two separate foreign concessions failed to successfully run the operation. Since privatization and after substantial investments, output has doubled to full capacity. The company supplies most basic public services to the local population including heat, power, transport, etc. During the 1996-7 crises, most services were provided free (still today only half of the supplied heat and power is feasibly reimbursed by the local community). Environmental impacts are significant as over 25% of the project's expenditures targeted environmental improvements.

3.22 Two investments had less than fully satisfactory outcomes. In one foreign-sponsored project, the government took over its line of business services, eliminating the private sector from that business. In one project with a less than credible sponsor, the company is not meeting its financial obligations and there are credit recourse difficulties. One investment has satisfactory development outcomes despite mixed financial results. With the country's infrastructure constraints, the project relied on a complex government-related transaction to transport the product to market. The government has not honored this agreement.

Box 3.2: ABN AMRO Bank Kazakhstan: A Joint Bank Group Success

ABN AMRO Bank Kazakhstan (AABK) illustrates where IBRD, IFC and MIGA each contributed to a positive outcome. IBRD contributed to the country's financial sector policy framework—including foreign bank participation. In October 1993 IFC invested $2.0 million, for a 20 percent equity share (with a board seat). In February 1994 the sponsor, ABN AMRO (Netherlands), applied for and received a $4.6 million MIGA guarantee against the risks of Transfer Restriction and Expropriation. Each was the first for IFC and MIGA in Kazakhstan. IFC followed with a $7.5 million credit line in 1996, and took up $2.6 million in a rights issue in 1997.

MIGA and IFC have conducted separate project evaluations. MIGA's evaluation found AABK to be *outstanding* in six out of the eight categories. IFC's self-evaluation rated AABK's development outcome *highly successful*, one of fourteen (of the 114 evaluated investments) with this highest rating. For this review, AABK was revisited, confirming many earlier findings.

AABK was the country's first—and for years only—foreign joint venture bank (ABN AMRO N.V. 51%, Kazkommertsbank (local bank) 29%, and IFC 20%). AABK introduced international banking practices and provided a level of client services previously unavailable—spurring local bank improvements. AABK provided stability for foreign investors and served as an "incubator" for the developing local banks. The bank has transferred technology, including significant investments in satellite equipment and data processing capacity, and know-how with extensive local training (more than 90% of employees are local citizens). AABK played a major role in facilitating foreign investment and privatizations. In 1998, AABK issued the first Kazakhstani corporate paper in the Eurobond market. Recently, the bank was chosen as a funds custodian for the government's pension reform program, a Bank Group priority.

III. *MIGA*

3.23 *MIGA Strategies* are similarly constrained by the demand-driven nature of private sector investment. Without a private sector applicant, MIGA cannot offer a guarantee. MIGA has always sought to complement the IBRD and the IFC by considering both their broad activities in a country and the specific development objectives contained in the CAS, and to operate in consonance with it. MIGA has been more actively integrated in the 2000 CAS formulation through its new unit, the Country Development Group.

3.24 *MIGA Outcomes:* MIGA has facilitated approximately US$96 million of foreign direct investment into Kazakhstan, aiding the creation of an estimated 260 new jobs. Assessing the development impacts of the two MIGA evaluated projects shows positive contributions. ABN AMRO's role is key in the financial sector, as the first major modern local bank; Coca Cola Almaty Bottlers has introduced modern manufacturing and distribution techniques, and effectively integrated its operations with its neighboring plant in Kyrgyztan, demonstrating the benefits of a regional approach. The digital cellular telecommunications network in Kazakhstan (GSM) is expected to increase the current level of 15,000 subscribers to more than a million by the year 2008.

Protection of the Poor

3.25 *Strategy*: The IBRD focused on resumption of growth to reduce poverty, on safety nets (unemployment compensation, and pension reform), on human resource development (by devising mechanisms for the provision of social services that had earlier been provided by enterprises and recently on health), and access to safe water. The SAL and two projects in agriculture were to address agricultural development. The major IBRD lending commitment has been for pension reform ($300m). The overall relevance of IBRD's strategy could have been greater if critical analytical work (for example, a poverty assessment and a public expenditure review) had been undertaken earlier in the transition.

3.26 The focus of the social component in the Rehabilitation Loan (FY94), the SAL (FY95) and the Social Protection Project (FY96) was on the provision of unemployment benefits to those laid off during enterprise privatization and restructuring and on the preparation of recommendations on how the social services earlier provided by enterprises could be taken over by the local authorities. The unemployment benefits were important as they catered to the needs of those losing jobs during the transition. The objective behind the transfer of social assets owned by enterprises in the pre-transition period to local governments was critical in ensuring the provision of social services (kindergartens, health, utilities etc) but to all, not necessarily the poor. A Living Standards Measurement Survey earlier in the transition would have assisted in identifying the poor and in designing measures to protect them. Some key officials in the Government were also of a similar view. The 1996 survey has not yet been followed up. The experience from other countries shows that during adjustment the poverty profile can change significantly in a short time period and survey frequency should be increased to assist in understanding and in addressing poverty. A new survey is now planned as part of the IBRD Social Protection Implementation Loan.[21]

3.27 The social service divestment component of the Social Protection Project focused on two of the fourteen oblasts and was expected to be replicated to others. The poverty profile in Kazakhstan Living Standards Assessment conducted in FY98 (KLSS) showed that only one of the two belonged to the poorest region of the country. Another component of this project sought to strengthen the institutional capacity of unemployment services to streamline procedures for registration and payment of unemployment benefits. Although these activities were relevant, the IBRD's CEM for FY95 noted that the role of the employment services should be critically reviewed, including their activities in creating jobs.[22] The KLSS also emphasized the need to shift to policies designed to facilitate labor mobility and to equip workers for changed

[21] This loan does not represent "new" resources but money from a previous IBRD project.
[22] Economic Report, 1994, Annex 4.

circumstances. The FY98 CAS included a labor market study in the proposed analytical work but this work has not yet been undertaken.

3.28 The IBRD supported the reform of the pension system from pay-as-you-go into a funded system by an adjustment loan. Kazakhstan's pension reform was the first of its kind in the Baltics, Russia and other countries in the FSU and was precipitated by a crisis of mounting arrears in the collection of payroll contributions and payment of pension benefits.[23] The new system consisted of a defined contribution, funded system of individual accumulation accounts. The contributions could be invested in public or private accumulation funds chosen by the contributing workers. The IBRD and the Government in loan negotiations were able to reach agreement on the provision of a minimum pension to protect workers with interrupted employment histories or low incomes. The minimum pensions would be indexed to actual inflation. Although IBRD support to Kazakhstan for pension reform was relevant, social assistance targeted to the poor was particularly important for mitigating the adverse impact of the economic transition on them and there was considerable scope for this in the social assistance system. For instance housing allowances had been directed mainly to urban areas. Means-tested child allowances were not always well-targeted. An early KLSS could have directed IBRD and the Government to these issues in lending and policy dialogue.

3.29 The first full-fledged PER for Kazakhstan has been finalized and distributed to the authorities in FY00. Periodic reviews of expenditures via PERs during the transition could have shown the efficiency of different spending programs and established priority spending in a financially constrained environment.[24] In the absence of such work, across the board spending cuts have been undertaken to meet fiscal targets.[25] The FY95 CEM discussed the system of social protection and ways to increase the efficiency and target benefits to the poor; it did not deal with expenditure prioritization. The focus of the major piece of ESW in FY97 (The Transition of the State) was on public sector management and not expenditure composition.

3.30 In both the health and education sectors, an early analysis of the appropriate mix of public and private provision with a clearly defined role for the private sector was important for devising relevant human resource development strategies.[26] In the face of a weak revenue performance, the previous high levels of health and education expenditures were not sustainable and it was important for the Government to confine its role to those

[23] See Marta Castello-Branco, *Pension Reform in BRO Countries*, WP/98/11.
[24] Some work on how the social protection framework should be reformed so as to generate resources for social programs for the poor was done in December 1993. Subsequently, this work did not appear to have formed a basis for a dialogue with the authorities and it also did not inform future lending, adjustment and non-adjustment.
[25] According to an IMF report, in the first nine months of 1999, there was a severe deterioration of the efficiency and equity of public expenditures. Pension and wage arrears increased although pension arrears were cleared by the authorities before end-1999. The implementation of social programs was curtailed and unsustainable across-the-board cuts were made in the purchases of goods and services, resulting in depletion of stocks and little maintenance. According to the NEAP government expenditures on environmental protection were cut and are the lowest in the region, accounting for no more than $0.50 per person per year.
[26] With the division of responsibilities among the IBRD and its partners, The Asian Development Bank takes the lead in education in Kazakhstan.

areas in which the private sector could not or would not engage itself or where the public sector had a clear comparative advantage. This analysis could have helped the government to define policy actions focusing on refining and reforming the framework for private sector participation at all levels of education and health care, and the IBRD could have used it to seek a rationalization of these sectors in the context of its adjustment lending. Because of limited resources, the KLSS also could not focus on health and education policies which would have been important in linking public expenditure patterns with its poverty strategy.

3.31 An analysis of the health sector was prepared later in the transition in the context of the first IBRD Health Project (FY99) which seeks to support the government in implementing a long-term health restructuring strategy. The project is an adaptable lending program loan to be implemented in 3 phases over an eight year period. The first phase is part of a broader health program, the objective of which is to achieve a sustainable performance-oriented health system through modernization and improvement of the quality and efficiency of the health care system at the national level and implementation of integrated health reform, strengthening of the quality and cost effectiveness of primary health care (PHC) and improving financing and management capacity at the service delivery level in two oblasts. The oblast level components are to be replicated in all the other oblasts of the country under phases 2 and 3. The project is addressing tuberculosis control and is specifically helping implement the national tuberculosis strategy. The focus of the PHC component is in rural areas where most of the poor live. Such a project should have been undertaken earlier in the transition.

3.32 The IBRD first targeted the agricultural sector for reform in the FY95 SAL (elimination of minimum reference prices for exports of agricultural commodities, privatization of the major grain storage facility, competitive procurement of grain, privatization of agro-enterprises and revisions in draft land legislation). Following this loan, support was given to rehabilitation of Irrigation and Drainage systems in FY96. The FY98 CAS recognized the potential of the agricultural sector in generating employment and in reducing poverty but subsequently one loan, Agriculture Post Privatization Adaptable lending program, was approved in FY98.

3.33 *Efficacy*: The efficacy been mixed (paras. 3.34-3.40). IBRD technical assistance and other loans have not yet had a long-term impact on social protection policies, pension reform is encountering issues that need to be resolved, agricultural projects have shown modest efficacy although both are ongoing. Satisfactory results are being achieved in the water supply and sanitation project of FY97.

3.34 According to completion reports of the Rehabilitation and SAL, reforms in the Unemployment Fund were introduced in 1995, and a national policy on divestiture of enterprise social assets in health and education was announced in 1996 under the social protection project (Annex 3.2). However, the Unemployment Fund was eventually abolished, and the divestiture pilot under the social protection project was not replicated.

3.35 Under the pension reforms being supported by IBRD, the state pension fund was perceived to be too big and monopolistic and an obstacle to the operations of the private pension funds. Discussions in Kazakhstan indicated that a public relations campaign was an important part of the pension reform program and that the IBRD and the Government could have given it greater attention. It could have been explained to the public that money could go into private pension funds with a campaign not only in the major city- Almaty but also in the regions. The pension information campaign will be addressed in the pension reform implementation project. Other problems being encountered are related to the social identification numbers, portability of pensions under the new pension system, the adoption of internationally acceptable accounting and valuation standards, a lack of opportunities for the pension fund to invest its fund[27] and the current regulatory structure in which different state entities separately regulate different aspects of pension reform.

3.36 The managers of private pension funds were concerned with proposed new complicated rules for the transfer of funds from the state to the private pension funds which could slow down transfers. They wanted the application of similar rules and regulations to the state pension fund as to the private pension fund system to ensure fair competition. There was a widespread perception that after the release of the third tranche of the Pension Reform Adjustment Loan, the IBRD would lose leverage with the Government and the sustainability of reforms could be jeopardized.[28] The Government passed a resolution to provide a minimum pension based on minimum living standards indicated in the 1998 Living Standard Assessment. These are indexed for inflation as stipulated in the IBRD loan. However, there is dissatisfaction among the population with the current minimum pension of Tenge 3,500 (approximately $25) per month. For 1998, the minimum pension was Tenge 2,600 (approximately $32) per month which was roughly 70 percent of the subsistence minimum of $40 at the market rate of exchange at that time.

3.37 The relevance and efficacy of the IBRD strategy to protect the poor was also impeded by low Government commitment. The Government's effort to reform the social protection system was driven by considerations for fiscal stability and since 1998 also by the desire to develop the financial infrastructure to protect against the risk of disability, death, old age, poverty. As of July 2000, targeting assistance to the poor had not been a priority. As payment arrears in the Unemployment Fund accumulated and Government policy shifted from supporting employment offices towards adopting active labor market programs, the Unemployment Fund and the offices were abolished. Responsibility for the unemployed and other social assistance was devolved to the local governments. The local governments can better understand the needs of the local population but discretion was given to them to determine the level of social assistance according to their resource base. This will prevent the accumulation of arrears but may lead to social assistance as a residual spending item. Furthermore, poverty was not used as the sole criterion to target social assistance to eligible households. Finally, the devolution of spending further exacerbated inter-regional inequity because of differing abilities to raise resources.

3.38 The IBRD in December 2000 secured an assurance from the Government of Kazakhstan that local budgets will be protected for use on poverty issues, and will be

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[27] It was assumed that the privatization of Blue Chip companies would bring into the market common stocks that would provide for diversified investments but this privatization process has not yet started.

[28] Bank staff feel that there is sufficient interest and understanding in the reform objectives that loss of leverage should not be a problem to the sustainability of the reform.

controlled at the national level to ensure greater inter-regional equity. The proposed Special Protection Loan (SPRAL) and PSRML II in the FY01 CAS will assist the government in the reform of its social protection system. These loans if approved, will be important in assisting the Government to provide adequate budgeting for social protection, both at local and, republican levels, and the ability of administrative structures to deliver the assistance.

3.39 In agriculture, the early transition period was marked by a steep decline in production. Much of this decline was due to the inevitable and necessary reduction in cultivation of marginal lands as Soviet-era input and credit subsidies were removed. However, the decline in production was unnecessarily exacerbated by maintenance of grain price controls that kept domestic grain prices well below World market levels and by a flawed program of agricultural privatization. Measures supported by the SAL to remove Government price controls and subsequent steps in 1998 to accelerate farm restructuring have helped to improve the situation in the sector. In hindsight, IBRD might have done more to elevate the dialogue on agriculture with the authorities and give greater attention to formulating a long-term agriculture (including livestock) strategy.[29] However, it has to be recognized that frequent changes in the leadership of the Ministry of Agriculture and its often luke-warm embrace of the reform agenda made such dialogue difficult.

3.40 A water supply system financed from the FY97 Water Supply and Sanitation Project has reduced water-borne diseases and improved the health of about 132,000 people in 15 settlements in Kazalinsk and Aralsk Districts most affected by the Aral Sea crisis. The supervision reports for the Health project indicate that progress so far has been satisfactory.

Gender

3.41 *Strategy*: Gender issues were not on the agenda of either the government or the IBRD. This was understandable in the early years as Kazakhstan's achievements in terms of status of women were significant and initial conditions required a focus on stabilization and resumption of growth. During the later years it has been increasingly evident that the impact of the transition has not been gender neutral in Kazakhstan (1.10). Thus IBRD should have integrated gender issues in the design of its projects. This was important not only for ameliorating the adverse effects of the transition on women but also to more generally increase the impact of its projects. A consideration of gender issues in the design of country programs was also required under the Bank's Operational Policy 4.20 on "The Gender Dimensions of Development" issued in 1994. A review of IBRD ESW and lending revealed that gender issues have not been addressed in the country program and only the KLSS has paid attention to gender. Thus the overall relevance of the strategy for mitigating the impact of the transition on women was low.

[29] In Poland, the 1993 ASAL supported systemic changes in agriculture in accordance with the IBRD's sectoral strategy which was prepared by an Agricultural Task Force in 1990 comprising the Government, Polish individuals and institutions, the IBRD, and the major donor EU. This approach helped to build consensus and led to widespread understanding and identification of the proposed strategy and its adoption. The personal involvement of the Regional Vice President and the Minister of Agriculture gave the exercise authority and prominence in the IBRD.

3.42 The KLSS provided a number of useful data on the status of women in the labor market but in discussing issues of targeting, delivery and outcome of the social safety net system the work did not provide gender disaggregated data and did not raise any gender issues. It relied on the household survey of 1996 for the finding that "gender of the household is not correlated with poverty " although, it is increasingly recognized that household survey methodology by eliciting information at the household and not at the individual level, has a limited capacity to capture patterns and distributions of poverty along gender lines and within households. A Participatory Poverty Assessment could have provided a more detailed and accurate picture of the correlation between poverty and gender.

3.43 It has been argued by staff and government officials that in view of resource limitations attention to gender issues in IBRD projects would have entailed tradeoffs; gender work would have meant less resources to undertake work in other areas. Although the design of country specific interventions would benefit from the allocation of additional resources, IBRD could have relied upon a considerable amount of both conceptual and empirical work that had already been undertaken in other countries and specifically for Kazakhstan in designing the projects that were approved, (Annex 3.3).[30] For example, experience from Eastern European reformers had shown that women suffer disproportionately from unemployment and that they benefit from gender specific retraining and job assistance services. This could have informed the design of the Social Protection Project (FY96). A gender-responsive legal drafting and enactment in areas targeted by the Legal Reform Project (FY99) such as, private property, business forms, business licensing would have been important.

Public Sector Management and Accountability to the Public for Effective Use of Public Resources

3.44 *Strategy*: Public sector management issues (administrative organization, budget management, civil service) have been discussed in various IBRD documents, the early CEM's, the first TA loan of FY94 and the SAL of FY95 but the CEM of FY97 was the main work that diagnosed the problems in the public sector and in oversight institutions in the Legislature and the external auditor (Annex 3.4).

3.45 The CEM of FY97 highlighted the need to overhaul administrative structures and budget management systems, and to create personnel management systems which foster motivation and professionalism in the civil service. The report suggested that appropriations frequently exceeded parliamentary approval and were sometimes made without approvals. The Government audit systems were not suited to achieving stated objectives and the Accounts Committee lacked the minimum autonomy required for effective oversight over the use of public resources.[31] The Treasury Modernization Loan

[30] See, Zhuplev Anatoly V, Kozhakhmetov, Asylbeck B. and Almaraz Jeanne. Kazakhstan: Emerging Issues of Female Entrepreneurship. Almaty Management School. UNICEF, 1999b, pg.25; Saito 1995 and World Bank 1995; Wakeman, 1995; Asian Development Bank, 1996.
[31] In Kazakhstan, budget evaluation and audit is entrusted to the Accounts Committee, headed by a presidential appointee who can be terminated before the end of his tenure. Audit reports are presented to the President every quarter and to the Parliament annually.

from FY97 has supported the Treasury to design and implement a fully functional automated treasury system to serve as an effective instrument for budget management.

3.46 The diagnosis in FY97 CEM was relevant, and valued by the authorities but the FY97 CEM could have been followed up by a strategy to strengthen the entire governance system of public resources, i.e., the institutions, incentives, checks and balances (Annex 3.5). The IBRD focus on civil service reform and budget management was also relevant (Box 3.3) but for an overall improvement in resource use accountability mechanisms should have been addressed further.[32] A strategy that aimed to strengthen some or more of the links in the accountability chain between the legislature, the external auditor, the media and the Government (Annex 3.6, Charts 1 and 2) (even if progress achieved in each area is small) would have increased the relevance of the strategy. A focus on overall systems of governance would also have been in line with IBRD operational policies for adjustment lending which required a focus on effective management of resources at the country level.[33] This together with minimum IBRD-wide standards for fiduciary requirements on adjustment lending, would have been more effective.

Box 3.3: (PSRMAL)-Good Practice

The US $230 million loan was to improve the “effectiveness of resource mobilization” and “efficiency with which government resources are used”. It supported reform in administrative structure, budgetary processes, public investment program, and housing and related utilities. Processes and policies will improve budgetary coverage and transparency, and create a more modern and transparent procurement regime. Part of the civil service reforms have concentrated on reducing patronage and graft in civil service recruitment, instituting merit-based recruitment, and building the foundations to improve accountability at the level of individual civil servant.

Other stakeholders actively participated in this loan. Discussions on budget reform involved the Parliament’s budget commission. The PSRMAL team members participated in two conferences (on anti-corruption and decentralization) which took place in the Parliament and was attended by representatives from civil society, all three branches of the state in Kazakhstan, and donors. The IBRD has collaborated closely with USAID, UNDP and EU-TACIS. A large part of the USAID program has focused on actual financial management practices in coordination with IBRD. EU-TACIS programs are drawn up in mutual consultation and collaboration with IBRD.

A follow-up PSRMAL II is being planned which is expected to (a) strengthen parliamentary oversight and the capacity of the supreme audit institution, and (b) enhance information on government decisions through increased reporting requirements.

Source: PSRMAL President’s Report and IBRD Staff

3.47 The FY97 CEM was followed by the 1998 Kazakhstan Financial Management Capacity Report which affirmed the importance of strengthening accountability institutions (Annex 3.7). It suggested that because of a lack of independence of the

[32] This could include audit capacity for effective oversight, encouraging greater transparency and disclosure of information on public finances and greater participation of all relevant stakeholders.
[33] Operational Memorandum entitled Simplifying Disbursements Under Structural Adjustment Loans and Sectoral Adjustment Loans (February 8, 1996).

supreme audit institution, the certification of Public Accounts was not meaningful and that the progress made in budget management was being compromised by the lack of transparency and public accountability, and ineffective audit. IBRD ESW should have examined the system of checks and balances in individual departments and agencies, assessed the State's accounts in depth and the adequacy of the State budget, evaluated the reports of the independent auditor on the quality of the State accounts and examine their effectiveness as Accountability Statements. Comprehensive work that looks at the public/legislative scrutiny process along the lines of good practice was needed (Annex 3.8). This work is now expected to be covered under the preparation of the proposed PSRMAL II.

3.48 The IBRD strategy for *financial management at the project level* has focused on building capacity under the Loan Administration Change Initiative (LACI). Under LACI, all projects approved since July 1998 are required to have adequate financial management systems. Where existing systems are not adequate, the borrowing agency is expected to draft an action plan to develop an acceptable financial management system prior to project effectiveness. Discussions with IBRD staff reveal that most implementing agencies covered under LACI in Kazakhstan did not have adequate financial management systems. IBRD has therefore appropriately focussed on enabling the project agency to develop and implement action plans for adequate financial management systems, and is monitoring progress.

3.49 *Efficacy*: Progress was made in developing public sector institutions but little on accountability institutions. With assistance from the IBRD and the IMF, a new budget classification scheme has been set up and a new budget law was adopted. The transparency of the budget has increased. A civil service census was completed in September 1998. At the start of 1999, the number of civil servants was reduced by 16 percent. A Law on the Civil Service is expected to separate political and career appointments, define merit-based rules for appointment and promotion in the civil service. An audit advisor worked closely with the Accounts Committee and this work is expected to be continued under PSRMAL II and the accompanying TA operation. Under the Treasury Modernization Loan, an interim system has been installed although the final treasury system is not yet in place.

3.50 The evaluation mission to Kazakhstan found that civil society institutions that support public financial accountability are improving but there are impediments to their operations. A new NGO law in December 1999 has improved the environment for NGOs. Nearly 7000 are registered, but active NGOs numbered 500-700.

3.51 The audit institutions (the external and in the Legislature) remain weak and discussions with civil society indicated that their access to critical information is limited and impedes accountability (see also USAID Box 3.4). For example, the hearings of the Accounts Committee are not open to public and although the Committee's reports are public documents, they are not readily accessible. Newspapers widely report on tax

Box 3.4: USAID Strategy in Kazakhstan

During the period 1992-98, USAID has provided US$150 million for both **economic and democratic reform** initiatives in Kazakhstan. USAID's economic reform strategy was to help the government (1) privatize state owned enterprises, (2) introduce tax reforms, (3) promote the growth of private enterprise, and (4) improve the financial sector. Its democratic reform initiatives aimed to promote democracy at the national level by increasing citizen participation in economic and political decision making, and advancing a more responsive local government.

Economic reforms did not progress rapidly due to corruption in government bureaucracies and limited government commitment to implement comprehensive reforms at the national level. The reforms that challenged vested interests or that required full involvement of citizens such as privatization of large state enterprises were either slowly implemented or not carried out.

A lack of citizen involvement in economic and government decision making has led to under-developed civil society voice and participation. To remedy this, USAID has provided training, technical assistance, legislative drafting and legal support to NGOs. It has sought to increase transparency, responsiveness and accountability to citizens by assisting newly elected legislatures, judicial bodies, and electoral commissions to organize and carry out their functions. Its democratic assistance has focussed on working with citizens to develop a civil society that would push for democratic reforms from the bottom up.

GAO US Economic and Democratic Assistance to Central Asian Republics (GAO/NSIAD-99-2000)

collections but not on expenditures. The Government publishes the monthly fiscal bulletin containing the Republican, local and consolidated budgets but this too was not easily available to citizens. Although new tax laws are to be posted on the Internet for easy access, the percentage of population with access to computers is low and their access to the Internet is even lower. While there is no legal media constraint or censorship, the local media practices self-censorship. To monitor the Internet, the government has asked all Internet providers to register with a new Government billing center. Discussions in Kazakhstan indicated a strong interest in greater access to information as this would not only reduce the risk of waste and misappropriation of public funds but also help reduce the burden of external debt, and improve the impact of IBRD's programs.

3.52 *Financial accountability issues at the project level:* Two ongoing projects in Kazakhstan were selected for a Bank-wide 1st year LACI review. The result of the assessment specifically for Kazakhstan was not available at the time of this review.[34] However, a draft summary of the LACI review suggests problems in implementation (applicable also to Kazakhstan) namely: inconsistencies in documentation, resource constraints, uncertainty on borrower commitment and uncertainty on adequate and timely implementation of action plans to develop financial management systems.

[34] OED was informed by the Controller Vice Presidency that the country specific assessments were working papers for the Bankwide review of LACI which was in draft form at that time.

3.53 IBRD has exercised due diligence in its investment projects. Audit reports state that project audits were conducted in accordance with internationally accepted auditing standards, that the financial statements were prepared on the basis of IBRD guidelines and could be relied upon for disbursement purposes. IBRD's project supervision provides assurance on use of funds for project purposes and especially, on the associated economy and efficiency aspects.[35] However, with the integration of independent project implementation units into government ministries, the importance of building the overall system of checks and balances will assume greater importance. The 1999 draft Country Procurement Assessment Report suggests that IBRD procurements have been largely satisfactory and the government follows a transparent procurement system, but foreign and local business communities perceive corruption to be widespread in some government agencies.[36] Thus the IBRD will have to continue to guard against the risk of misprocurement and diversion of funds in investment projects with increased resort to independent physical verification of expenditures.

Government Monitoring and Evaluation

3.54 *Strategy*: IBRD public sector assistance has helped to initiate many public sector reforms, with the objective of improving government performance but it has not yet focused systematically on a strategy to build capacity for monitoring and evaluation (M&E); such a focus would have increased the relevance of its public sector reform strategy. The public sector reforms now underway include: a medium-term budget system; a reduction in the size and scope of government; stronger financial accountability and control; decentralization and its effect on the provision of services; and better management of the delivery of social services, particularly in the health and education sectors. All these reforms are related as they all have the objective of improving government performance. And for each of these reforms to be successful it is important that actual government performance be monitored and evaluated.[37] A more structured, explicit and formal approach to M&E would have focused attention on the empirical dimension of the public sector reforms, allowing the linkages between different reform components to be articulated and synergies between them to be exploited.

3.55 Strengthening of Government M&E systems is being addressed by USAID but could have been integrated systematically in IBRD analytical and lending program. An objective of the FY98 PSRMAL was improving budgetary processes and the PER argues for making budget officials accountable for deviations from programmed expenditures. This is a relevant objective in view of the past ad hoc adjustments in expenditures and recourse to sequestration. However, a greater emphasis on M&E in the budget process would have helped focus attention on *outputs* and *outcomes* which public spending is intended to achieve (Annex 3.9) rather than on inputs (spending controls). The weakness in approach in these reforms represents a missed opportunity — a greater focus on

[35] OED has not reviewed the effectiveness of the supervision mechanism for such an assurance.
[36] Draft Country Procurement Assessment Review–Volume II, page 11.
[37] An analogous situation exists for the World Bank's work in Kazakhstan. The July 1997 CAS identified a number of benchmarks and performance indicators for the country strategy and for IBRD actions. About 40% of the former indicators, and over one third of the latter, were vague in nature and lacked substantive, measurable benchmarks of expected future performance.

outputs and outcomes would have aided government's budget decision-making and prioritization among competing budget proposals by identifying more cost-effective options for delivering public goods. In the ongoing civil service reform it would have allowed civil servants to understand what they are expected to achieve and for what they are to be held accountable. And when the parliament makes its annual budget appropriations, and the budget proposals are announced, the availability of M&E findings would have facilitated an understanding of what these monies are intended to achieve and of actual past performance. In discussions with officials in Kazakhstan, demand for M&E was strong from the Chairman of the Agency for Strategic Planning, the Deputy Prime Minister, Minister of Economy and the Chairman of the Agency for the Civil Service.

3.56 The responsibility which oblasts have been given for provision of a range of public services has not been matched by a corresponding access to resources. There are concerns about: the capacity of oblasts to manage services; the accountability of oblasts to their communities; the accountability of oblasts to the central government; and the extent to which information about disparities among oblasts in their provision of services is publicly available. M&E could assist in measuring and evaluating the provision of services by oblasts.

3.57 The FY98 PSRMAL includes a component to strengthen the evaluation of investment projects — this will help support investment decision-making, and will also lead to better-designed individual investment projects. However, GOK investment expenditures covered by the Public Investment Program only relate to 2% of GDP, and there are no government-wide plans yet to subject its recurrent expenditures, equivalent to up to 28% of GDP, to a similar rigorous evaluation.

3.58 At the sector level, a substantive IBRD reform program exists to achieve a "sustainable performance-oriented health system" — see Box 3.5. A key part of the program is the health policy and evaluation component, which is intended to develop government capacity to evaluate various health interventions using a mix of qualitative and quantitative approaches. This component will evaluate health programs at the oblast level, and once good-practice activities have been identified via the evaluations, these will be shared with other oblasts with the intention of replicating them throughout the country. The health sector capacity-building work is intended to strengthen M&E for line management purposes, and also to support sector policy-making.

Box 3.5: Monitoring and Evaluation in the Health Sector-Good Practice

The health sector is particularly supportive for reform in the areas of policy and evaluation. There are two reasons for this. The first is that there already exists a large volume of statistics and performance indicators in the sector, on facilities and their utilization, on staff levels and types, on different types of health interventions, on public satisfaction with health services, and on health outcomes. In addition, there is an acceptance within the sector of the value of measuring health status and outcomes, and of using such information in management and policy-making.

The second aspect of the health sector which provides a conducive environment for evaluation is the existence of a number of related, performance-oriented reforms in that sector. Particularly relevant components of the reform program include: use of a performance-based, case-mix approach to funding allocations; competition between hospitals; decentralization of decision-making; rationalization of services; a focus on identifying and sharing good practices; an increased role for the non-government sector in the delivery of health services; and performance pay for doctors.

Source: Health Sector Project Staff Appraisal Report

3.59 Although the health sector approach could be considered a useful pilot or demonstration model for other sectors, the planned evaluation component of the health sector reforms is modest. It will involve some $1.31m in spending over four years, which is equivalent to only about 0.05% of annual health sector spending. There is no clear benchmark for how much should be spent on a ministry's evaluation functions, but if M&E is to have a significant impact in the health sector then much higher levels would need to be allocated to it.

IBRD Overall Assessment

3.60 The IBRD was instrumental in stabilizing the economy, in strengthening the financial sector, in liberalizing prices and trade, putting in place a legal framework, and in privatizing enterprises but the goal of the IBRD strategy to develop competitive markets was slowed by nontransparent privatization procedures, and a lack of enforcement of laws and regulations. This may have contributed to lower than expected growth rates in calendar years 1994-99 although large external shocks in 1998 also provided setbacks. In addition, the poor were not protected from the transition and major social indicators declined. Kazakhstan ranked low on perceptions about corruption and effectiveness in the use of public resources. The outcome is rated *partially satisfactory*.

3.61 Institution building is a long-term process in transition economies. The IBRD strategy helped develop and strengthen financial institutions, improve budget management, start reforms of the civil service, and establish a framework for laws and regulations. However, financial intermediation is weak, government evaluation systems have not been developed, institutions that strengthen public financial accountability are weak and the judicial system is ineffective. The capacity for economic management just below the top tier needs strengthening, and the Government has not been taking the lead in coordinating aid. Involvement of stakeholders in development activities is lower than in the ECA region. Institutional Development is rated *modest*.

3.62 Frequent changes in the Government, sudden shifts in policy direction and weak donor coordination affect adversely sustainability. While prices and trade have been liberalized, important reforms in the financial sector have made it stronger and a framework for private sector activity is in place, for sustainability it is important that rising social tensions do not spillover. For this the transparent enforcement of laws, the reform of social assistance (linked to complex decentralization issues), accountability to the public for use of public resources, transparency in privatization, prioritization of public expenditures and the successful completion of the ongoing reform of the pension system will be important. At this juncture sustainability is rated as *uncertain.*

4. Attribution: IBRD, IFC, MIGA and Partner Performance

IBRD Performance

4.1 The IBRD strategy of stabilization and structural reform encompassed privatization, trade and price liberalization, financial sector restructuring, and public sector reform. It pursued it largely through adjustment lending. Investment lending was modest in both relevance and efficacy. Insufficient resources were devoted to ESW. This achieved partially satisfactory results. The overall relevance of the strategy would have been far greater if it had addressed explicitly and forcefully, earlier in the transition, agricultural development, issues of transparency, judicial reform and the enforcement of regulations on IPFs pursued in concert with its development assistance partners and the civil society. The privatization procedures followed for state enterprises proved vulnerable to capture and contributed to increases in social disparities. IBRD lacked a comprehensive, long term approach to capacity building and it was overly-optimistic about growth recovery and poverty reduction. As a result, its early operations neglected environmental sustainability, and targeted assistance to the poor.

IFC Performance

4.2 IFC is well known in Kazakhstan. Some IFC staff are highly regarded, though the level of IFC service has been variable and its quality is perceived “to really depend on the person”. Service quality has benefited from continuity in IFC’s Kazakhstan team, but staff turnover could imperil future efforts. IFC’s “name” is considered to add value, though several voiced the opinion that IFC is “too bureaucratic” and “cannot move fast enough” with “too many changes back in Washington”.

4.3 It exercised prudence in steering clear of financing involvement downstream of nontransparent privatization decisions. It has provided high quality and timely project support to relevant operations in a particularly difficult enabling environment (see annex 3.1). IFC’s assistance in the financial sector proved of critical value after the 1996 banking crisis and the Russian and Asian crises. IFC also provided well targeted engineering and environmental advice to private companies and their financing partners. IFC has more rigorous environmental standards than other (donor-related) financiers; several of these financiers utilize IFC's environmental standards and procedures. Supervision and administration have been satisfactory. Its administrative procedures were appropriately followed. A consistent client dialogue was maintained in an effort to enhance the enabling environment for the private sector and SME support. Finally, IFC's honest broker role has been valued.

MIGA Performance

4.4 While MIGA's involvement has been modest, its performance has been positive in Kazakhstan. Nevertheless, MIGA's potential has not been fully realized. IBRD resident staff, Government officials, and the investment community are not familiar with MIGA guarantee and technical services. Government officials and other donors are confused about MIGA guarantee services and the proposed IBRD Leveraged Facility (which has now been postponed indefinitely). MIGA's support to ABN AMRO was critical for the investment to materialize. The support to Turkish investors (Coca Cola Almaty Bottlers) was among the first projects from a developing country; and the recent telecommunications project should help modernize this sector.

Partner Performance

4.5 Kazakhstan authorities faced awesome challenges of transition following the dissolution of the Soviet Union. They implemented far reaching policy reforms. They were responsive to Bank macro-economic advice and demonstrated commitment to adjustment lending goals. However, they did not display similar ownership of the sector policy reforms proposed by the Bank under sector investment loans, TA, and ESW. They did not actively seek to improve the efficiency and targeting of the social safety nets required to protect the poor, or to enforce consistently and transparently the rule of law for private sector activity. The participation of civil society is improving but there are still many impediments to their effectiveness and public access to information remain limited.

4.6 The government has only now begun to take a lead in coordinating donor activities. Nevertheless, the division of labor among development assistance agencies has been relatively effective. USAID's technical assistance (for pension reform, for the FSAL and for budget/tax administration/financial accountability in the PSRMAL) has been timely and effective but its assistance for the development of secondary markets did not have the desired impact. More recently it has been assisting with establishing the National Securities Commission and the privatization program. The effectiveness of UNDP/EU-TACIS assistance for administrative/civil service reform, in the social sectors and IBRD's agriculture post privatization has been mixed. EBRD has been successfully involved with IFC in Ispat-Karmet steel works.

5. Recommendations

The World Bank Group

1. Drawing from the lessons of IBRD support for private sector development, and IFC and MIGA transaction experience, the Country Assistance Strategy should link World Bank Group support to progress on improving the enabling environment for the development of the private sector, in particular with regard to the clarity in the legal and regulatory framework, judicial reform, transparency in privatization, and a reduction in the arbitrary enforcement of tax laws. The CAS should also apply a "donor"-coordinated approach to dealing with the corruption-related constraints.

2. The Country Assistance Strategy should spell out how it will use the full menu of instruments available to the World Bank Group to promote private sector development.

IBRD

1. Additional critical social expenditures for the poor could be financed by better prioritizing the authorities public expenditures. The IBRD should help the Government in this endeavor using the analysis in the recently completed Public Expenditure Review.

2. To help the Government identify the poor, the IBRD should assist the authorities in updating the 1996 Living Standard Measurement Survey.

3. In the past due to budgetary and timing pressures, Economic and Sector Work was put aside. The management should ensure that this does not repeat itself, as this report finds that IBRD needs solid analytical work to focus its assistance. A periodic review of public expenditures will be critical for the authorities in dealing with fluctuations in oil revenues. The completion of an updated Poverty Assessment will help the IBRD and the authorities to devise a poverty reduction strategy.

4. Strengthening financial accountability institutions will increase the effective use of public resources and reduce perceptions about corruption. IBRD should conduct a Country Financial Accountability Assessment jointly with the Government and the donors and disseminate the results widely. The assessment should be used to inform the design of the proposed PSRMAL II. This adjustment loan should also help build monitoring and evaluation functions within the Government.

IFC

1. Utilizing investor knowledge, IFC should alert the Bank Group to known, corrupt entities, promoting avoidance of them by the Bank Group. When IFC efforts are constrained by poor regulatory frameworks, quick Bank Group advisory assistance may be useful. IFC should provide incentives to encourage responsive policy advice, or at least ensure awareness of the advisory need.

2. In countries like Kazakhstan where IFC with reasonably sophisticated banks, IFC should determine whether "wholesale", intermediary channel activity may more effectively and efficiently address SMEs instead of field-based direct investments.

MIGA

1. Increase MIGA's efforts to be more recognized as a Bank Group instrument for private sector development. Efforts should include contacting relevant Government officials, IBRD and IFC field staff to inform them about MIGA services, and responding to Government's request to promote foreign direct investment in sectors like residential mortgages and pension fund management in the country.

Annex 1.1a Kazakhstan: Selected Economic Indicators, 1992-98

	1992	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999 (est.)*
Real growth in GDP(%)	-2.9	-9.2	-12.6	-8.2	0.5	1.7	-2.5	1.7
Inflation	2,984	2,169	1,160	60.4	28.6	11.3	1.9	18.0
Government budget								
Revenues and grants (% of GDP)		21.1	18.5	16.9	13.2	13.3	18.3	18.2
O/W tax revenue	n.a			13.0	11.3	12.0	16.3	16.8
Expenditures and net lending (% of GDP)	31.8	25.2	25.9	20.8	18.6	20.3	26.0	23.2
Overall budget deficit excluding privatization receipts (% of GDP)	7.3	4.1	7.5	3.2	5.3	7.0	7.7	5.0
Privatization receipts (% of GDP)				0.7	2.2	3.2	4.3	1.9
Current account balance	-38.0	-2.8	-8.6	-1.3	-3.6	-3.6	-5.5	-1.1
External Debt (% of GDP)				20.3	21.3	28.7	37.2	50.9
Foreign Direct Investment($m)	n.a	473	635	964	1,136.3	1,313.9	1,143.3	1,583.5

Source: IMF, EBRD and National Bank of Kazakhstan
Note: Privatization receipts are excluded from revenues.

Annex 1.1b Kazakhstan: Share of GDP (in percent)

	1993	*1994*	*1995*	*1996*	*1997*	*1998*
Industry	28.7	29.1	23.5	21.2	21.4	22.5
Agriculture	16.4	14.9	12.3	12.2	11.4	8.8
Construction	8.3	9.6	6.5	4.4	4.2	4.5
Transport and Com.	10.0	11.2	10.7	11.3	11.7	9.3
Trade and Catering	10.4	12.1	17.2	17.3	15.6	17.2
Others	26.4	23.1	29.8	33.7	35.6	37.7
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: IMF Recent Economic Developments, June 1999

Annex 1.1c Kazakhstan: Real GDP Growth (percent change from the previous year)

	1993	*1994*	*1995*	*1996*	*1997*	*1998*
Industry	-14.0	-27.5	-8.6	0.3	4.1	-5.5
Agriculture	-6.9	-21.0	-24.4	-5.0	-0.8	-18.9
Construction	-25.9	-16.2	-37.6	-21.8	8.0	11.0
Transport and Com.	-14.4	-26.3	-12.5	1.5	3.3	-1.8
Trade and Catering	-6.3	-17.4	6.1	14.7	3.0	-2.7
Others	-0.9	0.9	8.0	-0.6	2.8	0.0

Source: IMF and EBRD

Annex 1.2: A Glance at Kazakh Women's Status

Indicators	***1989***	***1991***	***1995***	***1997***
Total population (million)	16.9	16.4	16.6	15.9
Female population (million)	8.3	8.4	8.3	8.6
Rate of natural population increase[a]	15.7	13.3	6.7	4.6
Female life expectancy at birth (years)	72.5	72.7	70.4	70.0
Male life expectancy at birth (years)	62.6	63.3	60.0	58.5
Fertility rate (births per woman)	2.88	2.63	2.15	2.0
Infant mortality rate (per thousand live births)	25.6	27.3	27.0	24.9
Maternal mortality rate (per hundred thousand live births)	53.3	48.1	57.6	59
Share of births to unmarried mothers (% of total live births)	12	13.4	15.7	21
Abortion rate (per hundred live births)	77.5	101.5	81.2	67.5
Divorce rate (number of divorces per hundred marriages)	27.5	29.3	33.4	35.1
Incidence of sexually transmitted diseases [b]	110	118	256	360
Individuals registered with HIV (newly registered cases)	na	1	5	429
Kindergarten enrollments (net rates, percent of relevant pop.)	52.2	52.0	24.6	11.7
Children in infant homes (per hundred thousand 0-3 population)	122.6	121.0	169.8	211.2
Basic education enrollments (gross rates, percent of relevant pop.)	na	93.9	92.7	90.5
General secondary enrollments (gross rates, % of 15-18 pop.)	na	30.4	32.3	25.5
Tertiary enrollments (gross rates, % of 18-22 pop.)	12.9	13.4	12.5	13.4
Registered total crime rate (per hundred thousand pop.)	833	1,057	1145	1032
Employment growth (1989 = 100)	100	100.1	85.0	83.0
Real wages (base year = 100)	na	100	33.4	36.6
Registered unemployed women (thousands)	na	na	25.1	84.0

Source: UNICEF 1999a.

[a] birth rate minus death rate, per thousand population; excludes changes due to migration.
[b] newly registered cases of syphilis and gonorrhea per hundred thousand population.

Annex 1.3: A Glance at Women across FSU Countries (latest available)

Indicators	*Kazakhstan*	*Kyrgyzstan*	*Turkmenistan*	*Armenia*	*Azerbaijan*	*Tajikistan*	*Uzbekistan*
Total population (million)	15.9	4.6	4.605	1.954	7.6	6.0	23.3
Female population (% of total pop.)	51.4	50.6	50.4	51.5	50.7	50.3	50.5
Female life expectancy at birth (years)	70.0	71.4	67.5	77.3	74.6	na	na
Male life expectancy at birth (years)	58.5	62.6	62.1	70.3	67.4	na	na
Fertility rate (births per woman)	2.0	2.8	2.9	1.4	2.1	3.6	3.2
Infant mortality rate (per thousand live births)	24.9	28.2	37.5	15.4	19.6	27.9	22.8
Maternal mortality rate (per hundred thousand live births)	59.0	62.7	na	38.7	31.,0	na	na
Abortion rate (per hundred live births)	67.5	31.0	na	48.8	19.1	na	na
Divorce rate (number of divorces per hundred marriages)	35.1	24.6	19.4	18.5	12.4	na	na
Incidence of sexually transmitted diseases[a]	360.0	386.0	88.0	44.0	22.0	na	na
Individuals registered with HIV (newly registered cases)	429.0	2.0	na	na	11.0	na	na
Kindergarten enrollments (net rates, percent of relevant pop.)	11.7	7.0	21.0	na	13.1	na	na
Basic education enrollments (gross rates, percent of relevant population.)	90.5	89.2	83.1	82.9	96.6	85.5	89.7
General secondary enrollments (gross rates, % of 15-18 pop.)	25.5	32.4	na	30.4	32.2	22.5	28.6
Tertiary enrollments (gross rates, % of 18-22 pop.)	13.4	15.9	na	na	12.3	8.2	5.0
Registered total crime rate (per hundred thousand pop.)	1032	809	313	326	218	222	285
Employment growth (1989 = 100)	83.0	97.1	114.0	87.9	100.7	94.8	113.8
Registered unemployed women (thousands)	84	32	12	125	22	na	na

[a] Newly registered cases of syphilis and gonorrhea per hundred thousand population.

Source: UNICEF 1999a.

Annex 2.1: Kazakhstan (IBRD) Lending Program

FY	*Proj ID*	*Sector Group*	*ector Name*	*Proj. Name*	*Lending Instru.*	*Lending Op. Type*	*Targeted interven. (PREM)*	*L/C $m.*	*Tot. Disb. $m.*	*Tot. Can. $m.*	*Tot. Undisb. $m.*	*Tot. Outst. $m.*
1994	8501	Energy	Oil/Gas Exp	Petroleum T	SIL	INV	No	16	13	0	2.3	13
1994	8511	Transportati	Urban Trans	Urban Trans	SIL	INV	No	40	39	0	1.0	39
1994	8504	Multisector	Economic M	TA	TAL	INV	No	38	36	0	1.9	36
1994	8509	Multisector	Trade Policy	Rehabilitatio	Rehab	ADJ	PF	180	180	0	0.0	180
Total Commitments for Multisector								*218*	*216*			
1994, Total Commitments (No of loans =4)								**274**	**268**			
1995	8508	Finance	Financial Se	Finance & E	SIL	INV	No	62	8	0	54.0	8
1995	8502	Multisector	Economic M	Struct. Adj.	SAL	ADJ	PF	180	180	0	0.0	180
1995	8506	Social Secto	Labor Mrkts	Social Prote	SIL	INV	PTI	41	20	0	21.2	20
1995, Total Commitments (No of loans=3)								**283**	**208**			
1996	8510	Agriculture	Irrigation &	Irrig. & Drai	SIL	INV	No	80	25	0	55.2	25
1996	35762	Finance	Financial Ad	Fin Sector A	SECAL	ADJ	No	180	180	0	0	180
1996, Total Commitments (No. of loans =2)								***260***	***205***			
1997	8507	Energy	Other Fuels	Uzen Oil Fie	SIL	INV	No	109	17	0	92.4	17
1997	46044	Public Secto	Natural Res	Real Estate R	SIL	INV	No	10	6	0	4.3	6
Environment Total								*119*	*22*			
1997	37960	Public Secto	Institutional	Treasury Mo	SIL	INV	No	16	6	0	9.5	6
1997	45303	Water Suppl	Urban Wate	Pilot Water	SIL	INV	PTI	7	6	0	0.7	6
1997, Total Commitments (No. of loans =4)								***142***	***29***			
1998	8503	Agriculture	Other Agricu	Ag Post Priv	APL	INV	No	15	2	0	12.7	2
1998	34093	Public Secto	Public Sect M	Public Sec. R	SAL	ADJ	No	230	230	0	0.0	230
1998	50780	Social Secto	Pensions & S	Pension Ref	SAL	ADJ	PF	300	200	0	100.0	200
1998, Total Commitments (No. of Loans =3)								***545***	***432***			
1999	46046	Public Secto	Institutional	Legal Reform	SIL	INV	No	17	0.92		15.6	1
1999	8500	Water Suppl	Other Water	Atyrau Pilot	SIL	INV	No	17			16.5	0
1999	46499	Popultn, Hlt	Basic Health	Health Restr	APL	INV	No	43	1.77		40.7	2
1999	8499	Transportati	Highways	Road Transp	SIL	INV	No	100	2.81		97.2	3
1999, Total Commitments (No. of loans =4)								***176***	***5***			
2000	65414	Power Sector		Electricity T	SIL	INV	No	140	1.9	0	0.00	140
2000, Total Commitments (No. of Loans =1)								***140***	***1.9***			
Total Commitments, 1994-99								**1,679**	**1,147**			
of which Adjustment								**1,070**				
Lending for Social Protection								**341**				

Note: Both Bank and borrower performance satisfactory in the 4 OED ratings. APPI ratings 8.25 for each project

Source: WB Business Warehouse, 1999.

Annex 2.2: Kazakhstan -- The Relevance and Efficacy of Selected Sector Investment Loans, TA and an Adaptable Lending Loan

LOAN	Approval FY	Amt	Status	Relevance of the Project	Efficacy	QAG rating
TA	1994	38	ICR is under preparation.	The project relevance was modest. (i) The Government's capacity was low. This was noted in the 1993 CAS and was a recurring theme in interviews in Kazakhstan and at Headquarters. This meant that although technical support was relevant, it needed to take into account the Government's absorptive constraints. The TA was overly ambitious and complex. The project components included Privatization, Financial Sector Modernization, Social Sector and Human Resources Development. Each component had additional subcomponents and subcomponents of the subcomponents that resulted in more than a 100 small subcomponents. (ii) The project aimed to provide advisory and training services through some of its components, but subsequent sector work indicated that an overhaul of administrative structures and incentives was necessary to implement the policy reforms.	The efficacy is difficult to assess since there were many components and subcomponents. The project lagged nearly three years behind schedule and was extended for one year. Due to a major GOK reshuffle, there was a loss of trained staff that benefited from project components. There was also some friction within the GOK over the responsibility for implementing the Project.	
Finance & Enterprise Development	1995	62	Has been restructured	The project relevance was modest. It was consistent with the 1995 CAS and ESW but financial and enterprise restructuring and attention to the payment system started well before the project.	The latest project supervision report (PSR) rated the project satisfactory, but the efficacy of the project has been low. Amendments in the Payment system and software, the most expensive component of the loan (37% of total), led to the project implementation delays. As of September 30, 2000, only $8 million of $62 million had been disbursed resulting in a disbursement lag of 55 months. The project is being restructured to support tax administration and the implementation of pension reform.	
Social Protection	41.1		Being Restructured	The project relevance was modest because the project's components were not well grounded in the diagnosis and the strategies in the economic and sector work. The project had two components. The Employment Services component aimed to support institutional strengthening of employment services, the development and implementation of a simplified unemployment benefit system, training and development of staff and a pilot program in South Kazakhstan and Pavlodar oblasts and Almaty to strengthen counseling and training of unemployed. The Social Services Component would facilitate the transfer of essential social services from restructuring enterprises to local governments and rationalize management of basic social services in five selected cities. Work carried out for the CEM of 1993 and the CEM of 1994 identified three key concerns and one important fact which were not taken into	The efficacy of this project was low because the employment centers and the Unemployment Fund were abolished. The Project was supposed to be a pilot and replicated country-wide which did not happen. The large numbers of openly unemployed that were expected did not materialize. The latest PSR of 06/13/2000 has rated the project unsatisfactory on the achievement of development objectives and implementation progress.	

LOAN	Approval FY	Amt	Status	Relevance of the Project	Efficacy	QAG rating
				account when the Bank drew up the project objectives. The three concerns were: (i) the fiscal sustainability of the Unemployment Fund which was supposed to finance unemployment benefits and employment services was a major issue; (ii) the transfer of social services to local authorities would increase expenditure demands on the local budget and was not workable unless it was accompanied by a transparent system of intergovernmental transfers; (iii) before discussing specific divestiture arrangements, the Government needed to decide which services will continue to be financed and provided by the state and which will be left to the private sector. The key fact that was ignored was that the officially registered unemployed were less than 1 percent at the end of 1993 and even in 1996 the rate was a modest 6 percent.		
Irrigation & Drainage	1996	80	Ongoing	The relevance of the project was modest. The project was appraised before the first sector work in agriculture. It was undertaken because of the interest shown by the Ministry of Agriculture in the rehabilitation of irrigation and drainage systems. The project had design problems, such as functions of PIU's, joint ownership of the irrigation and drainage systems, and absence of a satisfactory cost recovery system. Furthermore, there was no legal framework for organizing water user associations and cooperatives (the Law was approved in January 2000). Also, the project lacked the social data to explain and convince the GOK that this project would help decrease poverty in South Kazakhstan, one of the poorest oblasts.	The efficacy of this project is uncertain although status of achievement of objectives in the latest supervision report of 06/26/2000 is satisfactory. The technical assistance for the agricultural component has finished its course but should have been extended. Procurement of equipment for environmental monitoring has been suspended. It is unclear whether this project will impact farm output without the delivery of credit, training and agricultural services.	
Uzen Oilfield Rehab	1997	109	Ongoing	The relevance of this project was modest. According to National Bank of Kazakhstan statistics, 47.5 percent of total foreign investment since 1993 had been in the Oil & Gas sector. Most of the loan was used to improve the position of National Company Kazakhoil (Uzenmunaigas originally). The loan has the following components: (A) Physical Investments that include Chemicals, Parts and Equipment for Workover of Wells ($15.2M) for the rehabilitation of 500 wells; Surface Facilities Rehabilitation tools ($23.5M); (B) Physical Investment Implementation Support that includes Wells Testing and Logging Services ($13.4M), Workover Riggs Services ($25.8M), and Project Management and Training Services and Support ($15.8M) under which Uzenmunaigas would be able to hire and train staff; (C) Environmental Protection and Remediation ($7.3M); (D) Organizational Development Support that includes Financial Management Support ($1.2M) and Information Systems ($1.2M). The only component that has a development objective broader than	The project has been rated satisfactory in the latest supervision report, but as of 10/30/2000 the Project's two major actions (beginning the major program of well work-overs and rehabilitation of the surface facilities are seriously lagging. It has been extended for another 2 years from its original closing date of 12/13/2000.	2**

Loan	Approval FY	Amt	Status	Relevance of the Project	Efficacy	QAG rating
				improving Kazakhoil, is the Environment component. However, this component comprises less than 7% of the loan.		
Agr. Post Pvt. Adj.	1998	15	Ongoing	The relevance of this project was modest as the liquidity of farms and their creditworthiness is an important unresolved issue.	The efficacy of this project is uncertain. At the time of OED mission in March 2000, the TA component had not been successful in improving the capacity of Participating Financial Institutions to value sub-projects, risk, and collateral. Thus they had not financed potential agricultural projects. This is now improving. The project supervision report (09/08/2000) rated the project satisfactory.	3*
Legal Reform	1998	16.5	Ongoing	The relevance of this project was high because it would address the inadequate quality and consistency of laws and regulations and their weak enforcement by assisting in: (1) legal drafting and institutional strengthening; (2) judicial strengthening; and (3) legal information and public awareness.	The project has been rated satisfactory, but the progress in legal reform has been slow to date as indicated in the PSR of 10/19/2000, so the efficacy is evidently modest.	2*
Health	1999	42.5	Ongoing	The relevance of this project was high because it aimed to support the Government in implementing a long-term health restructuring strategy. It was an adaptable program loan to be implemented in three phases over an eight year period.	The project has been rated satisfactory as of 06/08/2000, but the Government has proposed to reduce the scope of the project.	2*

LOAN	Approval FY	Amt	Status	Relevance of the Project	Efficacy	QAG rating
Road Transport Restructuring	1999	100	Ongoing	The relevance of this project was modest. It sought to rehabilitate priority sections of the Almaty-Karganda-Astana road. Given that this road connected the capital city Astana with Almaty (the major city), it is not clear from the CAS or other ESW or the project appraisal document (PAD) why Bank financing was needed. The CAS objective was to finance only those projects for which private sector was not forthcoming. It is unclear whether with an Economic rate of Return of 20 percent (see PAD), the private sector would not be interested. In addition, the PAD states that an initial analysis of the full network of national roads in Kazakhstan showed that there were probably other road sections the rehabilitation of which would have stronger justification. It however included important institutional development components (strengthening road sector funding and cost recovery, and strengthening of the Department of roads.	The project has been rated satisfactory, but to date the implementation has been poor. In the initial stage, the Project encountered implementation problems with the bidding process, GOK participation and funding. The GOK had not fulfilled conditions of disbursement related to the strengthening of routine maintenance, and tenge funding. For the main road network tenge funding was reported to have been only $12 million versus a commitment of $100 million equivalent in the Loan Agreement. The 2000 budget included a funding of $85 million also below the Loan Agreement's commitment of $125 million. The poor implementation capability of the Ministry of Transport and Communications of Kazakhstan has also impeded project efficacy. The review of the Road User Charges, a project component that was supposed to have been completed by March 31, 2000, had not been initiated as of March 20th, 2000. According to the PSR of 8/03/2000 it has now been done but implementation has not yet begun.	

*Quality at Entry Assessment: Assessment Rating: **Quality of Supervision Assessment: Assessment Rating

1 = Highly Satisfactory 3 = Marginal
2 = Satisfactory 4 = Unsatisfactory
NA = Not Applicable

QAG Rating Summary

No of Projects rated for Quality at Entry	No of Projects Rated Satisfactory	No of Projects rated for Project Supervision	No of Projects Rated Satisfactory
3	2	2	1

Annex 2.3: Kazakhstan - Disbursements

Proj. ID	*Proj. Name*	*Lending Operation Type*	*FY of approval*	*L/C $m.*	*Tot. Disb. $m.*	*Tot. Cancel.*	*Tot. Undisb.*	*Tot. Outst.*	*% Disburse*
Agriculture									
8503	Ag Post Priv. Asst.	Investment	1998	15	2.3	0.0	12.7	0.0	15%
8510	Irrig. & Drainage	Investment	1996	80	24.8	0.0	55.2	11.2	31%
Finance									
8508	Finance & Ent. Devel	Investment	1995	62	8.0	0.0	54.0	6.2	13%
35762	Financial Sector Adj	Adjustment	1996	180	180	0.0	0.0	180	100%
Multisector									
8502	Stryct. Adj. Loan	Adjustment	1995	180	180	0.0	0.0	180	100%
8504	Technical Assistance	Investment	1994	38	36.1	0.0	1.9	33.0	95%
8509	Rehabilitation	Adjustment	1994	180	180	0.0	0.0	180	100%
Energy									
8501	Petroleum TA	Investment	1994	15.7	13.4	0.0	2.3	11.2	85%
8507	Uzen Oil Field Rehab	Investment	1997	109	16.6	0.0	92.4	7.5	15%
Popultn, Hlth & Nutn									
46499	Health Restructuring	Investment	1999	42.5	1.8		40.7		4%
Power									
65414	Electricity Transmission Rehab	Investment			1.9		-1.9		
Public Sector Mgmt.									
46044	Real Estate Reg PLT	Investment	1997	10	5.7	0.0	4.3	2.4	57%
37960	Treasury Modenization	Investment	1997	15.8	6.3	0.0	9.5	2.3	40%
34093	Public Sec. Res. Mgt.	Adjustment	1998	230	230.0	0.0	0.0	155.0	100%
46046	Legal Reform	Investment	1999	16.5	0.9		15.6		6%
Social Protection etc.									
8506	Social Protection	Investment	1995	41.1	19.9	0.0	21.2	19.1	48%
50780	Pension Ref. SAL	Adjustment	1998	300	200	0.0	100.0	100	67%
Transportation									
8499	Road Transp. Restruc	Investment	1999	100	2.8		97.2		3%
8511	Urban Transport	Investment	1994	40	39.0	0.0	1.0	39.0	97%
Water Supply & Santn									
8500	Atyrau Pilot Water	Investment	1999	16.5			16.5		0%
45303	Pilot Water Supply	Investment	1997	7	6.3	0.0	0.7	0.4	90%

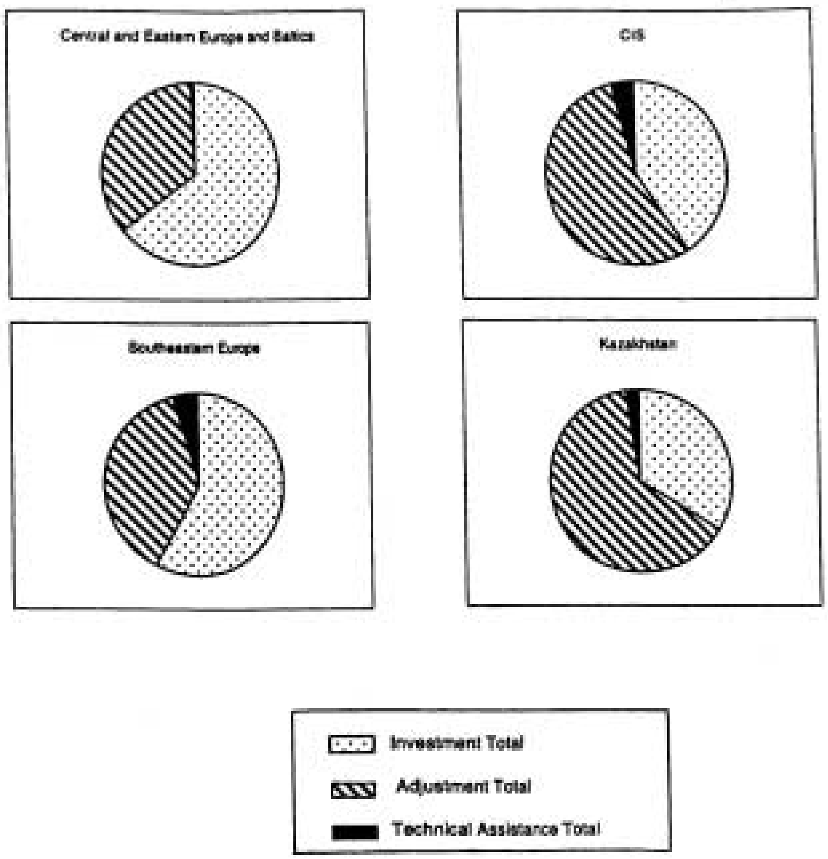
Source: WB Business Warehouse, 1999

Annex 2.4: ECA lending, FY 1980-1999 (US$ million)

Country	*Adaptable Program Loan*	*Emergency Recovery Loan*	*Financial Intermediary Loan*	*Learning and Innovation Loan*	*Sector Investment and Maintenance Loan*	*Specific Investment Loan*	*Investment Total*	*Debt and Debt Service Reduction Loan*	*Rehabilitation Loan*	*Sector Adjustment Loan*	*Structural Adjustment Loan*	*Adjustment Total*	*Technical Assistance*	*Trust*	*Grand Total*	*INV*	*ADJ*	*TA*
Central and Eastern Europe and Baltics	23	328	1,097		803	5,188	7,439	170	135	1,700	2,020	4,025	67	69	**11,601**	65%	35%	1%
Southeastern Europe	10	50	280	15		2,913	3,268		70	826	1,230	2,126	255	19	**5,667**	58%	38%	5%
CIS	51	150	295	22	68	6,675	7,260		2,360	3,777	3,674	9,811	686	88	**17,844**	41%	55%	4%
Kazakhstan	58					514	571		180	180	710	1,070	38		**1,679**	34%	64%	2%
Total	**141**	**528**	**1,672**	**37**	**871**	**15,289**	**18,538**	**170**	**2,745**	**6,482**	**7,634**	**17,031**	**1046**	**176**	**36,792**	**51%**	**47%**	**3%**

Source: WB Business Warehouse, 1999

Annex 2.5: Investment, Adjustment, and TA in ECA, FY1980-1999, (US$ Million)



Source: Business Warehouse

Annex 2.6: Composition of Adjustment Lending in ECA, FY 1980-1999, (US$ Million)

Proj. Name	***Eastern Europe & Baltics***	***Southeastern Europe***	***CIS***	***Kazakhstan***	***Grand Total***
Agriculture Sector Adjustment	300	446	300	-	1,046
Agriculture Recovery & Social			50		50
APEAC (Agricultural Privatization and Enterprise Adjustment Credit)			45		45
Agriculture total	**300**	**446**	**395**	**-**	**1,141**
Coal SECAL			1,600		1,600
Hard Coal SECAL	300				300
Enterprise Development Adjustment Loan			300		300
Enterprise and Financial Sector Adjustment	850	15			865
Energy Sector Adjustment			25		25
Enterprise & Banking Privatization					
Enterprise Development Adjustment			310		310
Enterprise Restructuring	200				200
Financial and Enterprise Sector Adjustment		465			465
Financial Institutions Development	200				200
Financial Sector Adjustment			345	180	525
Industry Restructuring I	100				100
Industy Sector Adjustment Loan	200				200
Private & Enterprise Structural Adjustment Credit			60		60
Finance/Industry/Energy/Coal Total	**1,850**	**480**	**2,640**	**180**	**5,150**
Public Sec. Resource Management			44		44
Public Expenditure Support		30			30
Public Sec. Resource Management				230	230
Public Sector Total	**-**	**30**	**44**	**230**	**304**
Critical Impact Rehabilitation		40			40
Economic Recovery Loan	80	80			160
Rehabilitation	135	55	2,300	180	2,670
Post- Conflict Rehabilitation			10		10
SAC		45	525		570
SAL	1,340	491	3,060	180	5,071
PSAL (Programmatic Structural Adjustment Loan)	150	300			450
SAL/REHAB/ECON Total	**1,705**	**1,011**	**5,895**	**360**	**8,971**
Pension Reform SAL				300	300
Social Protection Adjustment		130	800		930
Social Sector Adjustment		29	37		66
Social Sector Total	**-**	**159**	**837**	**300**	**1,296**
Debt & Debt Service Restructuring	170				170
Other Total	**170**	**-**	**-**	**-**	**170**
Grand Total	**4,025**	**2,126**	**9,811**	**1,070**	**17,031**

Source: WB Business Warehouse, 1999.

Annex 2.7: Ratings Glossary and Definitions

OED's rating methodology is constantly evolving to take account of changes in evaluation methods and operational policies. This attachment summarizes the rating scales currently used in country assistance evaluations.

Ratings for Country Assistance Performance (Outcome): Currently, OED utilizes six rating categories for outcome, ranging from highly satisfactory to highly unsatisfactory. The three higher ratings are gradations of satisfactory, while the bottom three are gradations of unsatisfactory.

6. Highly Satisfactory
5. Satisfactory
4. Moderately or Partially Satisfactory
3. Marginally Unsatisfactory
2. Unsatisfactory
1. Highly Unsatisfactory

Rating for Institutional Development. The institutional development impact can be rated as: (4) high, (3) substantial, (2) modest and (1) negligible. Ratings are based on an assessment of the Bank's assistance impact on strengthening the client's capacity to manage, among others, the following areas:

a. economic management,
b. the structure of the Public Sector, and in particular the Civil Service,
c. the institutional soundness of the financial sector,
d. legal, regulatory and judicial systems,
e. monitoring and evaluation systems,
f. aid coordination,
f. financial accountability.

Rating for Sustainability. Sustainability measures the likelihood that the development benefits of the country assistance program will be maintained. Sustainability can be rated as (3) likely, (2) uncertain, and (1) unlikely. It is OED's intention over the coming months to increase to four the number of possible ratings.

Annex 3.1 The Development of the Private Sector for Sustainable Growth

The first section describes the IBRD approach to private sector development (PSD) as articulated in each CAS and associated outcomes. The second section similarly discusses IFC and MIGA strategies; the third section follows with a description of their outcomes. The fourth section reviews the environment for private sector development, based on IFC and MIGA experiences, including the impediments to future growth.

I. IBRD Strategy and Outcomes

Strategy*:* IBRD's early private sector strategy consisted of macroeconomic stabilization and structural reforms (price and trade liberalization, privatization, enterprise restructuring, passage of laws and regulations for private sector activity, financial sector reform) to develop competitive markets. The IBRD strategy was relevant but in hindsight the relevance would have been greater if more attention had been devoted to privatization procedures and to strengthening of the judicial framework early in the transition. Following the second CAS (FY98), the legal and judicial framework were priorities in the Legal Reform Project (FY99).[38] Non-lending work in the CAS was planned in the power and gas sectors, industrial sector and for the development of the financial and capital markets. A new and unique feature of the CAS was the formation of a joint IBRD/IFC/MIGA Rapid Response Team to provide quick turnaround advice on urgent policy issues for the promotion of an enabling climate for the private sector.

Efficacy: On the macroeconomic front, IBRD's financial and policy support through adjustment lending together with its organization of donor financing and coordination with the IMF's ongoing programs were critical to economic stabilization. The budget deficit declined from over 7 percent in 1992 to 3 percent in 1997-99. In 1997 this was primarily due to privatization receipts equivalent of 3 percent of GDP but in 1998-99 substantial improvements were also seen in the tax revenue to GDP ratio. However, the external debt as a share of GDP rose from 30.7 percent in 1994 to 49.9 percent in 1999. Looking ahead, Kazakhstan will have to tackle the symptoms of "Dutch disease" following an increase in the oil prices and projected increases in production and exporting capacities with the completion of the contracted Caspian and Chinese pipelines.

Important progress was made in price and trade liberalization and in dismantling monopolies. Kazakhstan has one of the most open trade regimes in the region. As part of the SAL, monopolies in grain marketing and for petroleum distribution were dismantled.

Progress in privatization has been mixed. Small scale privatization has been a success. The auction approach to mass privatization covering medium enterprises achieved its objective of bringing private shareholding into the bulk of the country's medium sized firms but it also led to asset stripping and a loss in share value for the citizens. By mid-1994, the vast majority of eligible citizens had received allotment coupons and over 90 percent of these had been invested in 169 Investment Privatization Funds (IPFs). Auctions were undertaken exchanging coupons for shares in enterprises but with an inadequate system of financial reporting, monitoring and auditing, as well as severe liquidity problems in the enterprises, the flow of dividends to the IPFs evaporated. The enforcement of regulations on IPFs was weak. The OED audit of the rehabilitation loan in mid-1997 suggested that asset stripping, "off-book" transactions, embezzlement and improper or postponed plant maintenance have drastically reduced the firms'

[38] Preparations for a Legal Reform Project (FY99) had started in 1995 but Government ownership for this project was weak and was a factor in delaying the project.

worth. The rapid decline in gross fixed investment and limited access to bank credit reflects continued weak corporate governance (Annex 3.1, Attachment 1).[39]

According to the OED audit of the SAL, case-by case privatization of the country's larger enterprises was slower than envisaged initially but improved in subsequent years. For large firms facing serious problems of mismanagement, large inter-enterprise arrears and large social assets, enterprise management contracts were given to private sector groups to improve enterprise performance. This issuance of management contracts has been controversial as they were signed mostly with Kazakhstani companies and in some cases without a tender process. These contracts were kept confidential. Management firms were expected to pay a bonus to the government which should have gone into the budget but publicly available information does not allow verification. The use of nontransparent processes has slowed the emergence of competitive markets.

With hindsight, the Bank Group should have taken a more proactive stance towards management contracts and corruption in case-by-case privatization through loan conditionality, policy dialogue at the highest levels, mobilizing civil society, and adopting a coordinated stance with its partners. In June 1999, the Government adopted a comprehensive strategy to cover ten "Blue Chip" companies and fifty-eight other large enterprises. This program specifies that privatization will be conducted through open, competitive bidding and sets tight schedules for the completion of sales.

Privatization even if carried out imperfectly could be viewed as superior to continued state ownership of enterprises. Privatization contributed to reducing pressures on the consolidated budget and strengthening macroeconomic stability as well as to establishing the culture of private ownership. However, weak enforcement of investment funds in the mass privatization program and the resulting weak governance of those funds, meant that the majority of citizens benefited less from ownership participation than expected. It allowed for the accumulation of assets in the hands of a few participants.

A Rehabilitation Bank (RB) was established in March 1995 as part of the SAL to help restructure some of the larger loss making enterprises. Viability assessments and restructuring plans had a slow start-up and reached only some of the firms. For the largest companies, restructuring decisions were taken by the Cabinet. Most funding appropriated for the RB was held back by the Ministry of Finance, making it difficult to make agreed payments under restructuring plans. Despite these problems, the RB was able to achieve a number of results. The SAL required that legal proceedings for liquidation or other form of debt resolution would be initiated against a group of at least four enterprises. This has been done although with some delay. The RB has adopted policies and operational guidelines linking access to its resources to drastic downsizing measures, leading to either liquidation or privatization.

The government passed laws and regulations to enable the development of a robust private sector. The IBRD funded legal advisory team played a central role for over two years between 1993-96 in drafting legislation in collaboration with the Ministry of Justice. Conditions and actions were included in the SAL and the FSAL. In early 1995, the first part of the Civil Code focusing on property and contractual rights was adopted. Further legislation was enacted to cover secured lending and collateral rights. A bankruptcy law (a condition under the SAL) gave rights to secured creditors. Securities markets laws were promulgated in 1997.

The laws and regulations are not being consistently enforced (Box 3.1). An early review by the IBRD of the enforcement capacity of Kazakhstan's authorities could have been useful. A reform of the judicial system, and training of its judges (and other officials) on the concepts and

[39] The annual growth of gross fixed investment (a proxy for the degree of capital renewal) has averaged –15 percent (worse than the average of CIS of –1.3).

application of the new laws and institutions was important for the efficacy of the wide ranging legal reforms that were being rapidly instituted. The bankruptcy law was adopted under the SAL but the legal recourses established under the law were not regarded as genuinely enforceable by creditors, and only 90 cases were registered in the country in 1996. Amendments to the bankruptcy law were adopted in June 1998 and will be reviewed in 2000.

Contract and Property Rights Enforcement in the Urban Transport Sector

The Urban Public Transport System was deregulated to allow private sector participation. While many private operators entered the market and provide competitive services, the private sector does not make the necessary large scale and long-term investments needed to maintain the quality of services. This is because of the government's discretionary and arbitrary power in enforcing contract and property rights in the urban public transport sector.

The provision of urban transport services is organized under a route franchise system where operators have an exclusive right to provide services in routes for which they win the franchise through a competitive bidding process. However, their property right to the franchise is eroded by arbitrary enforcement of contractual rights. The regulators, often under pressure from the municipal governments and rent-seeking activities from potential providers, design an overlapping route and franchise it to another provider. The overlap between the old and new routes was often up to 80%. As a result, the first winning bidder has a new, unexpected competitor on the route where he is supposed to be the exclusive provider.

Source: OED Audit of the Urban Transport Loan

The Financial sector was strengthened and withstood the crises in Russia and Asia in 1998. From mid-1993 to mid-1997 licenses of 196 problem banks were cancelled. Under the FSAL, restructuring/privatization of three of four major banks was carried out. Privatization is almost completed with only two banks remaining in state control. The FSAL also helped improvements in property rights legislation, the adoption of new chart of accounts and accounting standards, and a reduction in the number of banks in which the government had shares from 73 in 1996 to 5 in 1998. The entry of foreign banks was eased and 20 out of 82 banks now have foreign participation. The banking sector is stronger but financial sector is small and financial intermediation has not much improved. Broad money to GDP (indicative of the financial sector's overall size), was below the CIS average. Private bank credit relative to GDP (a proxy for the information, monitoring, and risk management services provided by the sector) was also low although slightly above the CIS average. After the crisis the financial sector has shown a strong recovery and this is being reflected in broad money to GDP and other indicators. For the development of a capital market the IBRD relied on donor support which did not turn out to be effective.

Expectations for ESW in the FY98 have not been fully realized. The IBRD prepared a report on privatization of the power and gas sectors, but the Industrial Sector Update and Financial and Capital Markets Development Review planned were not prepared. ESW has not yet examined what is happening in post privatized firms, what are the restructuring constraints, and what should be the IBRD role. A joint Bank/IFC/MIGA assessment team as envisaged in the CAS was not formed but rapid response funds have been used to provide advice to the authorities on targeted issues.

II. OEG and MIGA Assessment of IFC and MIGA Strategy

IFC: IFC's CAS inputs tend to be expectations. The actual realization of these expectations is constrained by the demand-driven nature of private sector involvement. Without significant private sponsor investment, IFC's investments cannot take place (under IFC policies). Both CASs identify specific IFC priorities; in their pursuit IFC has attempted to execute over 50 separate investments, but only 17 have been approved and only 11 disbursed to through FY2000.

In the 1993 CAS, though Kazakhstan was not then a member of IFC (membership was later that year), the private sector development strategy included IFC in its support for foreign investment in the banking sector. Other IFC priorities included leasing, mining activities, infrastructure, telecommunications, and hotels. During this time the Bank group strategies were less well integrated, with IFC contributions tending to be the latest project pipeline. In this CAS, the foreign bank investment was ABN AMRO Kazakhstan. Further credit lines went to ABN AMRO and to Kazkommertsbank, another major bank, by 1997. Other priority areas featured no investments.

The 1997 CAS identified six priority areas.

- *Enterprise Reform*—supporting post-privatization restructuring, small and medium enterprises (SMEs), and linkages to large industries. IFC's post-privatization support includes only the banking and steel sectors. The SME-oriented Small Enterprise Fund (SEF) program is operating.
- *Banking Reform*—including support to local banks. IFC approved transactions, including privatization support, with four of the five largest banks.
- *Capital Markets Development*—including a leasing company (with legal assistance), share registry company, corporate finance houses, and equity funds. Approved leasing investments were dropped (sponsors withdrew during various financial crises). With the recent leasing law, developed by EU-TACIS utilizing USAID/IFC work, additional leasing projects are being pursued. An IFC share registry investment was crowded out by the government. IFC has not supported a corporate finance house (local banks are competitive providers) or equity fund (donors experiences are poor).
- *Rehabilitation of Infrastructure*—including power generation and distribution, pipelines and railways. IFC pursued a major power project but withdrew with regulatory and sponsor concerns. No other infrastructure results; much remains state-owned. Railways and Telecoms have not been privatized; EBRD supports each.
- *Agriculture Support*—no results, though an ag-leasing project awaits co-financing.
- IFC advisory participation was expected in the innovative joint IBRD/IFC/MIGA private sector rapid response team. This team never materialized.

MIGA strategies are similarly constrained by the demand-driven nature of private sector investment. Without a private sector applicant, MIGA cannot offer a guarantee. MIGA has always sought to complement the IBRD and the IFC by considering both their broad activities in a country and the specific development objectives contained in the CAS, and to operate in consonance with it. MIGA has been more actively integrated in the 2000 CAS formulation through its new unit, the Country Development Group.

III. OEG and MIGA Assessment of IFC and MIGA Outcomes

IFC: IFC's investment performance has been fairly successful. Between 1993 and 1999, IFC approved 17 investments in 13 enterprises, totaling $388 million in financing (including two B loans) contributing to $1.43 billion in total project financing. To date 11 of these investments have disbursed, accounting for $136 million in IFC financing. IFC's Kazakhstan portfolio is also comparatively large (in disbursed dollars), nearly eight times greater than in each of the neighboring CIS countries. In this challenging business environment, the primary reason for the positive outcomes continues to be IFC's co-investing with strong, credible sponsors (a repeated but not always respected lesson). The seven pre-1999 approvals are considered mature enough for evaluation. On the basis of project and company performance, and contributions to growth of the economy, living standards, and productive private enterprise, OEG rates five of these seven investments as having satisfactory-or-better prospective development outcomes. This compares favorable to results in similar CIS countries as well as the more mature transition economies of Eastern Europe (see Attachment 2).

IFC's banking sector involvement is substantial; it is involved with four of the five largest banks (the fifth is state controlled), collectively comprising nearly 70% of the deposit base. IFC has supported intermediaries providing non-traditional services including leasing companies and SME-targeted facilities. Recently IFC's SEF facility disbursed a credit line, via an IFC client ("wholesale" channel) supporting SMEs in the Karaganda region. As in other countries, IFC project efforts far outnumber actual approved and disbursed projects. During the past six years IFC efforts have encompassed over 50 potentially separate and diverse transactions ranging from alternative energy sources, leasing operations supporting rural agriculture and potentially innovative financial intermediary operations--to more traditional manufacturing projects.

The Ispat-Karmat steel works is an integral part of the Kazakhstan economy, providing over 5% of the country's GDP (and balance of payments support) and directly employing over 60,000, with much of the Karaganda region's economy directly or indirectly dependent on the steel works and mines. IFC and EBRD jointly financed this privatized entity (IFC's largest to date), and for this study IFC and EBRD conducted a joint evaluation concluding that it has been very successful. Before privatization, two separate foreign concessions failed to successfully run the operation. Since privatization and after substantial investments, output has doubled to full capacity. The company supplies most basic public services to the local population including heat, power, transport, etc. During the 1996-7 crises, most services were provided free (today only half of the supplied heat and power is feasibly reimbursed). Environmental impacts are significant as over 25% of the project's expenditures have targeted environmental improvements. Financiers point to an easier business environment in the Karaganda region.

Two investments had less than fully satisfactory outcomes. In one foreign-sponsored project, the government took over its line of business services, eliminating the private sector from that business. In one project with a less than credible sponsor, the company is not meeting its financial obligations and there are credit recourse difficulties. One investment has satisfactory development outcomes despite mixed financial results. With the country's infrastructure constraints, the project relied on a complex government-related transaction to transport the product to market. The government has not honored this agreement. Recently an alternative to the government agreement has been sought.

IFC's non-investment activities: All three Technical Assistance Trust Funds (TATF) assignments related to potential investments, though none subsequently materialized. The Financial Investment Advisory Service (FIAS) had three assignments with mixed results. The FY95 study articulated many of the still-existing investment environment concerns; nevertheless FIAS aided the reformulation of the investment law and FIAS also contributed to the FY98 joint private sector assessment with an investment impediments study. The SEF program has an investment officer in Almaty, though with few approvals thus far.

IFC Effectiveness: IFC's total efforts can be considered fairly successful in Kazakhstan. IFC provided excellent project support to several important entities at critical junctures in a particularly difficult enabling environment. IFC's financial sector support was highly relevant and critical after the 1996 banking crisis and the Russian and Asian crises. The portfolio as whole shows mostly healthy and quality projects, particularly on a dollar-weighted basis. IFC's front-end work has been generally satisfactory or better. IFC's thorough banking sector knowledge has facilitated extensive support. IFC also provided high value-added in-house engineering and environmental support, including in support of joint financiers. With the nontransparency of much of the privatization process and the "inappropriateness" of many sponsors, IFC rightfully avoided many of these transactions. Supervision and administration has been generally satisfactory, with administrative procedures appropriately followed and a consistent client dialogue maintained. IFC's role and contribution has been generally satisfactory or better. Clearly several investments would not have materialized or productively developed without IFC's support. IFC's honest broker role is valued by its clients as are its expertise beyond the financing needs. To varying degrees of success, IFC has made a series of efforts to foster the business environment at various levels, including catalyzing the passage of local laws as well as SME support. IFC has also maintained a dialogue with many of the appropriate government agencies in an effort to enhance the enabling environment for the private sector.

Though IFC's efforts have been excellent in many aspects, there are areas for improvement. The 1997 CAS envisaged large project volumes, but it is not clear that IFC had the staff resources for realizing the expected business volume. Rapid government decision-making left IFC excluded from some potentially viable privatizations. One IFC assessment characterized IFC's approach to CIS privatizations as "closing the door after the horse has bolted". Given some of these credibly sponsored privatizations' current troubles, IFC's honest-broker role might have added value from all parties' perspectives. Dominated by major foreign investors, the petroleum sector had little need of IFC, though there may have been opportunities for IFC to play a role in supporting SMEs linked to these investments (i.e. similar to IFC's recent Karaganda SME support facility). In theory IFC SME support exists, but actual SME-related endeavors prove difficult; SEF field staff priorities may need clearer articulation. IFC has not supported specialized equity funds and this lack of support may have been appropriate given other DFIs' poor experiences with such funds. IFC has also not supported a corporate finance house, because local banks are competitive providers of these services.

IFC is generally known in Kazakhstan, and some IFC staff are particularly well-regarded, though the level of IFC service has been variable and considered "to really depend on the person". IFC's service quality benefits from the continuity of IFC's Kazakhstan team, but with lean IFC staffing, staff turnover could imperil future efforts. IFC's "name" is considered to add value, though several voiced the opinion that IFC is "too bureaucratic" and "cannot move fast enough" with "too many changes back in Washington". Proceeding from approval to disbursement is particularly time consuming. Concerns were expressed regarding the effects of changed IFC priorities and interests resulting from IFC management changes. A comparison of IFC with EBRD is mixed; both provide strong backing and protection from inappropriate interests, but both have "bureaucratic costs". Some financiers desire more co-financing with IFC. IFC has more rigorous environmental standards compared to other (donor-related) financiers. Despite the unstable emerging market crises in 1998, IFC (with EBRD) completed a large joint syndication in Kazakhstan. However, this syndicated loan never disbursed. During the same period, a smaller, approved IFC syndicated loan was never brought to market due to deal bunching as well as continuing unstable market conditions.

MIGA has facilitated approximately US$96 million of foreign direct investment into Kazakhstan, aiding the creation of an estimated 260 new jobs. Assessing the development impacts of the two MIGA evaluated projects shows positive contributions. ABN AMRO's role is key in the financial sector, as the first major modern local bank; Coca Cola Almaty Bottlers has introduced modern manufacturing and distribution techniques, and effectively integrated its operations with its neighboring plant in Kyrgyztan, demonstrating the benefits of a regional approach. The digital cellular telecommunications network in Kazakhstan (GSM) is expected to increase the current level of 15,000 subscribers to more than a million by the year 2008.

MIGA Effectiveness: MIGA's involvement in Kazakhstan has been modest, but viewed very positively in the country. MIGA's support to ABN AMRO was viewed as critical for the investment to materialize. The support to Turkish investors (Coca Cola Almaty Bottlers) was among the first projects from a developing country; and the recent telecommunications project should modernize this sector. Over the past six years, MIGA has also partnered with the OECD and other donor agencies through the Private Sector Development Center in Istanbul to provide training in investment promotion strategies and techniques to Central Asian Republics, including Kazakhstan. Sectors covered have included mining and tourism, with other sectors being addressed through sessions on the use of information technology for effective research and outreach.

There is a clear lack of familiarity with MIGA guarantee and technical services among IBRD resident staff, Government officials, and the investment community. In this regard, knowledge about MIGA's services has not been effectively communicated to government officials. Government officials and donors repeatedly expressed extensive confusion over MIGA guarantee services and the proposed (but not approved) IBRD Leveraged Facility. Both programs were questioned, and criticisms were received about the apparent overlap and the questionable efficacy of the proposed new facility. Many officials wanted MIGA to play a more active role.

IV. The Private Sector Environment—Past Experiences and Future Outlook

To assess the environment for private sector activity, the OEG and MIGA evaluators held over 60 discussions with individuals in or involved with the private sector in Kazakhstan, including nine IFC and three MIGA clients, other businessmen, local and foreign banks, donor-financiers, accounting firms, consulting firms, lawyers, business organizations, local traders, and government officials (see Attachment 3.2.4). Meetings were held with twelve IFC operations staff, and appropriate IFC, MIGA and IBRD staff. MIGA findings were also supported by eleven survey responses sent to investors with pending MIGA guarantee applications.

Kazakhstan's PSD environment is considered challenging and difficult—but much better than neighboring countries, with attributes and merits including:

- a stable macroeconomic environment including a freely convertible currency,
- enormous natural resource and agriculture endowments,
- a resourceful, high quality, and trainable labor force,
- strong and increasingly sophisticated local banks,
- improving—and competitive—local accounting and legal firms, and
- generally competent upper echelons of government.

Nonetheless, the environment for broad-based private sector-led growth remains significantly constrained by impediments that include the following.

Endemic Corruption: Pervasive at all levels, corruption "taxes" business activity, impeding sustainable private sector development. To engage in any reasonably sized business often requires an affiliation with the groups tied to senior government officials. (Though recently some groups are trying to become open business networks). Many firms opt to remain informal and small, avoiding transparent business success as it can attract trouble and “an offer you can’t refuse”. Privatizations have proceeded hastily; some with the interests of insiders above the interests of the country. IFC and EBRD affiliation—or major US investors—provides a “political umbrella”, but it is not enough. IFC and other financiers find it difficult to locate suitable, appropriate sponsors to invest with. Local partners have taken advantage of foreign investors, forcing them out by legal or illegal means once the business has matured. Some parastatals are considered corrupt.

Excessive Government Intervention and Petty Bribery: Rational day-to-day business operations are difficult in an environment rife with excessive intervention by corrupt and/or incompetent government officials. Operating a small business requires over 60 permits and approvals— the lack of each sufficient to close operations. The costly, uncertain procedures for obtaining these licenses and permits proves burdensome. As one investor described it, “everything taken for granted in the West becomes a daily endeavor”. VATs collected on inputs exports are not always reimbursed. For local informal traders, “ten dollars can bring anything into the country”. IFC investments have been harmed by competitor’s corruption-supporting practices. This environment discourages legitimate investors while fostering less scrupulous investors.

Arbitrary Tax Enforcement: By most accounts, tax rates are not considered high – instead the difficult tax system plagues businesses. With the myriad of changing taxes, even accountants state that compiled tax obligations will differ from the tax authority’s figures. Within various authorities, zealous, underpaid and/or corrupt officials operating under unclear regulations, arbitrarily enforce the tax laws. (Tax office employment is said to be “purchased”). These officials can (often and quickly) legally confiscate bank accounts, notifying depositors later. As one businessman described it, “try operating a 2,000 employee company for two weeks with no bank accounts”. In fear of seizure, companies, as recommended by professional services firms, minimize bank deposits and maintain tax office “deposits”—less than optimal business management. Overlapping taxes have also made foreign companies less competitive. Views are mixed concerning the new banking secrecy law; some believe it will only further confuse the tax system.

Small Banking Sector: By most measures, the banking system is considered small relative to the size of the economy. The banks are generally healthy; only strong banks survived past banking reforms. But a small deposit base hinders the system, stemming from a distrust of banks due to fears of account confiscation by the tax authorities, memories of past devaluations, and the lack of deposit insurance. Given their limited resources, banks invest in conservative assets — treasury bills, trade finance and rolling annual credit lines to preferred customers. Loan rates and deposit rates are high, 18 to 20% and 8 to 10% respectively in USD terms. Given the low rate of domestic savings, donors are reluctant to provide foreign currency-based capital to the financial sector.

Weak Regulatory Framework, Poorly Functioning Judiciary: Unclear legal codes and frequent amendments have made legal compliance extremely difficult for businesses. Policies, permits, personnel, and responsibilities are constantly changing. The system fails to efficiently adjudicate business-to-business and business-to-government disputes. The government does not always honor investment agreements. In this uncertain framework, obtaining decisive legal opinions proves difficult. Few precedents of mortgage security enforcement deters the use of collateral. Security pledges on movable assets proves difficult. Companies often are at the mercy of ad-hoc official decisions.

Other impediments include:

- *"High-Risk" Country.* Tax and legal problems have led Kazakhstan to be considered a "high-risk" investment—with increased costs—in the eyes of foreign investors.
- *Geography.* During financial crises in neighboring Russia and Asian countries, sponsor and financier support waned. Cash payment problems have halted longstanding Russian trade. Export transport costs are high.
- *Oil Sector Prospects.* Businessmen and business service providers believe the oil interests, though publicly optimistic, are privately unhappy with the business environment and are slowly reducing operations.
- *Infrastructure Flaws.* Designed for the Soviet Union and not an independent Kazakhstan, the country's infrastructure includes a less than optimal power grid, rail network (some intra-country routings via Russia) and oil pipeline capacities.
- *Ambiguous Privatization Agreements.* With several privatizations, the government has not fulfilled its negotiated commitments. The government's tendency to arbitrarily "revisit" previous commitments deters (foreign) investment.
- *Lack of Business Culture.* Many entrepreneurs lack basic business skills.
- *Pension Intermediation.* Pension funds will be a future source of capital. Concerns exist whether the government will restrict fund investments to Government paper/securities without allowing other financial instruments that would meet and satisfy the interests of investors in the pension savings system.
- *Impending Oil Wealth.* Caspian Pipeline Consortium's opening in the near future is expected to triple oil exports. Further in the future, the recent oilfield exploratory efforts point to enormous reserves. As government oil revenues increase, the government's reform interest--and donors' influence--may wane.

Attachment 1: Countries in Transition: Average Annual Growth Rates and Structural Reform Indicators, 1994-98 Averages

	Average Growth	*EBRD Transition Indicators*	*FDI Per Capita* [1]	*Annual Growth of Fixed Investment*	*Broad Money to GDP Ratio*	*Private Sector Credit to GDP Ratio*
Central and Eastern Europe and Baltics						
Croatia	5.5	3.0	393	4.1	32	33
Czech Republic	2.2	3.5	818	6.2	72	60
Estonia	4.2	3.3	555	10.1	28	24
Hungary	3.1	3.5	1,113	6.9	43	23
Latvia	3.2	2.9	646	8.8	27	11
Lithuania	2.1	3.0	318	7.8	21	13
Poland	6.0	3.4	321	14.3	36	15
Slovak Republic	5.9	3.3	144	9.1	68	36
Slovenia	4.3	3.2	530	11.2	39	29
Average	4.0	3.2	538	8.7	41	27
Southeastern Europe						
Albania	5.7	2.5	103	…	50	4
Bulgaria	-2.1	2.6	140	-6.2	32	13
Macedonia, FYR of	0.4	2.7	58	4.2	13	28
Romania	0.2	2.6	208	1.6	25	11
Average	1.1	2.6	127	-0.1	30	14
Russia	**-4.2**	**2.7**	**92**	**-15.2**	**19**	**10**
CIS						
Armenia	5.7	2.3	64	8.0	10	8
Azerbaijan	-2.9	1.8	406	32.6	21	2
Belarus	-0.2	1.8	42	-7.0	24	11
Georgia	3.1	2.2	37	12.7	5	4
Kazakhstan	-4.2	2.4	312	-15.4	11	10
Kyrgyz Republic	-1.3	2.8	69	-15.4	14	8
Moldova	-9.5	2.5	113	-13.2	17	8
Tajikistan	-6.3	1.7	16	…	11	5
Turkmenistan	-11.1	1.3	108	…	9	…
Ukraine	-10.0	2.2	43	-18.4	16	4
Uzbekistan	0.4	2.2	23	4.2	16	26
Average	**-3.3**	**2.1**	**112**	**-1.3**	**15**	**9**
Mongolia	**3.7**	**…**	**39**	**1.0** [2]	**23**	**11**

Source: IMF World Economic Outlook, October 1999.

[1] Cumulative FDI in U.S. dollars for the period 1994-98.
[2] Average for 1993-97.

Attachment 2: IFC Investment Transactions in Kazakhstan

Project	***Fiscal Year(s)***	***IFC Investment (commitments, $ thousands)*** Total	Equity	Loan	Quasi Equity	***Partici-pants***
ABN AMRO Registrars	1997	20		20		
ABN-AMRO Bank Kaz. Ltd.	1994/ 96/ 98	12,070	7,500	4,570		10,000
Alautransgas	2000	20,000	20,000			
Eximbank Kazakhstan	1998	9,000		9,000		
Ispat Karmet	1998/ 99	76,667	76,667			87,917
Kazakhstan Construction Co.	1999	1,150	900	250		
Kazgermunai	1998/ 99/ 00	38,071		675	37,396	
Kazkommertsbank	1997/ 00	12,500	12,500			20,000
Rambutya	2000	11,000	11,000			
TuranAlem Bank	2000	15,000	15,000			
Total		***195,479***	***143,567***	***14,515***	***37,396***	***117,917***

Source: *IFC Datawarehouse.*

Notes: 1. Includes commitments through 6/2000.
2. IFC commitments may differ from approvals and disbursements.
3. Multiple fiscal years denote more than one transaction.

Attachment 3: IFC Investment Project Evaluations

Investment *(Investment Project Names Removed to Safeguard Commercial Confidentiality)*	***Development Outcome***	***Project Business Success***	***Company Business Success***	***Growth of Private Enterprise***	***Growth of the Economy***	***Living Standards***	***Environmental Standards***
1.	E	S	S	S	S	S	S
2.	E	S	S	S	S	S	S
3.	E	S	S	S	S	S	S
4.	E	S	S	S	S	S	S
5.	S	U	S	U	S	S	S
6.	PU	U	U	U	S	S	S
7.	PU	U	U	U	S	S	U
Percent Successful							
Unweighted	*71%*	*57%*	*71%*	*57%*	*71%*	*100%*	*86%*
Weighted by IFC investment size	*99%*	*58%*	*99%*	*58%*	*99%*	*100%*	*99%*

The Development Outcome rating utilizes four grades: Excellent (E), Satisfactory (S), Partly Unsatisfactory(PU) and Unsatisfactory (U). The remaining ratings utilize a two grades: Satisfactory (S) and Unsatisfactory (U). The evaluation framework is detailed as attached.

Comparison of Kazakhstan Evaluation Results

	Percentage Satisfactory		
	7 "Mature" Investments in Kazakhstan	***19 IARs and XPSRs in Former CIS and Eastern Europe***	***114 IARs and XPSRs World-Wide***
Development Outcome	**71%**	**68%**	**66%**
Project success	57%	47%	48%
Company success	71%	58%	67%
Growth of productive private enterprise	57%	79%	74%
Growth of the economy	100%	68%	61%
Living standards	100%	89%	85%
Environmental Standards	86%	100%	66%

Attachment 4: IFC Project Evaluation Framework and Criteria

Development Outcome Rating—is a bottom-line, synthetic assessment of the project's impacts, based on (but not an average of) the following six development indicators.

Project business success—considers the narrow objectives supported by IFC's financing. For real sector projects, the best measure of project business success is the financial rate of return (FRR). Lacking the data to calculate an FRR, we based this rating on assessments of the inputs to an FRR — capital expenditures, capacity utilization, sales volumes, pricing, revenues, margins, profits, taxes, etc. (In financial markets projects this includes assessing the "with project" profitability of the intermediary funded, taking into account project execution, use of agreed approval criteria, sub-project sustainability, and industry comparisons).

- *Rates satisfactory when the inputs to an FRR indicate likelihood of a satisfactory FRR or for financial intermediaries, the project meets at approval project performance expectations.*

Company business success—addresses the performance of the company as a business enterprise. If the project is a small part of the company's total operations or serves a new market, then the company's business performance and prospects may differ materially from the project's. A company's success is evaluated on its financial condition, operations other than the project, market responsiveness, creditworthiness, profitability, company development, and management.

- *Rates satisfactory when the company meets at-approval performance expectations.*

Growth of productive private enterprise—considers the upstream and downstream linkages to private firms, new technology, degree of local entrepreneurship and competition, demonstration effects, enhanced private ownership, capital markets development; and business practices as a positive corporate role model. Included also are regulatory improvements such as changes in government policy and legal, tax and accounting frameworks. (For financial markets projects, this includes contributions to the development of financial institutions and markets, including factors such as improved services and easier financing access for domestic investors).

- *Rates satisfactory when the project provides distinctly positive net contributions.*

Growth of the economy—considers the project's net economic benefits to all of society, which is best measured by an economic rate of return (ERR). Lacking the data to calculate an ERR, we based this rating on assessments of the inputs to an ERR — the social benefits and costs including consumer surplus, taxes paid, effects on competitors, benefits to suppliers, effects on input and output markets, and how prices and quantities are determined in relevant markets. (For financial markets projects this includes, as relevant, whether the company has introduced economic viability criteria to its financing decisions, and whether the sub-projects are economically viable).

- *Rates satisfactory when the net economic benefits are positive and near to expectations.*

Living standards—is based on a project's benefits and costs to those who are neither owners nor financiers: customers, employees, suppliers, competitors, local residents, government, etc. It includes contributions to widely held social objectives such as employment generated, employee living standards, non-wage benefits, training, community services, health and safety, expropriation procedures and resettlement, gender equity, and child labor.

- *Rates satisfactory when there are net benefits to those who are neither owners nor financiers.*

Environmental standards—considers the physical environment and social, cultural, and health and safety issues, all of which should be considered if they have entered into project performance or public perceptions of the operation. Compliance is considered relative to (1) World Bank Group policies and guidelines and local standards that prevailed at the time of approval; (2) covenanted requirements in the Investment Agreement and its attachments (e.g. reporting requirements, conditions of disbursement, action plans); and (3) current World Bank Group policies and guidelines and the local standards that would apply to the same project if appraised today. OEG lacks the expertise to independently evaluate environmental compliance. In this review, ratings are based on the degree of compliance expressed in IFC's internal supervision reports and staff discussions

- *Rates satisfactory if IFC's internal documentation states that the project is—and was over its lifetime—in material compliance with IFC's at-approval requirements, including World Bank Group environmental, health and safety policies and guidelines.*

Attachment 5: IFC Technical Assistance in Kazakhstan

Assignment	***Description***	***Amount***	***Approval Date***
East Kazakhstan Copper / Irtysh Polymetallic Mines Privatization	Technical and financial review of and expert advisory services for privatization of two Government run mines producing complex copper/zinc ores.	$225,000	03/28/1995
MEREY Medium Density Fiberboard Plant – Feasibility Assessment	Feasibility study focused on: (i) market aspects, including import taxes, purchase prices in each targeted countries; (ii) availability of transportation, and transport related project cost for products; (iii) financial viability of investment project envisaged. Study also has a component to assess prospects for managed forestry to supply part of feedstocks on environmentally sound basis.	$80,000	03/30/1995
Study of Export Markets for Cut Roses	Market study to assist growers of cut roses in Kazakhstan to develop export opportunities to Russia, Uzbekistan, the Kyrgyz Republic, and other potential markets in FSU.	$45,000	06/03/1997

Attachment 6: OEG Interviews regarding IFC Operations and the Kazakhstan Business Conditions

ABN-AMRO Bank
Timur Issatayev, Deputy General Manager
Elena Rubinovich, Head of Consumer Banking
Leo Hoogendoorn, Vice President, Head Other Soft Commodities Trade
Magzhan Auezov, Head of Trade and Commodity Finance
Rudolf Reinders, Structured Commodity Finance

AIG Silk Road Capital Management, Ltd.
Boris Evseev, Director

Advanced Capital Management Inc.
Richard L. Verga, President & CEO

AES Global Power Company
Vitaly A. Lee, Development Director, AES Silk Road, Inc.
Jason L. Bryant, General Director, AES Sogrinsk CHP, LLP

Alantransgas
Rustem S. Bekturov, President
Meyram B. Sergazin, Deputy Financial Director

American Chamber of Commerce in Kazakhstan
Diana Brett, Executive Director

Bank TuranAlem
Erzhan N. Tatishev, Chairman of the Executive Board
Aset Dautbayev, Senior Banker
Sholpan Zh. Lebayeva, Head of International Division

The Barrer Group
Andrew E. Barrer, Managing Director

Cameron MacKenna
Sanzhar Serikpaev, Partner

Central Asian-American Enterprise Fund
Veronica L. John, Country Manager for Kazakhstan

CITIBANK
Adnan Ally Agha, Vice President Deputy General Manager

DB Securities Kazakhstan - Subsidiary of Deutsche Bank A.G
Askar R. Yelemessov, President

EBRD
Fredrik D. Korfker, Director, Project Evaluation Department
Wolfgang Gruber, Senior Evaluation Officer, Project Evaluation Department
Anders Grettva, Seniour Evaluation Officer, Project Evaluation Department
Martin Raiser, Principal Economist
Mahir Babayev, Senior Counselor
Michael Davey, Director, Kazakhstan, Kyrgyzstan
Charlotte Philipps, Senior Banker, Natural Resources
Justin Murphy, Senior Analyst, Resident Mission
Jannat Salimova, Investment Analyst, Resident Mission

Ernst & Young
David Wilkes, Managing Partner
Reece Jenkins, Partner, Director of Tax

Eximbank Kazakhstan
Beyesenbay I. Izteleuov, Chairman of the Board

FMO – Netherlands Development Finance Company
Duncan Vink, Investment Officer, Europe & Central Asia

Frontier Mining Ltd.
Edward Bloomstein, Chief Operating Officer

GIMV – Kazakhstan Postprivatization Fund
Alessandro Manghi, Investment Manager

HELIOS
Bruce Kososki, President

HSBK Halyk Bank of Kazakhstan
Nurdin B. Damitov, Managing Director

HSBC – HSBC Bank Kazakhstan *(and Chair of the European Chamber of Commerce Kazakhstan)*
Brampton Mundy, Chief Executive Officer

ISPAT Karmet
Narendra Chaudhary, Managing Director
Adil. S.N. Vadoliwala, Director Commercial and Finance
V.V. Vaideeswaran, General Manager (Finance)
Y.P. Kumar, General Manager (Marketing)
M.P. Singh, Director, Business Plan & Development (Coal Division)
Victor S. Shcherba, Director Production
R.C. Saraf, Deputy General Manager – Finance
U.S. Jha, Director Technical Administration
S. Marar, Director (Projects)

Kazkommertsbank
Oleg A. Kononenko, Member of the Board of Managing Directors
Ardak Kuzhanova, Deputy Managing Director

KEGOC
Mr. Jandosov Uraz Aliyevich, President

Price Waterhouse Coopers
Russell W. Lambert, Managing Partner

Ramstore Rambutya
Engin Sen, General Manager
Mehmet Cem Ozen, Marketing Manager
Adnan Caki, Financial Manager

USAID / Booz Allen
Christopher Broxholme, Legal Framework Advisor

IFC
Andrew Baldwin, Senior Investment Officer, CAMENA
Gorton De Mond, Senior Investment Officer, CAMENA
Ranga Setlur, Senior Operations Officer, CAMENA
Engin Goksu, Investment Officer, CAMENA
Vivek Pathak, Investment Officer, CAMENA
Richard Rutherford, Chief Investment Officer, CAMENA
Vesselina Jeleva, Assistant Investment Officer, CAMENA
Sanjay Puri, Principal Investment Officer, CTT
Doug Coulter, Investment Officer, CTT
Maria Perisic, Investment Officer, CAG
Niels Vestergaard, Principal Environmental Specialist, CTE
Jackie Coolidge, Senior Investment Policy Officer, FIAS
Janat Ahkmetova, Investment Officer, CAMENA(Almaty)
Michael Duffy, Hotel Financial Specialist, CTETE
Sabrina Borlini, Syndications Officer, CFPSI

The World Bank
Kadir Yurukoglu, Resident Representative, Kazakhstan
Motoo Konishi, Principal Country Officer, Kazakhsan
Fred King, Senior Country Officer, Kazakhstan, ECA
Svetoslav Tintchev, Senior Telecoms Engineer
Albert Martinez, Private and Financial Sector Devlopment Unit, ECA
David Grigorian, Private and Financial Sector Development Unit, ECA

IMF
Nadir Burnashev, Executive Director’s Assistant, Kazakhstan

Annex 3.2: Social Protection in IBRD Lending, FY94-96

Loan	***Condition/objective (President's report/SAR)***	Achievement	
Rehabili-tan	1.Complete analysis of social protection for individual funds and for each level of government, under alternative assumptions on employment and unemployment, wage rates, benefit levels, inflation and other factors. 2. Examine social services which are now provided by enterprises but which with commercialization and privatization would be provided by local authorities.	1. In September 1995 reforms in the Employment Fund were introduced. A major reform of the old age and survivor pension system was approved by the Parliament in June 1996. 2. A national policy regarding divestiture of enterprises social assets relating to education and health was introduced in May 1996. A new three tier system in health was also adopted which included a guaranteed benefit funded by budget resources, an additional entitlement financed by an earmarked payroll tax and a third tier of services which are to be bought voluntarily. Pilot programs were supported by the Bank's Social Protection Project.	1. In 1998 Unemployment Fund was abolished and unemployment assistance devolved to oblasts. Authorities on their own instituted major Chilean style pension reform in 1997. 2. Pilot programs under the social protection project were not replicated to the rest of the country.
TA (Social protect-ion one of four compo-nents)	1. Design and implement policies and programs to provide unemployment relief; introduce social protection policies targeted to the most vulnerable groups of society; and develop mechanisms for poverty monitoring; 2. Develop new policies and programs in health care reform.	1. Unemployment services supported by social protection project. LSMS in July 1996. A lot of analysis on pensions. 2. Some progress in health financing (see above).	1. LSMS not institutionalized on an annual basis. Social protection policies targeted to the most vulnerable groups not achieved. The pension analysis was not used by the authorities.
SAL	1.Legislation to reform the system of unemployment benefits. 2. The Government to design a budgetary mechanism to finance social services divested by enterprises to ensure the continued operation of essential social services currently delivered by enterprises which might be liquidated or privatized. This to be reviewed by the Bank, and incorporated in the mid-term revision of the budget.	1. The unemployment benefits which the SAL supported led to a four fold increase in minimum benefits in real terms between 1994 and 1996. Improvement in benefits was funded by terminating low priority programs and extending coverage of the employer's social security contributions to the agricultural and government sectors. 2. With the social protection project the government developed a strategy to transfer selected social services delivered by enterprises to local budgets and to restructure them with a view to unifying their standards of services with those of comparable facilities run by local authorities. Not clear whether incorporated in the mid-term budget.	1. Unemployment benefits were restored to 1.25 times in 1993 level in real terms but it was equal to 20 percent of the economy-wide wage, and 50 percent of the subsistence minimum. Unemployment Fund was abolished. 2. Pilot programs under social protection project were not replicated to the rest of the country.
Social Protect-Ion Project	1.Employment Services component. 2. Social services component to facilitate the transfer of essential social services from restructuring enterprises to local governments, and rationalization of management of all basic social services in two oblasts	1. Changed the administrative methods of running employment exchanges. 2. Successful	1. Employment exchanges scrapped. 2. Not replicated

Annex 3.3: Options for Correcting the Gender Blindness of Some Proposed Development Interventions.

1. *Social Protection Project (Restructured)*

- The Unemployment Benefits subcomponent should have reviewed existing legislation and procedures for allocation of benefits. A number of gender-related issues needed to be carefully investigated: (i) Was the current safety nets package the best available option for reaching poor, and among them poor women? (ii) Allocation of unemployment benefits required a prior registration: benefits allocation was not automatic and local Oblasts were responsible for approval of the individual claim. This left open the possibility for discriminatory practices against women especially in the context of scarcity of available funds. (iii) The SAR pointed out the existence of an element of cultural embarrassment associated with registering as unemployed: how did this affect female and male workers differently?

- Microenterprises Training. Though the effort of creating a mechanism for enhancing self-employment opportunities through provision of micro business start-up training was commendable, charging training fee could have restricted potential female beneficiaries. Evidence from cross-country experiences suggests that easing the transaction costs for women would facilitate their entry into microenterprise activities.

- The Social Service Support Component which was expected to provide funding for training materials and books to the participating Oblasts should have made specific provision for reviewing the quality of inputs to ensure that they did not contain any sex-based stereotype.

- Information and related activities. A mechanism for upgrading labor market information and analysis should have ensured that data on both male and female workers are properly collected. The gender differentiated impact of cost-recovery mechanisms on users of educational and health facilities needed to be carefully monitored. Gender dissagregated data needed also to be inputted into the management information systems.

- Gender sensitisation of institutional arrangements. The task manager could raise and discuss the gender implications of the project, as well as elicit participation of women's organizations in the different committees, working groups, workshops, etc.. The Training Advisory Groups could also try to solicit women's participation. Terms of Reference for Technical Assistance Staff and Bank's Mission Teams should include a gender specialist. Units for delivery: Oblasts and other units responsible for retraining should be sensitized to the need to enhance outreach to women and encourage their active involvement in project activities.

2. *Agriculture Post Privatization Assistance Program (ongoing)*

- Conduct gender-sensitive rapid participatory assessment and seek the views of female farmers on project implementation activities.
- Put emphasis on gender issues while designing training packages, developing training contents and delivery (site, timing, staff) with a view to ensuring that they reach both male and female farmers;
- Target staff and consultants network for gender sensitisation training;
- Focus also on female farmers when collecting performance indicators data and keep track of gender disaggregated data (rate of participation, extent of female participation either as individual or members of collective associations or rural co-operatives, productivity of irrigated plots owned and/or managed by women, etc.).
- Solicit women's participation in the Agriculture Government Working Group.
- Include a gender issue specialist in project missions and/or mention gender issues in terms of reference.

- Identify and address, throughout the project life cycle, gender differentiated issues and priorities: i.e., investigate whether the proposed eligibility criteria for subproject (property entitlements) may result in male farmers having more opportunities for becoming beneficiaries and accessing the rural lending facility.

3. Water and Sanitation Project (ongoing)

- Conduct a participatory gender focused stakeholder analysis to identify and address:

(i) the social and monetary costs imposed by inefficient water supply systems and poor sanitary conditions on both women and men;[40]
(ii) the gender differentiated constraints and needs in terms of quantity, quality, reliability, and accessibility of water and sewage services;
(iii) the potential constraints to women's participation in the project design decision making process; [41]
(iv) the existence of a gender differential in the willingness to pay for the improved services, and underlying reasons;
(v) the impact that tariff increases may have on women's access to services vis-à-vis men.

- measures of direct and indirect gender disaggregated household benefits in performance/monitoring indicators (i.e., incidence of water born disease, women's time savings by reduced work on boiling water, water storage activities and maintenance of existing water reserves).

4. Legal Reform Project (ongoing)

- Gender-sensitization of the legal drafting training packages.
- Gender training to be included in the Judicial Education Program.
- Legal literacy sub-component to reach both women and men, and increase awareness of their property and contractual rights.

[40] The Social Assessment reports that respondents were highly dissatisfied with both supply, quality and sewage services.
[41] What was the gender composition of the Condominium Associations whose views were elicited to design the project? Did gender account for women's inclusion or exclusion? If so how could the imbalance be addressed? Did female-headed households participate on an equal basis compared to their male counterparts in the Condominium Associations?

Annex 3.4: Key Documents Reviewed

World Bank Documents:

1. Staff Appraisal Report on Technical Assistance Project (June12, 1993)
2. Kazakhstan : Transition to a market economy (August 1993)
3. Report and recommendation of the President on Rehabilitation Loan (August 25, 1993)
4. Kazakhstan Economic Report- Vol. I&II (July 7, 1994)
5. Report and recommendation of the President on Financial and Enterprises Development Project (March 29, 1995)
6. Report and recommendation of the President on Structural Adjustment Loan (May 9, 1995)
7. Report and recommendation of the President on Financial Sector Adjustment Loan (May 31, 1996)
8. Memorandum of the President to the Executive Directors on a Country Assistance Strategy of the World Bank Group for the Republic of Kazakhstan, Document for Upstream Review, March 8, 2000.
9. Rehabilitation Loan : Implementation Completion Report (June 26,1996)
10. Memorandum and Recommendation of the President Treasury Modernization Project (June 27, 1996)
11. Republic of Kazakhstan: Transition of the State – Vol. I &II (July 15, 1996)
12. Structural Adjustment Loan: Implementation Completion report (April 22, 1997)
13. Latvia : Country Financial Accountability Assessment (April 30,1997)
14. Report and recommendation of the President on PSRMAL (July 31, 1997)
15. Country Assistance Strategy (CAS) – July 31, 1997
16. Rehabilitation Loan: Performance Audit Report (February 6, 1998)
17. Kazakhstan Financial Management Capacity (May 11, 1998)
18. Financial Sector Adjustment Loan: Implementation Completion Report (June 18,1998)
19. Kazakhstan: Joint Private Sector Assessment (September 30, 1998)
20. Legal Reform Project: Project Appraisal Document (April 19, 1999)
21. Ten years of Post-Socialist Transition: the Lessons for Policy Reforms: Prof. Grzegorz W. Kolodko (1998)
22. Structural Adjustment Loan : Draft Performance Audit Report
23. Financial Sector Adjustment Loan : Draft Performance Audit Report
24. Draft Country Procurement Assessment Report
25. Reports of Resident Advisor on Audit
26. BTORs of PSRMAL team

Other Documents:

1. Constitution of Republic of Kazakhstan
2. EIU Country Report 4th quarter 1999
3. EIU Country Profile 1999-2000
4. GAO Report on US Economic and Democratic Assistance to the Central Asian Republics

People Interviewed:

1. Amitabha Mukherjee
2. Arup Banerjee
3. Fred King
4. Helga Muller
5. Peter Dean
6. Roberto Tarallo
7. Suzanne Morris

Annex 3.5: Public Financial Accountability: Key Elements

The public's right to know how funds obtained by the government through taxes and borrowings are spent is one of the cornerstones of democratic government. The government must obtain the permission of the elected members of Parliament before it can collect or spend money. After it spends the money, the government must also be able to report that it spent the correct amount wisely and for the purposes approved by Parliament. *This obligation of the government to answer to the public for its actions is called public financial accountability.*

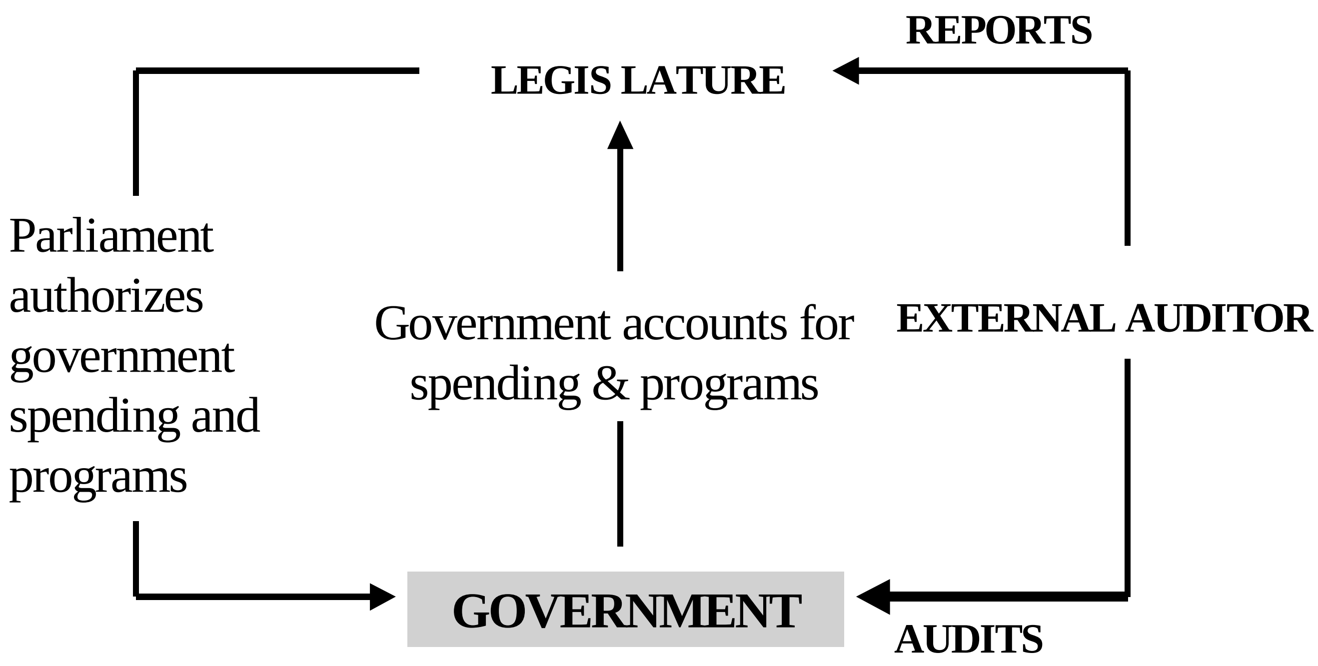
For this system of accountability to work effectively, the process by which the public and its representatives in Parliament hold the government accountable for its spending should be transparent. The government should report fully on its performance by submitting to Parliament its annual budget and spending plans, performance on the past year's activities, and the annual financial statements showing all government spending, borrowing, and taxing, known as *the Public Accounts of the State.* These documents provide Members of Parliament and civil society with information for holding the government accountable.

One more link in the accountability process is the independent assessment of the information provided by Government. An impartial evaluation allows the representatives of the people to effectively question or criticize government on its performance. The independent auditor (*supreme audit institution*) audits government operations and performance reports. It provides the information that helps Parliamentarians assess the government's performance. A *Public Accounts Committee* comprised of selected legislators, and assisted by the supreme audit institution, acts as the formal mechanism for such ongoing legislative scrutiny of the public purse. A public record of its deliberations can provide information to civil society and media on the nature and quality of government response to issues raised by the supreme audit institution.

Any major breakdown in this process of accountability i.e. the links in the flow of information on the use of public resources between the public/civil society, legislature, government and external auditors can undermine the effectiveness of government performance.

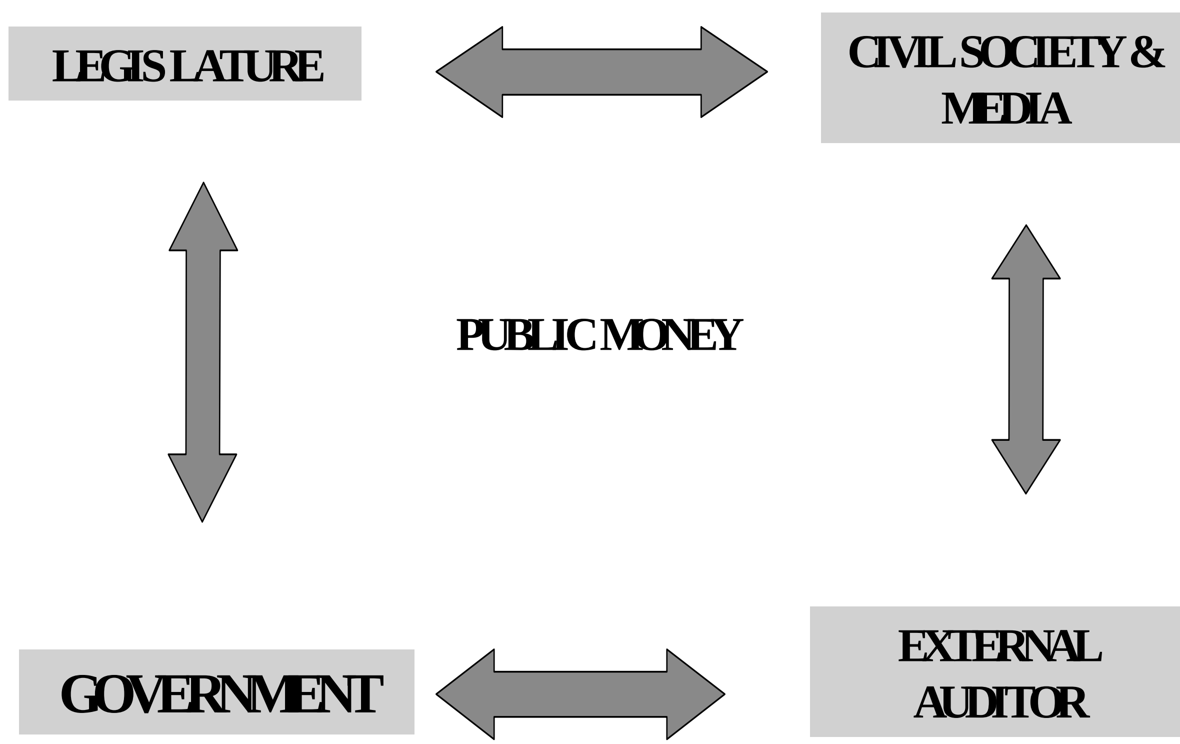
Annex 3.6

Chart 1: System of Public Financial Accountability



Annex 3.6

Chart 2: Key Stakeholders in Public Financial Accountability



Annex 3.7: Issues and Capacity Gaps Identified in the Financial Management **Capacity Report for Kazakhstan**

Private sector:

The report chronicles significant progress since independence on:

- ❖ Developing accounting standards,
- ❖ Ensuring that the financial statements of converted enterprises comply with GAAP and in
- ❖ Training associated with these initiatives.
- ❖ Passing legislation on activities related to audit of commercial enterprises
- ❖ Improving banking regulations and accounting and reporting practices

The report highlights capacity gaps and issues in:

- ❖ Company law – particularly in corporate governance, securities, distributable profits
- ❖ Legal underpinnings necessary for successful adoption of the new accounting standards
- ❖ Shortage of skills to create and effectively use relevant financial information
- ❖ The need to support and strengthen independent professional accounting and auditing bodies.

Public sector:

The document reports progress in setting up:

- ❖ A new budget classification scheme consistent with the IMF's standards for GFS
- ❖ A new budget law that provided for disclosure of expected deficits and that set budgetary limits on state borrowing and the issue of state guarantees.
- ❖ An integrated financial management information system through the Bank's Treasury Modernization Project
- ❖ An Accounts Committee (akin to Supreme Audit Institutions) to examine the accounts of the republican government and report to Parliament annually.

The report highlights capacity gaps and issues in:

- ❖ Lack of accountability to parliament on finances of local governments
- ❖ An incomplete system of classification of revenues and expenditure in the budget
- ❖ Inadequate control of and accountability on the use of extra budgetary funds
- ❖ A weak internal audit and control system
- ❖ Unreliable certification of government accounts in the absence of an *independent* supreme audit institution

Lack of transparency in the sources and uses of government funds.

Annex 3.8: Parliamentary Oversight Committees for Public Accounts: Best Practice in Democratic Governance

Background

The key to any system of responsible parliamentary government is that the government is accountable to the legislature for its conduct of public business. An important aspect of public business is the management and control of public resources, including funds, personnel, goods, and property. If the system is to work successfully, the legislature must have appropriate mechanisms, both organizational and procedural, to hold governments accountable for their stewardship of public resources. Oversight Committees, such as the Public Accounts Committee in the Westminster model of governance, or subject matter Committees such as the Committee on Governmental Affairs in the US Presidential form of Government act as mechanisms for strengthening public financial accountability.

Role and Responsibilities

The roles and responsibilities of oversight Committees need to be clearly specified. Both members as well as the entire legislature must subscribe to the principles of sound public accountability. The materials they work with such as the Accountability reports such as the external Auditor's report and the Public Accounts or Government Performance Reports must be substantive, timely and suitable for facilitating public scrutiny.

Oversight Committees of the legislature work most effectively when the Committees:

- Meet regularly and hold in-depth hearings on significant matters that impact on the control of public resources;
- Are comprised of a small number of dedicated legislators (with minimal partisanship);
- Are appropriately organized—
  - All major parties are represented,
  - Staff are skilled and trained in research work and in reviewing accountability reports,
  - Procedures are well designed, and
  - Members are well briefed on critical issues before hearings are held;
- Arrive at firm conclusions, make recommendations to the full legislature, and follow up within specified time lines;
- Hearings are generally open to the public and the media.

The thrust of the work is to promote honest, productive and answerable government. The question before the Committees is not whether the purposes for which the money was voted was right, but rather whether the administration has done a good job of doing what the legislature authorized. For example, it is not the Committees' job, in relation to the social sector, to debate whether the government ought to have had more or less money than the amount voted. Their job is to determine whether the money was all spent on the intended purposes honestly, economically and efficiently, and whether there was value for money in line with the government’s proposal when it sought money from the legislature. The Oversight Committees should be concerned with the systems and controls that are in place to ensure that the money voted for the social sector is likely to achieve the best possible results for the people of the country. They should ensure that representations by government on the results that were achieved are fairly stated.

Oversight Committees should discharge their obligation on behalf of the legislature and citizens in as impartial a manner as possible. They should refrain from debating political policies and their implications. The caliber and impact of their reports and the respect they hold should make them the most important Committees of the legislature.

Annex 3.9: Kazakhstan: Development of Government Monitoring & Evaluation to Support and Deepen Existing Public Sector Reforms

KEITH MACKAY

OED Partnerships & Knowledge Programs

The government of Kazakhstan (GOK) has recently embarked on a series of useful public sector reforms which have the explicit or implicit objective of improving public sector performance. This note argues that the sustainability and impact of the reforms would be enhanced by a greater emphasis on their inter-relationships and by a stronger emphasis on their performance orientation. One way to help achieve this would involve more intensive efforts to build monitoring and evaluation (M&E) capacities in Kazakhstan. The note concludes that the achievement of a common understanding of government objectives and of planned and actual government performance should be a cornerstone of public sector reform in Kazakhstan.

<u>Background: The Priority for Public Sector Reform in Kazakhstan</u>

Severe macroeconomic difficulties have led to substantial reductions in public expenditure and in the level and quality of social services provided. These difficulties have led to intense efforts to adjust to lower levels of government spending while increasing the efficiency and effectiveness of spending. GOK and the Bank have identified the achievement of a stronger service culture in the civil service — and implicitly also a greater performance orientation — as important priorities.

It is only in the last three or four years that GOK and the Bank have focused on public sector reform to any significant extent. In that brief period, however, a number of substantive reforms have been initiated.

The public sector reforms now underway include: reduction in the size and scope of government; a medium-term budget system; stronger financial accountability and control; decentralization and its effect on the provision of social services; better management of the delivery of social services, particularly in the health and education sectors; and creation of a public investment program. For these reforms to be both fully effective and sustainable, they need to be integrated much more closely to each other, together with a much greater emphasis on performance and its measurement.

Drawing on the substantial experience of developed (OECD) countries, it is increasingly recognized that the development of national and sectoral systems for M&E is an important aid to sound governance and is a means to help achieve high levels of public sector performance. M&E provides links and commonalities in the areas of: budgetary and financial management systems; intergovernmental fiscal relations; commercialization and contracting out of public services; the setting of explicit customer service standards; devolution to civil service managers (the new public management); personnel performance, appraisal and remuneration ; the quality of civil service policy advice; participation and the ‘voice’ of civil society; and anti-corruption efforts.

These links can be grouped in four broad areas:

- M&E as an important input to government resource allocation decisions in the budget process;

- M&E to support line managers within government — the learning function;
- M&E information as an input to accountability mechanisms — within government, between different levels of government, and between government and civil society;
- M&E to help demonstrate to the donor community the extent of success of their development efforts.

The Performance Orientation of Public Sector Reform: the National Level

One challenge for the Bank's work in Kazakhstan is to find actionable interventions to support the aspirational goals which GOK and the Bank have formulated for the public sector. The 1997 PSRMAL flags an objective of the public sector management reforms as being to "improve institutional capacity and coordination mechanisms for policy formulation, implementation and evaluation".[42] For this objective, there does not yet exist any explicit Bank strategy to ensure it is achieved on a systematic basis, although a recent PER Aide-Memoire to GOK[43] has flagged the need for increased emphasis on formal evaluation of public programs — in order to assist the prioritization of public expenditure, to help identify lower-cost options for delivering public services, and to help focus the attention of civil service managers on performance and on ways of improving it.

The Bank's advocacy to GOK of a greater emphasis on evaluation is certainly a valuable step. But to be fully effective and to provide the maximum level of support to other reform initiatives, it would benefit from being closely linked to a number of the reform initiatives already underway. It is also necessary that the approach to M&E be structured, explicit and formal. IBRD is supporting this type of approach in Honduras — see Box 1 — and in Ghana and Uganda, for example.

Many of the public sector reforms in Kazakhstan are related; they all have the objective of improving government performance. But the connections between different reform components which focus explicitly or implicitly on performance have not been articulated. The danger of this is that the opportunity to exploit synergies between different reform components might be missed. Worse, by addressing public sector reform in a somewhat piecemeal manner and by failing to exploit available synergies, some of the individual component reforms might not be sustainable, particularly at the sector level. For these public sector reforms to be successful, it is important that actual government performance is monitored and evaluated.

The focus on performance is illustrated by objectives set by the 1997 PSRMAL: improving budgetary management; strengthening financial accountability and control by tighter auditing procedures; and the public disclosure of a greater amount of information in the annual budget process. The PER Aide-Memoire also argued that "budget officials should be made accountable for deviations from programmed expenditures".[44]

Tighter controls on spending certainly address the measurement of government *inputs*, but they fail to address the *outputs* and *outcomes* which that spending is intended to achieve. Officials need to understand clearly what they are expected to achieve and for what they are to be held

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[42] Kazakhstan: Proposed Public Sector Resource Management Adjustment Loan, July 1997, Report No. P-7152-KZ, Annex A, page 1.
[43] Kazakhstan: Public Expenditure Review Mission, August 25 – September 17, 1999, Aide-Memoire, page 10.
[44] Ibid, page 10.

Box 1: Support for Results-Based Management in Honduras

With World Bank assistance, the Government of Honduras has decided to develop national M&E functions in order to deepen a range of public sector reforms already underway. M&E capacities and coordination mechanisms are to be strengthened in the finance ministry and in five pilot sector ministries — in order to support better budget planning and resource allocation, to support line management and service delivery in sector ministries, and to foster greater accountability. There are explicit, close links to ongoing public sector reforms of: the annual budget process; the new financial management information system; the development of the capacities of the national audit office (including for anti-corruption work) and of the planned national statistics agency; and to support the development of a national poverty reduction strategy.

Source: OED

accountable.[45] When the parliament makes its annual budget appropriations, both it and the general public also need to have a clear understanding of what these monies are intended to achieve. Accountability also requires an ex post accounting for actual results achieved from past budget spending.

National and sectoral planning and budgeting are aided by clear statements of objectives which answer the question: "what does success look like?" These should lead in a straightforward manner to performance targets for the coming budget year (or over a three-year forward period if the government decides to implement a medium-term expenditure framework (MTEF)). These ex ante budget targets are, in effect, a contract for promised deliverables from the budget. But for the targets and the promises to be credible, there needs to be some measurement of the extent to which actual performance over the past year has matched them. Performance monitoring helps to answer these questions.

Planning and budget decision-making is also supported by more in-depth evaluation and review of sectors, programs and projects — to answer the question: "what's working, what isn't, and why?" This type of approach has recently been adopted in Benin, for example, where the government recently agreed to an MTEF approach where sectoral budget resource allocations are partly based on a handful of key performance indicators for each sector.

Achieving a common understanding of government objectives and of planned and actual government performance should be a cornerstone of public sector reform in Kazakhstan — it would also be consistent with CDF principles which emphasize results and a collaborative approach among development partners. Such an approach would foster the development of a performance culture in the civil service. It would achieve greater transparency in government, and it would assist GOK in its quest to obtain greater value for money from public expenditures.

Another illustration of reform synergies is provided by the links between decentralization to the oblast level, accountability for public services provided by oblasts, and the public disclosure of information on services provided. The responsibility which oblasts have been given for provision of a range of public services has not been matched by a corresponding access to resources. There

[45] A sharper focus on assessing the performance of individual civil servants would be helped by a system of individual performance contracts. Clarification of government objectives, and tools such as M&E, would be necessary (but not sufficient) to make such contracts work effectively.

are concerns about: the capacity of oblasts to manage services; the accountability of oblasts to their communities; the accountability of oblasts to the central government; and the extent to which information about disparities among oblasts in their provision of services is publicly available. All of these reform and capacity-building priorities would receive powerful support from an emphasis on the measurement and evaluation of oblast provision of services.

The PSRMAL includes a component to strengthen the evaluation of investment projects, as a key element to build an effective Public Investment Program (PIP). This component is intended not only to help support investment decision-making, but also to lead to better-designed individual investment projects (i.e., to ensure that evaluation provides learning from past investments). This approach to evaluation of investment projects is a useful starting point. It raises questions about the detailed design of the support work to build the necessary skills in project evaluation, and to ensure that quality evaluations are conducted, in a timely manner, and that they are actually used.

GOK investment expenditures covered by the PIP, however, only relate to about 2% of GDP. There are no government-wide plans to subject its recurrent expenditures — equivalent to up to 28% of GDP — to similar rigorous evaluation.

A Performance Orientation in Sector Reform

A substantive reform program exists to achieve a "sustainable performance-oriented health system" [46] — see Box 2. A key part of the program is the health policy and evaluation component, which is intended to develop government capacity to evaluate various health interventions using a mix of qualitative and quantitative approaches. This component will evaluate health programs at

Box 2: Lessons From the Health Sector

The situation in the health sector appears to be particularly supportive for reform in the areas of policy and evaluation. There are two reasons for this. The first is that there already exists a large volume of statistics and performance indicators in the sector, on facilities and their utilization, on staff levels and types, on different types of health interventions, on public satisfaction with health services, and on health outcomes. In addition, there appears to be a ready and general acceptance within the sector of the value of measuring health status and outcomes, and of using such information in management and policy-making.

The second aspect of the health sector which provides a conducive environment for evaluation is the existence of a number of related, performance-oriented reforms in that sector. Particularly relevant components of the reform program include: use of a performance-based, case-mix approach to funding allocations; competition between hospitals; decentralization of decision-making; rationalization of services; a focus on identifying and sharing good practices; reduction of direct government provision, with an increased role for the non-government sector in the delivery of health services; and performance pay for doctors.

Source Health Sector Project Staff Appraisal Report

[46] Kazakhstan: Health Project in Support of the First Phase of a Health Reform Program, February 1999, Report No. 19007, page 2.

the oblast level, and once good-practice approaches have been identified via the evaluations, these will be shared with other oblasts with the intention of replicating them throughout the country. This capacity-building work is intended to strengthen monitoring and evaluation for management purposes, and also to support sector policy-making.

The policy and evaluation component will entail capacity-building via: development of performance indicators; training of health staff in data collection, performance indicators and their use, and user surveys; development of evaluation skills; and creation of a small technical unit.

Resource Levels

In some ways the health sector approach could be considered a useful pilot or demonstration model for other sectors. One caveat, however, is that the planned evaluation component of the health sector reforms is very modest: it will involve some $1.31m in spending over four years, which is equivalent to only about 0.05% of annual health sector spending. There is no clear benchmark for exactly how much should be spent on a ministry's evaluation functions, but if M&E is to have a significant impact in the health sector then much higher levels would need to be allocated to it.

A Sector or a National Approach to M&E?

The conditions and opportunities existing in other sectors will need to be considered carefully before attempting to replicate the health sector approach to M&E to them. And yet, replication in other sectors would provide synergies with the health sector — lessons concerning what works, what does not, and why. Other sectors face common difficulties, and M&E could play a powerful role in helping to address them. For example, the recent PER Aide-Memoire identified several related problem areas in the education sector: poor criteria for expenditure prioritization; poor financing and monitoring mechanisms, and weaknesses in the evaluation of expenditures.[47]

However, it is unclear how sustainable a sector by sector approach to development of M&E capacities would be — and the same uncertainty applies to overall public sector reform. To what extent can institutional reforms in individual sectors be divorced from central government civil service reform? And some reforms, such as performance budgeting, need to be done across government if they are to be undertaken successfully — it may not make much sense to attempt performance budgeting for only some ministries. Another benefit of a whole-of-government approach to developing M&E is that it could achieve momentum across government and help ensure that laggard ministries learn from and endeavor to keep up with leading ministries.

Conclusions and Recommendation

GOK's public sector reform program provides both the opportunity and the need to deepen the emphasis on government performance — to help ensure the sustainability and impact of the reforms. This could be achieved by a greater emphasis on the inter-relationships between a number of reform components, combined with a clearer emphasis on their performance orientation. Indeed, it is argued here that the achievement of a common understanding of government objectives and of planned and actual government performance should be a cornerstone of public sector reform in Kazakhstan. One way to help achieve this would involve more intensive efforts to build monitoring and evaluation (M&E) capacities in Kazakhstan. We recommend:

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[47] Aide-Memoire, page 17.

- GOK, donors, civil society and the private sector would benefit from a clearer identification of government objectives and of planned and actual performance at the national and sector levels — consistent with CDF principles.

- GOK should be encouraged to identify and build on potential synergies between the performance orientation of the various public sector reform components.

- The health sector approach to building a performance culture, including via M&E, should be replicated in other sectors. However, a higher level of resources would need to be devoted to these efforts in each sector if they are to have a substantive impact. In addition, a national approach to M&E could be preferable to a disparate collection of sector approaches.

Attachment 1

Why M&E Is Important for Public Sector Reform

Monitoring information and evaluation findings assist countries in four key areas.

First, M&E information can be an important input to government resource allocation — i.e., planning, decision-making and prioritization, particularly in the budget process. This is exemplified in performance budgeting approaches, where the outputs (and desirably also outcomes) sought from budget appropriations to each ministry are identified ex ante, and actual performance over the past year is reported in budget documentation.

Second, M&E assists government managers by revealing the performance of ongoing activities at the sector, program or project levels — it is therefore a management tool which leads to learning and improvement in the future. Experience of developed countries strongly supports the proposition that an emphasis on performance — via the conduct and use of M&E — helps to focus managers and staff closely on the government's objectives from its programs and projects, and on alternative ways of improving the efficiency and effectiveness of government operations to better serve the needs of program clients and beneficiaries. It can thus be a powerful tool to achieve both a performance culture and a service culture in a civil service.

Third, M&E information is an input to accountability mechanisms — so that governments can be held accountable to civil society for performance, so that managers can be held accountable for the performance of the activities which they manage, and so that staff can be held accountable to their managers for their own performance.

The notion of accountability encompasses the recognition that economic governance and a sound public sector are central to national economic competitiveness — markets reward countries able to manage and screen public expenditures, and M&E offers a tool to help do that.

A fourth use of M&E is in demonstrating the extent to which development efforts have been successful. This is proving to be increasingly important for countries in attracting external resources, particularly given the pressures on donors to channel their assistance to countries where past development efforts have been successful. Moreover, the increasing emphasis by donors on coordinated, country-wide and sector-wide approaches to development — as exemplified in the Comprehensive Development Framework and in the greater emphasis on programmatic lending — put a premium on having country-wide and sector-wide measures of performance available.

The concept of performance is central. It encompasses the efficiency of a project or activity — the ability to undertake an activity at the minimum cost possible. It also includes the effectiveness of an activity — whether the activity is achieving the objectives which were set for it. M&E is a valuable activity not least because it provides an opportunity and a framework for asking fundamental questions about any activity, such as: "What are you trying to achieve?"; "What does 'success' look like?"; "How will you know if or when you've achieved it?"

There are many different types of M&E tool; and they can be used in a variety of ways. These tools are related, but they can lead to confusion exacerbated by the different terminologies employed by evaluation practitioners. They all address the measurement of performance: ongoing monitoring and performance indicators; project and program evaluation — ex ante, ongoing/formative and ex post/summative; performance (or value-for-money) audits; financial auditing, etc. Each of these tools provides information on the performance of an activity, and each can be used in a variety of contexts.

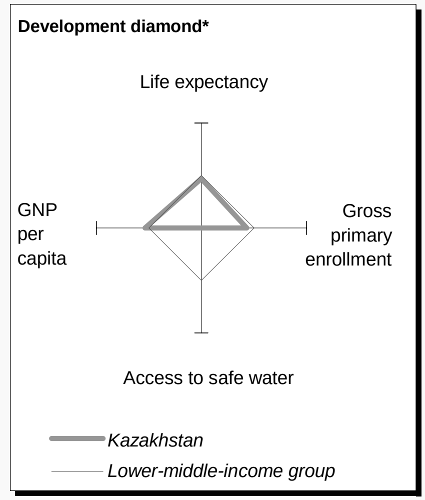
The support which the development of a country's M&E capacities can make to broader governance, institutional development and public sector reform is often not fully appreciated. There are links and commonalities in the areas of:

- budgetary and financial management systems, including financial reporting;
- intergovernmental fiscal relations, and the extent to which they encompass a focus on government performance and accountability;
- accountability institutions and audit organizations;
- commercialization and the private sector delivery of public services — i.e., where governments exit from public service delivery. Success in achieving this requires a clear understanding of program objectives, and also ex-ante, ongoing and ex-post assessments of the performance of contracted activities;
- setting explicit customer service standards by service delivery agencies, and monitoring the extent to which these are actually achieved;
- civil service reform which includes devolution to managers of increased levels of responsibility and autonomy (the 'new public management');
- civil service reform which focuses on personnel performance, management and appraisal, particularly via performance contracts for senior civil servants — recognizing that individual performance is reflected to some extent in project or program performance;
- civil service pay. Many transition and developing countries face the problem of a bloated civil service with low levels of pay and productivity, leading to difficulties in recruiting and retaining capable staff. One approach to this type of situation is higher pay (often for a downsized government workforce) in return for greater — and demonstrable — performance. Performance can be demonstrated if monitoring information is available on the activities and outputs of individuals and work units. These types of information are closely related to monitoring information on projects, programs and sectors;
- the quality of civil service policy advice, and whether or not that advice encompasses whatever M&E information exists or can be commissioned;
- participation and the 'voice' of civil society — this addresses the issue of the views and expectations of ordinary citizens concerning the performance of government activities. It is related to concepts and tools of participatory evaluation and client surveys. It also relates to the role and contribution of non-government organizations (NGOs) including universities and think-tanks; and
- anti-corruption efforts — there are many commonalities and links with the development of M&E systems, in areas such as improved financial management systems, performance reporting, strengthening of watchdog agencies, and greater transparency in policymaking and implementation.

Table 1: Kazakhstan at a glance

#######

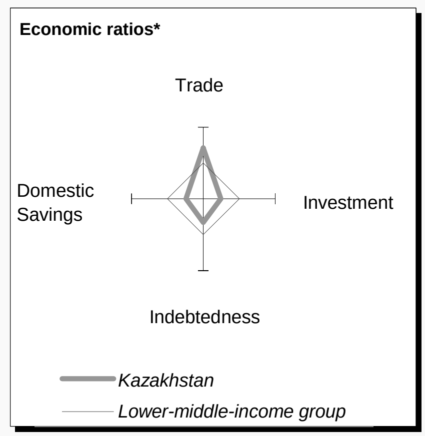
POVERTY and SOCIAL	Kazakhstan	Europe & Central Asia	Lower-middle-income
1999			
Population, mid-year *(millions)*	15.4	475	2,094
GNP per capita *(Atlas method, US$)*	1,290	2,150	1,200
GNP *(Atlas method, US$ billions)*	20.0	1,022	2,513
Average annual growth, 1993-99			
Population *(%)*	-1.1	0.1	1.1
Labor force *(%)*	-0.4	0.6	1.2
Most recent estimate (latest year available, 1993-99)			
Poverty *(% of population below national poverty line)*	35	..	..
Urban population *(% of total population)*	56	67	43
Life expectancy at birth *(years)*	65	69	69
Infant mortality *(per 1,000 live births)*	22	22	33
Child malnutrition *(% of children under 5)*	8	8	15
Access to improved water source *(% of population)*	..	..	86
Illiteracy *(% of population age 15+)*	..	3	16
Gross primary enrollment *(% of school-age population)*	98	100	114
Male	97	101	114
Female	98	99	116



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

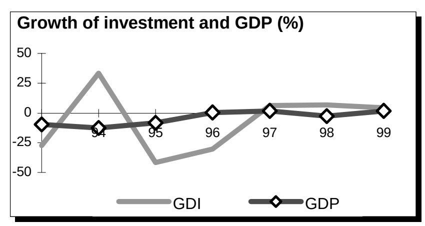
	1979	1989	1998	1999
GDP *(US$ billions)*	..	39.0	21.8	15.9
Gross domestic investment/GDP	..	..	15.7	13.2
Exports of goods and services/GDP	..	..	30.9	43.4
Gross domestic savings/GDP	..	..	10.9	14.3
Gross national savings/GDP	..	..	10.7	12.9
Current account balance/GDP	..	..	-5.6	-1.1
Interest payments/GDP	..	..	1.3	2.0
Total debt/GDP	..	..	37.0	50.1
Total debt service/exports	..	..	14.4	20.2
Present value of debt/GDP	..	..	24.7	..
Present value of debt/exports	..	..	78.9	..

	1979-89	1989-99	1998	1999	1999-03
(average annual growth)					
GDP	..	-6.3	-2.5	1.7	4.7
GNP per capita	..	-5.8	-1.4	1.2	5.7
Exports of goods and services	..	-4.6	-11.9	18.7	7.0

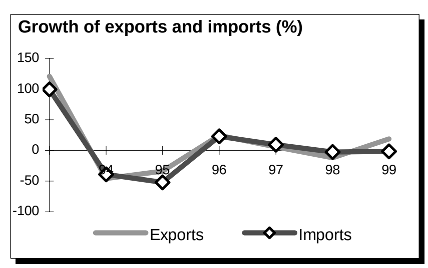


STRUCTURE of the ECONOMY

	1979	1989	1998	1999
(% of GDP)				
Agriculture	..	..	5.6	9.9
Industry	..	..	29.3	30.4
Manufacturing	..	..	24.4	25.6
Services	..	..	65.1	59.7
Private consumption	..	..	68.6	65.7
General government consumption	..	..	20.6	20.0
Imports of goods and services	..	..	35.7	42.3



	1979-89	1989-99	1998	1999
(average annual growth)				
Agriculture	..	-11.3	-18.9	21.6
Industry	..	-8.0	-0.1	2.2
Manufacturing	..	..	..	..
Services	..	1.9	-1.4	2.1
Private consumption	..	-7.2	-10.7	-10.5
General government consumption	..	-4.4	-13.5	18.2
Gross domestic investment	..	-11.6	6.5	4.5
Imports of goods and services	..	-8.9	-2.5	-1.5
Gross national product	..	-6.4	-2.4	-0.4

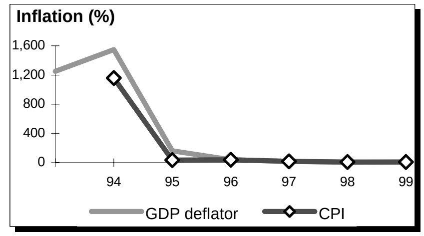


Note: 1999 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

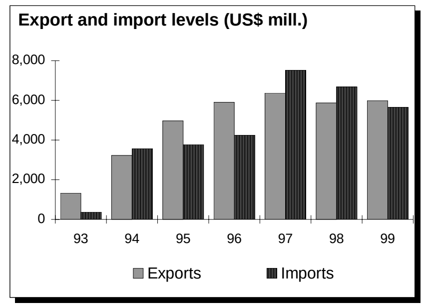
PRICES and GOVERNMENT FINANCE

	1979	1989	1998	1999
Domestic prices				
(% change)				
Consumer prices	..	..	7.3	8.4
Implicit GDP deflator	..	5.8	3.9	10.2
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	..	18.3	18.2
Current budget balance	..	..	-4.9	-2.7
Overall surplus/deficit	..	..	-7.7	-5.5



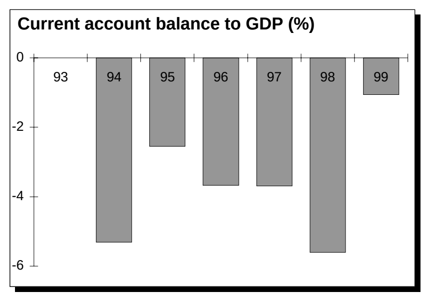
TRADE

	1979	1989	1998	1999
(US$ millions)				
Total exports (fob)	..	..	5,870	5,986
Fuel, oil products	..	..	2,068	2,039
Ferrous metals	..	..	804	694
Manufactures	..	..	337	312
Total imports (cif)	..	..	6,672	5,645
Food	..	..	617	485
Fuel and energy	..	..	618	550
Capital goods	..	..	1,124	913
Export price index *(1995=100)*	..	..	100	103
Import price index *(1995=100)*	..	..	118	120
Terms of trade *(1995=100)*	..	..	85	86



BALANCE of PAYMENTS

	1979	1989	1998	1999
(US$ millions)				
Exports of goods and services	..	..	6,735	6,901
Imports of goods and services	..	..	7,787	6,729
Resource balance	..	..	-1,052	172
Net income	..	..	-296	-498
Net current transfers	..	..	123	157
Current account balance	..	..	-1,225	-169
Financing items (net)	..	..	802	391
Changes in net reserves	..	..	423	-222
Memo:				
Reserves including gold *(US$ millions)*	..	..	1,967	2,003
Conversion rate *(DEC, local/US$)*	..	2.10E-3	81.9	100.1



EXTERNAL DEBT and RESOURCE FLOWS

	1979	1989	1998	1999
(US$ millions)				
Total debt outstanding and disbursed	..	..	8,074	7,967
IBRD	..	..	899	1,116
IDA	..	..	0	0
Total debt service	..	..	987	1,409
IBRD	..	..	44	73
IDA	..	..	0	0
Composition of net resource flows				
Official grants	..	..	15	-234
Official creditors	..	..	339	248
Private creditors	..	..	861	-48
Foreign direct investment	..	..	1,158	0
Portfolio equity	..	..	0	0
World Bank program				
Commitments	..	..	315	316
Disbursements	..	..	211	209
Principal repayments	..	..	0	19
Net flows	..	..	211	190
Interest payments	..	..	44	54
Net transfers	..	..	167	136

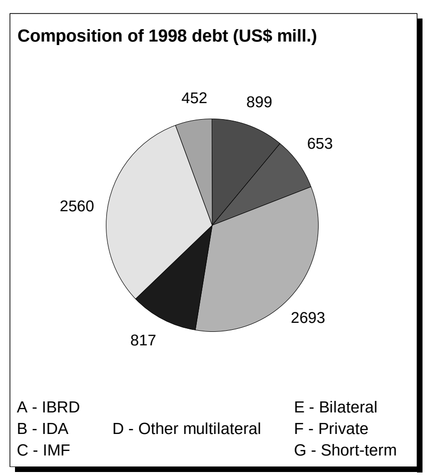


Table 2: Kazakhstan: Key Economic Indicators, 1991-1997

Indicator	1991	1992	1993	1994	1995	1996	1997	Average 1991-1997	Comparator Countries, 1991-97 av Russia	Turkey	Azerbaijan	Kyrgyz Republic	Tajikistan
GDP growth (annual %)	-6.8	-13.0	-9.6	-12.6	-8.2	0.5	1.7	-6.9	-6.8	4.4	-11.9	-7.1	-14.7
GNP per capita growth (annual %)	-7.4	-15.3	-7.5	-11.6	-7.2	1.4	2.4	-6.4	-7.0	2.7	-12.9	-7.8	-14.1
GNP per capita, Atlas method (current US$)	2,180	1,800	1,590	1,350	1,260	1,270	1,350	1,543	2,771	2,841	704	601	466
GNP per capita, PPP (current international $)	4,680	4,140	3,920	3,530	3,370	3,460	3,530	3,804	4,827	5,567	2,073	2,359	1,554
Population growth (annual %)	0.6	0.4	-0.2	-1.1	-1.4	-0.9	-0.8	-0.5	-0.1	1.8	0.9	0.8	1.8
Agriculture, value added (% of GDP)	..	26.7	17.5	15.5	13.0	12.8	12.0	16.2	8.4	16.0	21.7	42.4	33.2
Manufacturing, value added (% of GDP)	..	8.9	..	..	..	..	..	8.9	…	19.5	18.9	21.8	…
Services, etc., value added (% of GDP)	..	28.7	43.1	44.5	55.5	60.3	61.2	48.9	49.7	53.9	59.1	30.3	31.5
Exports of goods and services (% of GDP)	..	74.0	37.9	37.1	39.0	35.3	35.2	43.1	29.3	18.5	34.2	33.8	84.3
Imports of goods and services (% of GDP)	..	75.3	46.7	47.1	43.5	36.0	37.4	47.7	25.8	22.3	50.6	44.4	102.9
International tourism, receipts (% of total exports)	..	..	..	..	..	..	..	…	4.1	13.9	12.2	0.8	…
Current account balance (% of GDP)	..	-0.4	-1.8	-5.9	-2.6	-3.6	-4.1	-3.1	1.3	-0.9	-4.6	-7.9	-5.9
Resource balance (% of GDP)	..	-1.3	-8.8	-10.1	-4.6	-0.7	-2.1	-4.6	3.5	-3.8	-16.4	-10.5	-14.0
Agriculture, value added (annual % growth)	..	..	-6.5	-21.0	-24.4	-8.0	-0.9	-12.2	-6.6	0.9	-5.4	-1.6	…
Manufacturing, value added (annual % growth)	..	..	..	..	..	..	..	…	…	6.4	-10.8	-4.3	…
Services, etc., value added (annual % growth)	..	..	14.3	2.1	-2.3	4.7	0.0	3.8	-5.5	4.3	-5.6	-5.9	…
Exports of goods and services (annual % growth)	..	..	-8.1	-11.0	5.0	2.0	2.2	-2.0	0.1	12.3	3.4	-2.1	11.7
Aid (% of GNP)	0.4	0.0	0.1	0.3	0.3	0.6	0.6	0.3	0.4	0.3	2.4	7.5	3.1
Aid (% of gross domestic investment)	..	0.1	0.4	0.9	1.4	3.7	3.8	1.7	1.4	1.2	15.2	41.3	13.5
Aid per capita (current US$)	6.8	0.7	1.1	3.3	4.1	7.8	8.4	4.6	10.0	7.3	12.9	39.2	10.9
Money and quasi money (M2) as % of GDP	..	..	..	7.5	8.4	9.0	8.7	8.4	14.3	23.6	16.5	…	…
Money and quasi money growth (annual %)	..	..	..	576.0	108.2	20.9	8.2	178.3	97.1	98.5	405.3	…	…
Inflation, consumer prices (annual %)	..	..	..	..	..	..	..	…	…	80.4	…	…	…
Domestic credit provided by banking sector (% of GDP)	..	..	49.6	29.1	9.5	7.9	6.5	20.5	26.2	30.0	29.4	…	…
Gross domestic savings (% of GDP)	..	30.2	11.2	18.7	18.7	15.4	13.5	17.9	30.7	20.6	5.8	6.8	6.1
Gross domestic investment (% of GDP)	..	31.5	20.0	28.7	23.3	16.1	15.6	22.6	27.2	24.4	22.2	17.3	20.1
Gross international reserves in months of imports	..	..	1.7	2.6	3.2	3.0	3.1	2.7	2.0	3.3	1.0	1.3	…
Private investment (% of GDFI)	..	77.9	..	..	..	..	..	77.9	75.0	75.6	…	83.3	…
Total debt service (% of exports of goods and services)	..	0.0	0.2	1.6	4.1	4.6	6.5	2.8	5.0	27.5	1.9	5.5	1.0
Overall budget deficit, including grants (% of GDP)	..	..	..	..	..	..	..	…	-7.7	-5.5	…	…	…
Expenditure, total (% of GDP)	..	..	..	..	..	..	..	…	26.3	23.1	…	…	…
Current revenue, excluding grants (% of GDP)	..	..	..	..	..	..	..	…	19.9	17.3	…	…	…
Tax revenue (% of GDP)	..	..	..	..	..	..	..	…	18.6	13.9	…	12.5	…
Trade (% of GDP)	..	149.3	84.6	84.2	82.5	71.3	72.6	90.8	55.2	40.7	84.8	78.2	187.2
Foreign direct investment, net inflows (% of GDI)	..	1.2	2.9	3.3	20.8	33.5	38.2	16.6	1.8	1.9	35.6	9.1	2.4
Illiteracy rate, adult total (% of people aged 15 and above)	..	..	..	..	..	..	..	…	0.9	17.4	…	…	1.2
Immunization, DPT (% of children under 12 months)	78.0	81.0	76.0	80.0	91.0	94.0	96.0	85.1	71.0	77.9	77.2	83.8	92.3
Life expectancy at birth, total (years)	68.0	67.7	66.7	65.7	64.9	..	64.9	66.3	66.2	68.2	69.6	67.0	67.2
Mortality rate, infant (per 1,000 live births)	27.4	26.1	28.4	27.4	27.3	24.8	24.0	26.5	18.1	46.7	23.9	29.2	38.1
Safe water (% of population with access)	..	..	..	..	..	..	..	…	…	…	…	80.5	69.0
Sanitation (% of population with access)	..	..	..	..	..	..	..	…	…	…	35.7	…	62.0
School enrollment, primary (% gross)	88.0	89.0	87.0	89.0	98.0	98.0	..	91.5	107.4	101.8	113.2	110.2	91.3
Population density (people per sq km)	..	6.2	6.2	6.1	6.0	6.0	..	6.1	8.8	78.0	86.0	23.5	40.8
Urban population (% of total)	58.0	58.4	58.8	59.2	59.6	60.0	60.4	59.2	75.5	67.4	55.5	38.7	32.3

Table 3: ESW List (1991-1999)

Report Title	***Economic or Sector Report***	***Date***	***Report #***
Kazakhstan - Country Assistance Strategy	CAS	7/31/97	16989
Kazakhstan - Economic Report (Vol.1)	ER	7/7/94	12856
Kazakhstan - Economic Report (Vol.2)	ER	7/7/94	12856
Kazakhstan - Transition of the State (Vol.1)	ER	7/15/96	15353
Kazakhstan - Transition of the State (Vol.2)	ER	7/15/96	15353
Kazakhstan & Kyrgyzstan – Opportunities for Renewable Energy Development (Vol.1)	ESM	11/1/97	16855
Kazakhstan - Natural Gas Investment Strategy Study (Vol.1)	ESM	12/1/97	ESM199
Kazakhstan - Natural Gas Investment Strategy Study (Vol.2)	ESM	12/1/97	ESM199
Kazakhstan - Natural Gas Investment Strategy Study (Vol.3)	ESM	12/1/97	ESM199
Kazakhstan - Agricultural Sector Review (Vol.1)	SR	12/12/94	13334
Kazakhstan - Transport Sector Review (Vol.1)	SR	9/30/96	15020
Kazakhstan - Living Standards during the Transition (Vol.1)	SR	3/22/98	17520
Kazakhstan - Joint Private Sector Assessment (Vol.1)	SR	9/30/98	18467
Kazakhstan - The Transition to a Market Economy (Vol.1)	CS	8/1/93	12303
Kazakhstan - Transition of the State (Vol.1)	CS	3/1/97	16388

CAS = Country Assistance Strategy Document; ER = Economic Report; ESM = ESMAP; SR = Sector Report; CS = World Bank Country Study

Table 4: OED and QAG ratings for Kazakhstan and comparator countries

Table 4 (a): OED Ratings

Country	*Total Evaluated $m*	*o/w Adjustment $m*	*Outcome % Satisf.*	*Outcome % Satisf. Adj.*	*Inst. Devel. Imp. % Substan.*	*Inst. Devel. Imp. % Substan. Adj.*	*Sustainability % Likely*	*Sustainability % Likely Adj.*
FY 1993-2000*								
Bank wide	43709	30952	87	92	50	49	74	76
ECA	9377	7242	83	92	52	57	69	77
Kazakhstan	822	770	100	100	100	100	95	100
Uzbekistan	160	160	0	0	0	0	0	0
Ukraine	1513	1410	95	100	40	43	42	43
Russian Federation	2001	1200	62	100	32	50	61	100
Romania	355	235	48	21	34	0	86	79

1) The Institutional Development Impact and Sustainability ratings have been in use only since FY 89. Hence, the data for these two ratings apply for smaller levels of total net commitment than shown in columns 2 and 3 of the table.
2) Source: OED ratings database as of 08/31/
* OED ratings for loans approved in FY 1993-2000

Table 4(b): QAG Ratings

Country	*No. of projects*	*Net commit., $m*	*Projects at risk, %*	*Commitment at risk %*
Bank	1650	123425	18	20
ECA	328	22172	20	37
Kazakhstan	14	941	7	3
Uzbekistan	8	298	38	45
Ukraine	9	1067	33	19
Russian Federation	31	3833	48	60
Romania	22	1488	9	12

1) Source: World Bank Business Warehouse as of 11/03/2000.

Table 5: Costs of Bank Programs for Kazakhstan and Comparator Countries, FY 91-99

Costs

Regions/Countries	*Total costs, $m*	*Lending completion costs, $m*	*Supervision costs, $m*	*ESW completion costs, $m*
Bank wide	2292.1	979.1	897.9	415.1
Europe And Central Asia	408.6	192.9	139.4	76.3
Kazakhstan	16.1	7.7	6.1	2.3
Uzbekistan	11.3	6.1	3.0	2.2
Ukraine	19.1	9.6	4.7	4.8
Russian Federation	56.1	23.9	23.1	9.1
Romania	28.3	14	9.8	4.7
Bank wide	100%	43%	39%	18%
Europe And Central Asia	100%	47%	34%	19%
Kazakhstan	100%	48%	38%	14%
Uzbekistan	100%	54%	27%	19%
Ukraine	100%	50%	25%	25%
Russian Federation	100%	43%	41%	16%
Romania	100%	49%	35%	16%

Efficiency Table

Regions/ Countries	*Total costs, $m*	*Number of projects*	*Net commitment, $m*	*Net commitment for satisf. & nonrisky projects, $m*	*Average costs per project, $1000*	*Average costs $ per $1000 of net commitment*	*Average costs $ per $1000 of net commitment for satisf. & nonrisky*	*Memo Average project size, $m*
Bank wide	2292.1	2229	197103	144120	1028	11.6	15.9	88
Europe And Central Asia	408.6	434	34976	21464	941	11.7	19.0	81
Kazakhstan	16.1	20	1680	1213	805	9.6	13.3	84
Uzbekistan	11.3	9	429	70	1256	26.3	161.4	48
Ukraine	19.1	16	2552	1447	1194	7.5	13.2	160
Russian Federation	56.1	42	10840	4240	1336	5.2	13.2	258
Romania	28.3	25	2874	2346	1132	9.8	12.1	115

Source: World Bank CRM database as of July 6, 2000.
1) The amount of total costs includes lending completion costs, supervision, scheduled and unscheduled ESW, and dropped project costs.
2) The amount of lending completion costs includes lending completion costs and dropped project costs.
3) The amount of ESW preparation costs includes unscheduled and scheduled ESW preparation costs.

Table 6: External Assistance to Kazakhstan, 1991-1999

I. Average Net Receipts from all donors for calendar years 1991-1998, (US$ million)

Donors	***91-98***	***1996***	***1997***	***1998***
Bilateral	412.39	216.04	362.93	1497.36
Multilateral	195.61	295.9	302.16	497.59
o/w IBRD	115.86	225.1	201.66	210.8
o/w AS. D B	32.39	26.32	54.61	114.53
o/w EBRD	18.15	15.93	7.92	93.37
Other	0.14	0.32	0.75	..
Total donors	608.14	512.26	665.84	1994.95
Memo item:				
GDP at market prices (current US$ million)		21,036	22,165	21,979

Source: International Development Statistics CD ROM, 2000 Edition, OECD
World Bank SIMA database as of November 6, 2000.

II. World Bank Commitments by Sectors for fiscal years 1991-1999, (US$ million)

Sectors	***91-00***	***1997***	***1998***	***1999***	***2000***
Agriculture & Environment	95.0	10	15		
Health, Nutrition & Population	42.5	..	..	42.5	..
Finance	242.0	..	..	..	..
Infrastructure*	404.7	109		100	140
Public Sector Management**	613.4	15.8	530.0	16.5	..
Multisector	398.0	..	..	.	..
Water Supply & Sanitation	23.5	7.0	..	16.5	..
Total:	1819.1	141.8	545.0	175.5	140

Source: World Bank Business Warehouse as of 11/2000.

Table 7: Bank Management for Kazakhstan - 1991-1999

Year	***Vice President***	***Country Director***	***Country Operations Division Chief***
1992	Wilfried Thalwitz	Russell J. Cheetham	Adil J. Kanaan
1993	Wilfried Thalwitz	Russell J. Cheetham	Kadir T. Yurukoglu
1994	Wilfreid Thalwitz	Russell J. Cheetham	Kadir T. Yurukoglu
1995	Wilfreid Thalwitz	Yukon Huang	Kadir T. Yurukoglu
1996	Johannes F. Linn	Yukon Huang	Kadir T. Yurukoglu
1997	Johannes F. Linn	Yukon Huang	Kadir T. Yurukoglu
1998	Johannes F. Linn	Kiyoshi Kodera	n/a
1999	Johannes F. Linn	Kiyoshi Kodera	n/a

Annex A

List of People Interviewed Jointly by OED and MIGA

1. Mr. Alexander Pavlov, First Vice Prime Minister
2. Mr. Erzhan Utembayev, Vice Prime Minister
3. Mr. Majit Esenbayev, Minister of Finance
4. Ms. Natalya A. Korzhova, Deputy Minister of Finance
5. Ms. Dinara Shaimardanova, Deputy Director, Macroeconomic and Financial Statistics Department
6. Mr. Zhaksybek A. Kulekeyev, Minister of Economy
7. Mr. Serik Akhanov, Vice-Minister of Economy
8. Ms. Azhar Kuzutbayeva, Vice-Minister of Justice
9. Ms. Svetlana Sh. Kirzhibayeva, Head of Department for Property Disputes with Foreign Organizations
10. Mr. Sauat M. Mynbayev, Minister of Agriculture
11. Mr. Grigori Marchenko, Governor, National Bank of Kazakhstan
12. Mr. Alikhan Baimenov, Chairman, Agency for Civil Service
13. Mr. Erbol T. Orynbayev, Director of the Department of Normatif-Legal work
14. Mr. Kairat N. Kelimbetov, Chairman, Agency for Strategic Planning of the Republic of Kazakhstan
15. Mr. Oraz A. Jandosov, President, KEGOC
16. Mr. Doulat O. Kuanyshev, Chairman, Kazakhstan Agency of Investment (ARKI)
17. Mr. Daulet H. Sembayev, Chairman of the Association of Financiers of Kazakhstan
18. Mr. Aidan Karibzhanov, Managing Director, Kazcommertsbank
19. Mr. Erzhan Tatishev, Chairman of the Executive Board, Bank Turan Alem
20. Mr. Paul Creech, General Director, Coca Cola Almaty Bottlers C. J.S.C.
21. Mr. Tarik Tayfun, Finance Director, Coca Cola Almaty Bottlers C.J.S.C
22. Mr. Mustafa Meten, Plant Manager, Coca Cola Almaty Bottlers, C.J.S.C.
23. Mr. Gulmira Zhamanova, Executive Director, CASDM: Public Information Center for Sustainable Development in Central Asia
24. Ms. Natalya Brezhneva, President, ABN Amro
25. Ms. Umut Shayakhmetova, Managing Director, ABN Amro
26. Mr. Michael B. Humphreys, Ambassador, Head of Delegation, European Union- Delegation of the Commission in Kazakhstan
27. Ms. Charlotte Adriaen, Acting Head of Technical Assistance Section, European Union- Delegation of the Commission in Kazakhstan
28. Mr. Garry Lindon, OMT Director, United States Agency for International Development, Regional Mission for Central Asia
29. Mr. Paul S. Ross, Resident Representative, International Monetary Fund
30. Mr. Hong Wang, Resident Representative in Kazakhstan, Asian Development Bank
31. Mr. Fredrick D. Korfker, Director, Project Evaluation Department, EBRD, London
32. Mr. Martin Raiser, Principal Economist, EBRD, London

33. Mr. Mahir Babayev, Senior Counselor, EBRD, London
34. Mr. Wolfgang Gruber, Senior Evaluation Officer, Project Evaluation Department, EBRD, London
35. Mr. Michael Davey, Director, Kazakhstan, Kyrgyzstan, EBRD Kazakhstan
36. Mr. Bulat Utkelov, WB Resident Mission, Kazakhstan
37. Mr. Roman Solodchenko, WB Resident Mission, Kazakhstan
38. Ms. Natalia Beisenova, WB Resident Mission, Kazakhstan
39. Mr. Sergey Zlotnikov, Executive Director, Transparency Kazakhstan
40. Ms. Janar Jandosova, Member of the Board, , Transparency Kazakhstan
41. Mr. Zaid S. Sethi, Director, Tax and Legal Services, Price Waterhouse Coopers
42. Mr. George Gramatke, Partner, Price Waterhouse Coopers
43. Association of Sociologists and Anthropologists
44. Private Citizens

Additional individuals interviewed separately by MIGA

GSM Kazakhstan (KCell)
Mr. Haluk Ege, Chief Executive Officer
Mr. Mustafa Guzelsevdi, Chief Financial Officer
Mr. Andrey Gavrilenko, Business Manager

ABN AMRO Bank

Mr. Otbert E. de Jong, General Manager
Mr. Timur Issatayev, Deputy General Manager

MANAGEMENT ACTION RECORD OF OED, OEG, AND MIGA RECOMMENDATIONS, AND MANAGEMENT RESPONSES AND ACTIONS

Major OED Recommendations	Management Response
Private Sector Development: Private sector is the key to Kazakhstan's future. The World Bank Group should link its support to progress in the environment for private sector development, in particular to improvements in the legal and regulatory framework, implementation of judicial reform, greater transparency in privatization, and a reduction in the arbitrary enforcement of tax laws. It should inform the Government about the full range of World Bank Group instruments available to promote the development of the private sector.	Improving the environment for private sector activities will remain a key part of our program. Only through broad-based, sustainable, private sector led growth can poverty issues be seriously addressed. We will use not only future lending operations, both investment and possibly adjustment loans, but also economic and sector work , IDF grants and other instruments and it will be a centerpiece of our country dialogue. Government already has expressed on many occasions its desire for increased activity by both IFC and MIGA, activity which can only increase with an improved framework and environment for the private sector.
Protection of the poor OED welcomes the preparation of the Public Expenditure Review (PER) which will assist the Government of Kazakhstan in better targeting its expenditures in the context of its Social Protection Adjustment Loan. An updating of the 1996 Living Standards Measurement Survey (LSMS) should also help in improving targeting the poor. The IBRD should assist the authorities in updating the LSMS and should use it to prepare a new Poverty Assessment. In the medium-term, periodic PERs and Poverty Assessments should assist the Government in formulating its budgetary priorities in view of fluctuating oil revenues.	The PER has been finalized and circulated widely in Kazakhstan. A new poverty assessment and labor market study is underway and it is intended to help the Government be able to carry out its own poverty monitoring activities. Furthering strengthening of budgetary processes and local level civil service functions will be in the future program.
Public Financial Accountability: There is a general perception of waste of public resources and corruption as in other transition economies. OED recommends a program for developing and strengthening the public financial accountability framework. The first steps should include conducting a Country Financial Accountability Assessment and reflecting the findings in the design of the proposed Public Sector Resource Management Adjustment Loan II.	Public Sector Reform has been a vital part of our recent work and it will continue to be in the future. A Governance and Service Delivery Diagnostic is under preparation and further work on public sector reform, reforming the fiscal relations between central and local governments and overall strengthening at the local level is planned. A Financial Accountability Assessment will be undertaken in FY02.

Major OEG Recommendations	Management Response
In Kazakhstan, IFC has a knowledge of the private sector that, if better shared, could improve Bank Group efforts. IFC should ensure that its transaction perspective is fully brought to bear in the CAS and other WB PSD efforts. IFC should alert other units of the Bank Group to known corrupt entities with a view to avoiding them. IFC also needs to draw systematically from its clients' experiences to inform the WB of situations where poor regulatory frameworks are inhibiting productive private sector activities. In Kazakhstan operations, IFC has engaged relatively sophisticated banks. IFC should determine whether “wholesale” channel activity via banks could more effectively address SMEs instead of field-based direct investments.	Knowledge and information are regularly shared between IFC and other parts of the Bank Group, often during country meetings or in discussions of specific projects, both in Washington and in the Almaty field office were IFC and IBRD share facilities. Impediments which inhibit private sector activities, and thus IFC's investment program, are a regular part of this information sharing, however, IBRD interventions to improve the framework are often limited by either the country, which does not recognize the need to change the framework (the privatization process in Kazakhstan is an example), or budgetary constraints, which limit IBRD's ability to take on additional operations. The sharing of information on corrupt entities is done on an informal basis and should be continued in this manner, as such information is often based on inuendos and is rarely capable of documentation. Kazakhstan's banking sector has undergone significant growth and sophistication, in some measure due to IFC's interventions as recognized by OEG. As a result, about two years ago IFC was able to begin a "wholesale" approach to channeling medium and long-term funding to SMEs through credit lines provided to local financial intermediaries and this approach will continue with direct investments being undertaken only for large projects or those with significant developmental impact.

Major MIGA Recommendations	Management Response
. . MIGA should increase their efforts to be more recognized as a Bank Group PSD instrument. MIGA efforts should include contacts with relevant Government officials, IBRD and IFC field staff to inform them about MIGA services and support. MIGA should also respond to Government's request to promote FDI in sectors like residential mortgages and pension fund management. More generally, MIGA also has a knowledge of the private sector that, if more actively shared, could better facilitate Bank Group efforts.	MIGA is working closely with Government officials, the IBRD and the IFC to see how MIGA's services and support can contribute to private sector development in Kazakhstan. During the Annual Meetings in Prague, MIGA met with Kazakhstan Government Officials to discuss signing a Memorandum of Understanding (MOU). Meetings with the IFC have been initiated to discuss the possibilities for facilitating foreign investments in Kazakhstan, the potential use of political risk insurance and possible areas for cooperation. With regard to the financial sector, MIGA has successfully promoted FDI in this sector in other countries in the past, including general banking, mortgages, and leasing operations and will explore the possibility of facilitating such investments in Kazakhstan. On the investment promotion side, MIGA will continue to disseminate information regarding investment conditions and opportunities in Kazakhstan via its online services, and to include public and private sector leaders in MIGA's regional programs in promotional capacity building offered through the Private Sector Development Centre in Istanbul. MIGA plans to undertake a mission to Kazakhstan in FY01, with the view to develop stronger relations with the various Government agencies that deal with attracting foreign investors, the World Bank Group field office and the private sector community.

Annex C

Office Memorandum

To: Mr. Ruben Lamdani December 12, 2000

From: Nadir Burn

Subject: Kazakhstan: **Country Assistance Evaluation**

I am pleased to report you that the authorities of Kazakhstan have no corrections to the revised draft Country Assistance Evaluation and are ready to discuss it at the earliest possible meeting of the Committee on Development Effectiveness (CODE).

The Kazakh authorities have asked me to thank the OED team headed by Mrs. Gupta for its excellent cooperation with the authorities, which led to the speedy completion of this comprehensive study.

cc: Mr. Philippe Peeters
Mrs. Poonam Gupta

Annex D

Mr. **Kiyoshi Kodera, Country Director for Kazakstan's Response to the** CAE

I would like to note that there has been excellent consultation by the OED staff in the preparation of this CAE, while it took enormous amount of time. On the whole I believe the current CAE captures the main issues in our assistance strategy for Kazakhstan over the time since independence. I believe the report does a good job of putting our assistance in the context of the 1990s, the break-up of the former Soviet Union and the limited state of the Bank's knowledge of the transition process at that time.

However, I think the report should take more account of the resource limitations faced by the Bank. (It often speaks of more activities being needed in certain activities without identifying what activities could have been cut or postponed.) In addition, I have to say that today's standards and priorities are used to judge yesterday's actions rather than the standards and priorities of that time, including the priorities of the Government officials then in office.

Having said this, we have found the conclusions of the CAE to be useful in designing our next CAS for Kazakhstan.

Annex E

MIGA Management Response to the Kazakhstan CAE

MIGA's newly created Country Development Group (CDG) is working closely with Government officials, IBRD and IFC to see how MIGA's services and support can be optimally used. Recently, meetings with IFC have been initiated to discuss the possibilities for foreign investments in Kazakhstan, the potential use of political risk insurance and possible areas for cooperation between MIGA and IFC. CDG has also benefited from the recent findings of MIGA's evaluation in Kazakhstan, where by lessons learned have they been fed back to CDG and have been incorporated into MIGA's contribution to the new CAS for Kazakhstan. MIGA has successfully promoted FDI in sectors like residential mortgages in the past and will explore the possibility to use it in its operations in Kazakhstan. MIGA's online information services, IPAnet and PrivatizationLink, feature information on the investment climate and investment opportunities arising from the national privatization program in Kazakhstan. MIGA has also partnered with the OECD and other donor agencies through the Private Sector Development Center in Istanbul to provide training in investment promotion strategies and techniques to Central Asian Republics, including Kazakhstan. The key focus has been on attracting investment in mining, oil and gas and financial sectors. MIGA plans to undertake a mission to Kazakhstan in FY01, La., with view to develop stronger relations with the WB, and various Government agencies that deal with attracting foreign investors.

MIGA has benefited from the recent findings of the World Bank Group's evaluation in Kazakhstan, where by lessons learned have been fed back and have been incorporated in its underwriting process.

Prepared by the Country Development Group
July 28, 2000

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Prepared by the Country Development Group
July 28, 2000

February 6, 2001 CODE2001-0007

Report from CODE

Committee on Development Effectiveness

Informal Subcommittee's Report on Kazakhstan Country Assistance Evaluation

1. The CODE Subcommittee (SC) met on January 8, 2001 to discuss the Kazakhstan Country Assistance Evaluation (CAE) (CODE2000-108). The Subcommittee welcomed the CAE, the first evaluation study to be prepared jointly by OED, OEG and the MIGA Operations Evaluation Unit (OEU) and noted that the issues presented and the lessons learned held relevance for the Bank Group's approach and focus in transition economies.

2. The evaluation provides an independent assessment of the World Bank Group's assistance to the Republic of Kazakhstan during 1992-99. It assesses the Bank Group's products and services in Kazakhstan including economic and sector work, strategy and policy dialogue, participatory processes, resource mobilization, aid coordination and lending. The evaluation found that 1BRD adjustment lending had been successful in promoting policy reforms. The financial sector had been strengthened, prices and trade had been liberalized, and much of the economy had been privatized. However, economic and social welfare had declined significantly, poverty had increased and public accountability remained poor. Overall, the IBRD program was rated as partially satisfactory; its contribution to institutional development modest; and its sustainability uncertain. The contribution of IFC was judged to be timely and effective and that of MIGA modest. The main recommendations included a greater focus, on public financial accountability, on better prioritizing public expenditures for the poor and on improving the enabling environment for private sector development.

3. Comments by Management. IFC Management welcomed the study and concurred with the conclusions and overall recommendations, but expressed some' concern in its Management Response (CODE2001-1) about how IFC should proceed internally to address allegations of public sector corruption in the absence of clear hard evidence. It emphasized that the removal of many of the impediments to private sector development hinged on government commitment, which had not been forthcoming to date. As a result, IFC had taken a cautious approach, particularly in vetting sponsors and post-privatization investments. Bank management endorsed the forward looking aspects of the evaluation, but expressed doubt about OED's assessment of Bank performance.

4. IBRD Management welcomed the lessons and forward looking recommendations of the report. However, regarding the evaluation of past Bank performance, management raised several questions. Should not the OED report evaluate the appropriateness of that strategy on the basis of the information, experience and country context of tile time rather than with the benefit of hindsight? Is not an explicit counterfactual needed to evaluate why alternative strategies may have been better, particularly in some difficult areas such as the speed and modalities of privatization? Also given the resources available, what activities should have been dropped in order to undertake some of the additional ones suggested by the report, particularly at the start of the transition?

.5. In summary, the IBRD representative thought these issues should have been more clearly dealt with in evaluating the Bank assistance strategy in the past-- but that this was a separate issue from the recommendations for the future, which management found very useful.

6. Subcommittee members raised the folfowing issues:

7. Bank Approach to Privatization in Transition Countries. The Subcommittee welcomed the progress made in promoting policy reforms through adjustment lending and liberalizing prices and trade but held a number of views on the approach. Some speakers felt that the Bank's approach had overly focused on mass privatization and may have sacrificed quality for speed of transition. Some suggested caution in reaching conclusions on past performance in transition countries in the absence of a counter factual framework, especially given that the Bank had no prior country track record, had limited resources and was working in countries beset with problems that involved difficult tradeoffs. Several emphasized that a focus on corporate governance issues, legal and regulatory frameworks, choice of instruments and sequencing of events at the macro and the micro level, were also critical to the successful implementation of reforms. Some wondered if the methodology used was the most appropriate for countries in transition, facing problems that require long term solutions. OED noted that although the methodology was at the cutting edge, it was still in its early stages and that OED would be looking to the **Subcommittee to help** improve it. However, in this case, a clear-cut counterfactual did emerge from the evaluation: the Bank Group would have had a greater development impact had it carried out fewer projects of limited relevance and put greater stress on poverty and environmental assessments, public expenditures management and governance.

8. Choice of Instruments. The Subcommittee noted that two thirds of the loans were adjustment loans and asked if future evaluations could assess the effectiveness of these and other lending instruments, including assessing the quality of the dialogue between the Bank and Government and the quality of the relationship and complementarity of IMF and the Bank programs. In this regard, the Subcommittee noted the disconnect between good performance at the adjustment-linked level and poorer performance at the sector investment level and asked for more specific guidance on what practical measures could be taken to promote government ownership and commitment to undertake more difficult reforms. OED informed the Subcommittee that it was currently working with OPS on a review of adjustment lending in which some of these issues were addressed and that CODE and the Board would discuss the report.

9. A Stronger Focus on Social Protection. The Subcommittee noted the importance of early and thorough economic and sector work, especially in the areas of social protection, environment and public expenditure and called for a stronger Bank stance on social protection issues, including exploring possibilities of using conditional ities to ensure adequate social safety nets were in place. The Subcommittee noted that the Bank did not necessarily have to do all the analytical work itself, but should draw on work done by others, or by the Bank in other parts of the region where this could be helpful. OED underscored the need for the Bank to be more proactive in undertaking ESW and proposed that in the future a "social assessment" of privatization, indicating who wins and who losses, inform the development of Bank approaches to social protection when implementing such programs.

10. Role of tire IFC The Subcommittee recognized the impediments to private sector development in transition economies like Kazakhstan and the substantial knowledge-base that has been developed by IFC. The Subcommittee would welcome a wider dissemination of the lessons learned from IFC's experiences. One Subcommittee member called on IFC to be more proactive it! tailoring its services to accommodate the difficult private sector environment in such transition economies. Management informed the Subcommittee that as indicated in the CAE and also subsequent to the period of the evaluation, IFC had undertaken several initiatives to promote financial sector development and small and medium enterprise development (SMEs). IFC also informed the Subcommittee that considerable teaming had occurred across the 13 investment projects and that informal consultations had been held with the EBRD, IMF and IBRD to share that experience.

February 6, 2001 CODE2001-7

11. Institutional Developnent, Capacity and Sustainnbility. The Subcommittee recognized the capacity issues limiting institutional development, including the reconfiguration of government agencies and the rapid turnover of staff which limited the Bank's access to critical local information and presented a serious challenge to sustainable public sector reform.

12. Other Issues. The Subcommittee noted that although Kazakhstan had made good progress in promoting the welfare of women, the transition had not been gender neutral. The Subcommittee was concerned that there was no gender strategy in place and asked that this be addressed in the next CAS. Members also noted the neglect of the rural and agricultural sectors and environmental issues and asked how Management planned to approach the issue of Kazakhstan's dual economy. A speaker wondered about the appropriate level of Bank involvement with civil society in Kazakhstan and cautioned against the Bank being perceived as influencing internal politics. OED clarified that the emphasis of the proposed recommendations was on how to make information more accessible to the public, as a means of increasing transparency in and accountability for the use of public funds.

13. Conclusion. The Chairman underlined that the main purpose of the CAE was to distill the lessons from the past to inform future Bank policy and programs. The Chairman noted that several challenges remained including how the lessons learned would be used to inform the private sector development strategy and the need to gain a better understanding of how to sequence public sector reform interventions in transition countries, including when and how to institute social safety nets.

Matthias Meyer, Chairman
CODE Subcommittee

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