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**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
AND
INTERNATIONAL FINANCE CORPORATION**

**COUNTRY PARTNERSHIP STRATEGY PROGRESS REPORT
FOR
THE REPUBLIC OF KAZAKHSTAN**

May 1, 2008

Central Asia Country Unit
Europe and Central Asia Region

The International Finance Corporation
IFC Department for Southern Europe and Central Asia

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The date of the last Country Partnership Strategy was September 8, 2004

CURRENCY EQUIVALENTS

(as of May 5, 2008)

US\$1 = 120.48 KZT

FISCAL YEAR

(January 1 to December 31)

WEIGHTS AND MEASURES

Metric System

ABBREVIATIONS AND ACRONYMS

AAA	Advisory and Analytical Services	KZT	Kazakhstan Tenge
ABP	Annual Business Plan	MICs	Middle Income Countries
AFN	Agency for the supervision of Financial Markets	MIGA	Multilateral Investment Guarantee Agency
AML/CFT	Anti-Money Laundering and Combating Financing of Terrorism	MOEBP	Ministry of Economy and Budget Planning
ARKS	Agency of the Republic of Kazakhstan for Statistics	MLSP	Ministry of Labor and Social Protection
BEEPS	Business Environment and Enterprise Performance Survey	MOF	Ministry of Finance
CAREC	Central Asia Regional Economic Cooperation	MOU	Memorandum of Understanding
CASAREM	Central Asia-South Asia Regional Electricity Market	NSIID	National Strategy for Industrial Innovation Development
CIS	Commonwealth of Independent States	NBK	National Bank of Kazakhstan
CPI	Consumer Price Index	NFRK	National Fund of the Republic of Kazakhstan
CPPR	Country Portfolio Performance Review	NGOs	Non-Governmental Organizations
CPS	Country Partnership Strategy	NTDS	National Territorial Development Strategy
CTID	Committee for Transport Infrastructure Development	OECD	Organization for Economic Co-operation and Development
EADB	Eurasian Economic Community and its Development Bank	OSCE	Organization for Security and Co-operation in Europe
EBRD	European Bank for Reconstruction and Development	PCBs	Polychlorbiphenyls
ECA	Europe and Central Asia	PER	Public Expenditure Review
EITI	Extractive Industries Transparency Initiative	PEFA	Public Expenditure and Financial Responsibility Framework
ESW	Economic and Sector Work	PFMR	Public Finance Management Review
FDI	Foreign direct investment	POPs	Persistent Organic Pollutants
GDP	Gross Domestic Product	PPP	Public Private Partnership
GGFR	Global Gas Flaring Reduction Partnership	RK	Republic of Kazakhstan
GOK	Government of Kazakhstan	SECs	Socio-Entrepreneurial Corporations
IBRD	International Bank for Reconstruction and Development	SME	small and medium enterprise
IFC	International Finance Corporation	SMP	Statistical Master Plan
IFRS	International Financial Reporting Standards	TNCs	Transnational Companies
IMF	International Monetary Fund	UN	United Nations
JERP	Joint Economic Research Program	USAID	United States Agency for International Development
JSC	Joint Stock Company	WB	World Bank
KEGOC	Kazakhstan Electricity Grid Operating Company	WBG	World Bank Group
		WHO	World Health Organization
		WTO	World Trade Organization

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**Country Partnership Strategy Progress Report
For The Republic of Kazakhstan**

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Country Partnership Strategy Progress Report for the Republic of Kazakhstan

1. **The Country Partnership Strategy for Kazakhstan (CPS) was presented to the Board on September 8, 2004.** The strategy was designed to ensure strong government ownership of the Bank's program, to allow the Government and the Bank to adjust that program to changing government priorities and country circumstances, and thereby to maximize the Bank's contribution to Kazakhstan's development. The cornerstone of the CPS is the Joint Economic Research Program (JERP) – an instrument that has put at the service of the Government of Kazakhstan (GOK) best international practice in managing natural resource windfalls and harnessing them for the needs of human development.

2. **At the time of the 2004 Kazakhstan CPS the Government was skeptical of the Bank's value added, and questioned its relevance to its development agenda.** There was a risk that engagement could be cut off entirely. The introduction of the JERP was an innovative solution to change the way the Bank works in Kazakhstan. As a result, the Bank's program since 2004 has been purely demand-driven. The pressure of a discerning client has helped improve the quality and responsiveness of the Bank's interventions. The quality of the dialogue has improved and the Bank is now viewed as a trusted policy advisor. The JERP has proven to be a helpful vehicle to promote strong ownership, including at high levels of Government.

1. COUNTRY CONTEXT

3. **The political environment evolved during the CPS period.** Legislature has become increasingly active, and assumed expanded powers under the 2007 constitutional reform which declared the transition from a presidential to a presidential-parliamentary republic. Early parliamentary elections were held on August 18, 2007, and the President's party, Nur-Otan, received 88 percent of the vote and won all available seats.¹ Efforts to improve voice and participation are ongoing, and the Government has indicated its intention to continue the process of democratization, decentralization, and the development of civil society institutions. Recently, the Organization for Security and Co-operation in Europe (OSCE) appointed Kazakhstan as Chairman-in-Office for 2010 by a unanimous vote of the 56 participating Member States.²

4. **Until mid-2007 Kazakhstan maintained strong economic performance, driven by rising oil production and prices, but faced mounting overheating risks; more recently, an asset bubble emerged in the real estate sector.** Real Gross Domestic Product (GDP) growth averaged 9.6 percent over 2004-2007. GDP per capita has doubled during the CPS period, exceeding US\$6,700 in 2007. The consolidated budget remained in healthy surplus (it averaged 5.6 percent of GDP over 2004-2007)³; and the majority of windfall oil revenues have been saved in the National Fund of the Republic of

¹ OSCE observers said the 2007 election showed progress compared to the 2005 presidential elections, but was still marred by problems. Bias in the state media was noted, while independent observers report that media freedom remains limited.

² Kazakhstan joined OSCE in 1992 and will be the first non-European country to chair it.

³ This comprises state budget, NFRK savings and privatization receipts (the latter have equaled zero since 2003).

Kazakhstan (NFRK) established in 2000.⁴ Nevertheless, signs of overheating multiplied: inflation accelerated from 6.4 percent in 2003 to 8.6 percent in 2006 and to 10.8 percent in 2007. Cumulative appreciation of real effective exchange rate over 2004-2007 was 13 percent. Overheating was exacerbated by very rapid growth of foreign borrowing and commercial credit expansion, which led to the deterioration of the quality of loan portfolios of Kazakhstan banks.

5. Shifts on the international financial markets in 2007 have affected the growth outlook of Kazakhstan. Foreign borrowing became much less accessible and more expensive. The financial services and construction sectors have slowed down considerably since mid-2007, and growth outlook for 2008-2010 is in the range of 4-6 percent. Capital inflows (particularly debt financing) have been much more modest, which created short-term pressures on the Tenge exchange rate in the second half of 2007 and weakened the balance of payments.

6. The authorities have taken strong measures to contain the financial crisis, and by late 2007, financial markets in Kazakhstan have stabilized to an important degree; and in Spring 2008 the balance of payments has strengthened markedly. On January 8, 2008, the Government, the National Bank of Kazakhstan (NBK) and Agency for the supervision of Financial Markets (AFN) published a joint statement that outlined their crisis mitigation strategies and emphasized the need to share risks between the Government and the private sector. This sent a clear signal that the Government will not be providing a generalized bailout and will maintain a prudent fiscal stance in the wake of financial sector troubles. There remain risks that the Government may be tempted to maintain a certain level of growth via domestic credit expansion (although slower than in 2005-2007). This would likely have significant fiscal costs and could precipitate a deeper crisis, particularly in a global economic slowdown scenario.

7. Key development challenges for Kazakhstan go beyond maintaining prudent macro policies—to further improving the investment climate and quality of governance. Non-transparent corporate governance constrains the attractiveness of Kazakhstan as an investment destination.⁵ Kazakhstan's progress in implementing international obligations to fight money laundering and terrorist financing also remained limited until 2008, when a policy decision has finally been taken to establish the anti-money laundering unit in the MOF. Overall governance ratings suggest that corruption did not abate in the past four years and may be influencing development effectiveness.

8. Diversification is also a challenge, and now is an opportune time to focus on it, including by developing the country's potential as an agricultural producer and exporter. The country is endowed with abundant land and the agricultural sector has become more competitive in recent years. The recent global food price increase is benefiting farmers (particularly grain producers) who responded in 2007 with impressive production growth. However, domestic consumers were hard hit with prices for some

⁴ NFRK reached US\$24 billion in May 2008. It is independently audited and managed.

⁵ Kazakhstan's Doing Business ranking has improved in 2008 to 71st and its Ease of Paying Taxes ranking to 44th, the highest in the Commonwealth of Independent States (CIS) group. The Global Competitiveness index (produced by the World Economic Forum) for Kazakhstan was 61st in 2008, but individual components of this index varied from strong performance on macroeconomic policies and labor market flexibility (respectively 25th and 15th place) to rather low indicators for health and primary education (94th).

food groups doubling. The challenge is to strike a delicate balance between the development needs of the sector and protecting consumers.

2. GOVERNMENT'S OVERALL POLICY ENVIRONMENT AND PROGRESS ACHIEVED TO DATE

9. Over the past four years, Kazakhstan's leaders have maintained a strategic vision for economic development, based on integration into the global economy through the adoption of international standards for the productive, financial and public sectors. In 2003 Kazakhstan adopted its National Strategy for Industrial Innovation Development (NSIID) for 2003-2015, aimed at laying the legislative and institutional foundations for economic diversification. The 2004 CPS supports NSIID with wide-ranging policy advice and technical assistance from the Bank. Equipped with these tools, Kazakhstan maintained macroeconomic and fiscal stability, made progress in strengthening institutions in several key areas, and embarked on an ambitious public administration reform. With time, its development programs have become richer and more focused on issues related to competitiveness, such as the investment climate, institutions, human capital, basic infrastructure, and the environment.⁶ The broad government priorities remain consistent with the pillars identified at the time of the CPS.

Pillar 1 - Reducing losses in competitiveness through prudent management of the oil windfall and increased public sector efficiency.

10. Since the 2004 CPS, Kazakhstan has established a credible agenda for transitioning to a modern economy and has made progress in its implementation. Its track record has been impressive in meeting the overall growth objectives, aggregate income levels, and fiscal stability. Its record in mitigating the "resource curse" and increasing public sector efficiency was more mixed – evidently, structural shifts that can spur the transition over long-term towards the service sectors-driven knowledge economy as envisaged in the NSIID requires more than four years that have elapsed since the launch of the 2004 CPS.

11. JERP provided extensive support to the Government in mitigating short-term and medium-term macroeconomic risks. Advisory and analytical services (AAA) under JERP helped the Government to define specific measures for containing the overheating syndrome. More recently, JERP advisory services helped the Government to avoid fiscally risky general bailout strategies in the wake of a financial sector crisis and to balance macroeconomic and monetary stability with sustainable growth objectives. JERP supported the formulation of medium-term macroeconomic forecasts and government staff training in this area. Several JERP reports on financial sector risks prepared in 2005-2007 have spurred important amendments to the regulatory and supervision framework for commercial banks and capital markets.

12. The Bank's program facilitated the transfer of best-practice international experience in public sector management, which helped Government launch administrative reform and medium-term performance-based budgeting. The Bank helped develop the new institutional framework for government agencies separating

⁶ Of particular importance was the March 2006 President's Address, which set the goal for Kazakhstan of joining the group of fifty most competitive nations.

policy-making and executive functions and increasing the efficiency of public decision-making. Analytical work on the efficiency of Kazakh customs yielded a number of reform recommendations, which are now being implemented via the Bank's FY08 Customs Development project. The JERP supported a review of Kazakhstan's tax policy and administration framework, and familiarized government officials with good practice tax systems (e.g., U.S., Sweden). As a result, revisions to the Tax Code are being made. On the public expenditure side, advisory support started with recommendations on improving public investment planning and then expanded to a full assessment of financial management systems. Recently, the Government requested Bank advice on establishing a Committee for Financial Monitoring under the Ministry of Finance as part of its Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) effort.

13. The signing in December 2006 of a Memorandum of Understanding (MOU) on the Extractive Industries Transparency Initiative (EITI) between the Government and the Bank accelerated the pace of EITI implementation.⁷ Amendments to the Law on sub-soil use were passed, mandating commitment to EITI for all new license holders. EITI now covers not just the oil and gas sector but mining as well, with 103 companies participating including TengizChevrOil, the largest oil producer in Kazakhstan. The share of companies that have signed the EITI memorandum represents over 80 percent of the total extractive revenues generated in the country⁸. On February 29, 2008, Kazakhstan held its First National EITI Conference and presented its first National EITI Report, covering 2005 data on companies' payments and government revenues from the oil and gas sector. The Bank is expected to maintain its support to the Government for expanding the coverage of the second EITI report, planned for late 2008. This will be an important step towards full EITI membership.

Pillar 2 - Promoting competitiveness by strengthening the government's capacity to identify and reduce barriers to businesses and private investors.

14. Progress on the diversification agenda has been limited. Kazakhstan faces problems similar to other oil exporters, where strong dominance of the extractive sectors and rapid overall growth has not translated into meaningful results in non-extractive exports. Almost half of all growth momentum during 2004-2007 was accounted for by construction and finance – far from a sustainable pattern of growth. The regulatory regime remains rigid, in particular as regards multiple inspections and the award of land property rights. Foreign direct investment (FDI) remains concentrated in oil and gas, while non-transparent ownership structures in other sectors deter foreign direct investment. Appreciation of real effective exchange rate by about 13 percent over 2004-2007 has weakened the competitiveness of domestic manufacturing. This effect, however, was less pronounced than in some other oil exporters whose currencies have appreciated stronger than Tenge over the same period.

15. Agriculture has excellent prospects, particularly grain exports, and a number of policies have been developed to strengthen this sector. JERP focused on key policy issues to promote the agriculture sector as an engine of economic growth. The

⁷ Kazakhstan joined Extractive Industries Transparency Initiative (EITI) in June 2005, but its progress towards full membership has accelerated only since late 2006.

⁸ The rest is accounted by about 190 small firms out of the total of 296 extractive sector companies.

Government has sought the Bank's advice on the role of the State as a facilitator to strengthen the sector's competitiveness. This includes establishing a level playing field for all producers and maintaining quality in production. The Bank has provided advice and investments in the areas of food safety, which is a key barrier to entering new markets. There is some concern about the efficiency of remaining government controls and subsidies and their benefits for productivity. Government is also seeking the Bank's continuous engagement and international frame of reference to inform its policy response to the current food crisis. In this context, the Bank held a high level brainstorming event in April 2008, focused on agriculture policy and food price issues.

16. The Bank's support through JERP focused on helping the Government to make concrete improvements in the competition regime. The Bank provided extensive support to the process of Kazakhstan's accession to the World Trade Organization (WTO), while the JERP Report on agricultural policies focused, inter alia, on the effectiveness of public support for that sector. As a result of Bank work in this area, the Government has made amendments to the Law aimed to improve the competition protection regime. The competitiveness of Kazakhstan's economy is further enhanced with the ongoing JERP work on local supply chains and technoparks development. Beyond JERP, a Technology Commercialization project is supporting the Strategy for the Development of Industrial Innovations which Kazakhstan adopted in 2003. The Government is also focusing on the Human Development agenda in order to improve competitiveness (See Pillar 3).

17. The current International Finance Corporation's (IFC's) committed portfolio in Kazakhstan is US\$204 million as of April 2008 and supports the financial sector and projects in the oil and gas and general manufacturing sectors. While the lack of transparency regarding the ownership of enterprises and financial intermediaries, remaining weaknesses in corporate governance, and the still limited use of audited financial statements in accordance with international good practices remain challenging, despite these obstacles, IFC has been expanding its private sector investment program (IFC commitments since FY05 total US\$175 million). Further developments in the areas of corporate governance and business transparency should attract more private investors and bring greater efficiency as businesses mature and seek greater access to international sources of financing. To support such enterprises, IFC started a Corporate Governance Advisory Services project focusing on regulatory improvements, increasing general awareness of corporate governance issues, and providing customized advice to private companies. Customized assistance for companies on corporate governance may result in important synergies with IFC's investment operations.

Pillar 3 - Building the foundation for future competitiveness by investing in human capital and basic infrastructure.

18. Public spending on human capital and infrastructure has grown and human development indicators have improved over the CPS period (UNDP's human development index improved from 80th in 2005 to 73rd in 2007). Still, much remains to be done and human development indicators are inferior to those of many countries at comparable levels of income per capita. Major segments of infrastructure (e.g., road and power transmission networks, urban infrastructure and services) do not meet the needs of a rapidly evolving economy. Two projects which the Bank implements for KEGOC have

contributed visibly to stable power supply in the Southern regions of the country, while the Road Rehabilitation Project has helped the Government strengthen the vital transportation link between Almaty and Astana. The Government is aware of the need to improve human development outcomes. In February 2008 a high-level brainstorm was organized in partnership with the Bank, which addressed key policy challenges facing health, education and social protection sectors. The brainstorm helped the Government prioritize its actions in these vital areas of social policy.

19. The Bank has supported Kazakhstan's human development agenda through the JERP program in several areas. At the Government's request, the Bank prepared a report on improving the long-term sustainability of the Kazakh pension system. As a result, the Government is formulating a comprehensive program to improve the efficiency of its pension system in line with international best practice, and considering amendments to the pension system's legal and institutional framework. Recommendations of JERP's Higher Education Report (prepared jointly with the Organization for Economic Co-operation and Development (OECD) were used by the Ministry of Education and Science to formulate its sector reform strategy. In the health sector, analytical work begun under JERP has evolved into the Health Sector Technology Transfer and Institutional Reform project (approved in FY08) which is helping to raise the efficiency of public resources directed to the health sector. The latter is a good example of how a modest Bank engagement through analytical and advisory support has led to an investment project (see Box 1). Beyond JERP, the Syr Daria and North Aral project (SYNAS-I) has delivered impressive results ahead of schedule, and dramatically improved the livelihoods of fishing communities along the Northern rim of the Aral Sea.

Pillar 4 - Ensuring future growth will not harm the environment and past liabilities are mitigated.

20. The impact of Bank-supported work addressing environmental concerns is tangible. The Government is strongly committed to addressing key environmental legacy issues and is undertaking substantial investments in the environment sector. The Bank provided over the period of this CPS extensive technical assistance to Kazakhstan on reducing gas flaring, which culminated in 2006 with a workshop by the Global Gas Flaring Reduction Partnership (GGFR) and amendments to Kazakhstan's Law on Oil, which obliges extractive companies to reduce gas flaring through the gas utilization program. Meanwhile, a small GEF-funded project on Drylands Management has delivered results beyond expectations (farmers participating in the project saw their cattle herd double), which led the Ministry of Environment to seek a repeater.

21. The Government recognizes the environmental regulatory framework and enforcement practices need strengthening. The current regulatory framework is based on environmental fees that are generally too low to serve as incentives for industries to invest in abatement measures. Institutional capacity needs to be strengthened to enable the enforcement of environmental standards. Air and water pollution is significant and since the environmental monitoring systems are not adequately funded, environmental statistics do not reflect the current pollution load on the environment. Hazardous and non-hazardous dumpsites and landfills often do not meet international sanitary design standards for safe disposal of waste.

**Box 1. A JERP-to-Project Sequence:
The Health Sector Technology Transfer and Institutional Reform project**

The Bank's engagement with Government on healthcare began in 2000 with preparation of a Health Restructuring project focused on primary healthcare. That project was cancelled in 2002 following a decision by Government to cancel all Bank projects, reduce external debt and self-finance existing projects using budget funds. The Bank retained an *ad hoc* relationship with the Government on health issues, until 2003 when the health sector was included in the JERP. This re-opening of a formal dialogue coincided with the Government's development of the *State Health Care Reform and Development Program 2005-2010*, to which the Bank provided substantial input.

The Bank's relationship with the Ministry of Health strengthened with JERP, moving from a program of demand-driven, but piecemeal policy advice, to a coordinated technical assistance program focused on health information systems, health financing reform and healthcare quality improvement. The Bank also helped coordinate support from other partners including the World Health Organization and the United States Agency for International Development. JERP activities were supplemented in 2005 by a flagship piece of Economic and Sector Work on health information systems and in 2006 by the Bank's health team's involvement in a high-level Government study tour to examine Australia's and New Zealand's experiences with public management reform in the health sector. By early 2006, it became evident that with a comprehensive reform program in place and key policy choices made, the Government needed assistance primarily on reform implementation. Accordingly, in early 2008 the Health Sector Technology Transfer and Institutional Reform project was approved.

The Bank's share of preparation costs was funded largely by the Government (fiduciary preparation was financed by the Bank to avoid a conflict of interest). Ministry of Health staff is responsible for actual project preparation. The project covers a wide range of reform issues, including health financing, healthcare quality improvement, medical education and science reform, laboratory and blood transfusion system reform, reform of pharmaceutical policy and strengthening of food safety, among others. Total project cost is US\$117.7 million, with a further US\$178.4 million in co-financing from the Government.

Source: Bank staff

CPS Relevance

22. Overall, the flexible and strategic approach formulated in 2004 has delivered the expected results. By offering new products, primarily cutting-edge knowledge driven by the client's needs and priorities, the Bank has managed not only to maintain its presence in Kazakhstan but to increase demand for its services. This approach has demonstrated that the Bank can remain relevant in addressing development challenges of countries that enjoy commodity export windfalls and have low borrowing requirements.⁹

23. On the non-lending side, there has been a notable increase in the range and amount of government financing of analytical and technical assistance services requested by the Government. In 2007 the JERP program grew to US\$3 million, with majority government funding. The FY07-FY08 JERP programs reflect the priorities of the Government's Medium-Term Program for 2007-2009, namely administrative reform and public finance management, vital for improving the quality of government services; territorial development, reflecting Government concerns that the fruits of rapid economic growth reach every citizen in every region of the country; and competition regulation and supply chain development which reflect a growing focus on competitiveness. The

⁹ The CPS was designed to serve as a basis for cooperation between the Bank and Kazakhstan for as long as it remained relevant in the overall economic and political environment. "Relevance" was to be assessed against three criteria: the demand for the Bank's services; the Bank's value-added to the development process; and, Kazakhstan's overall policy environment.

importance and effectiveness of high-level brainstorming to support the JERP-based dialogue on key development issues is valued by Government, who use these events to inform the process of policy formulation and implementation (see para 31).

24. An important feature of the past three years has been the continuity of key themes in the JERP, reflecting the consistency of government priorities with second-generation reforms. Often, the Government's first request to survey international good practice on a certain topic evolves into adapting best-practice to the Kazakhstan context (for e.g., the World Trade Organization (WTO) accession work, tax administration, and the reform of utilities' tariffs). To build on this analytical work, the Government has, in certain instances, requested preparation of a Bank-financed project to support specific reforms (e.g., the Customs Development project and the Health Sector Technology Transfer and Institutional Reform project). This confirms that the Government believes that Bank projects can provide knowledge transfer beyond what is possible through analytical work alone. This is demonstrated by the recent increase in the pipeline of Bank projects—three have been approved in FY08; five more are under preparation.

25. JERP effectiveness is further enhanced by making publications available to the civil society at large. The Banks Public Information Centers in Astana and Almaty, including two out of office units in the National Libraries, make JERP publications available to various non-government clients, including business associations, non-governmental organizations (NGOs) and academia. Stakeholder consultations were held over the past four years on such key issues as health and education, environmentally sustainable development, EITI, agriculture, competition policy, migration and youth.

Portfolio Performance

26. An important challenge for the Bank in Kazakhstan, as in some other middle-income countries (MICs), is working with internal country processes which are evolving at a slower pace than dictated by the country's development needs. While under the 2004 CPS the Government indicated its preference to see Bank projects designed for quick delivery (preparation held to 12 months and implementation to 3 years whenever possible), Government steps to simplify internal processes to speed up project approval and implementation have been limited. Project preparation is rigidly bound to the annual budget preparation cycle, while signing and effectiveness are stalled by repetitive clearance procedures. It takes currently about 40 months from concept approval to effectiveness. Project implementation is hindered by excessively rigid interpretation of feasibility studies, the lack of flexibility in budget implementation and micro-management of procurement and disbursement by the Ministry of Finance. This weakens the Bank's ability to provide timely assistance.

27. Not all projects in Kazakhstan's portfolio seem to be equally affected by the problems described above. Two projects implemented by the Kazakhstan Electricity Grid Operating Company (KEGOC) under the sovereign guarantee have been prepared in much shorter time periods (6 and 15 months from concept to effectiveness). While the strong ownership of projects by a public company, which is known to be one of the best run companies in Kazakhstan, might have contributed to this outcome, public companies also seem to function in a more flexible regulatory environment than government entities.

28. The Bank is finalizing a participatory Country Portfolio Performance Review (CPPR) and is formulating jointly with the Government a concrete action plan to improve portfolio performance. Close attention to portfolio performance on the Bank's as well as on the Government's part have already brought some marginal improvements. In 2007, a joint Government/Bank working group has examined the reasons for the disappointing pace of investment projects, and proposed some improvements within the existing legal framework. The disbursement ratio in FY08 has exceeded the results of the two preceding fiscal years. Anecdotal evidence suggests that the turnaround of project-related correspondence by the state agencies has become faster. However, most issues are systemic and can be improved radically only through comprehensive changes in the public finance/public service systems and underlying legislation. The 2008 CPPR explores in more depth the underlying reasons of the relatively better performance of public companies mentioned above to see if some lessons learned can be applied to government-led projects. Through the JERP, the Bank is supporting government reforms in public finance and public administration which may ultimately streamline systems in a more radical way and lead to substantial improvements in the Bank's portfolio performance.

29. The main drivers of the quality of the Bank portfolio affect also the Government's own investment program. Excessive centralization of decision-making and budgetary controls is slowing down project preparation and implementation. Through the CPPR and JERP, the Bank had drawn the attention of the Government to these lessons. The latter has recently initiated important reforms which promise to improve the efficiency of public investment. More systematically this issue is being addressed by the new Budget Code which is expected to be enacted later in 2008 adopts medium-term performance-focused budgeting and makes financial management and procurement mechanisms more flexible, accountable and transparent.

Lessons Learned

30. The JERP approach requires constant attention to the client whose priorities shift frequently. In extreme cases, this priority setting can become volatile which may lower the impact of Bank work. The lesson learned is to balance responsiveness while keeping the strategic perspective on long term reform needs of the economy. The Bank has achieved some success in this area. While not every Bank report was accepted, there were examples where they became wholly adopted and used to frame the Government's strategic planning (e.g., health, WTO accession, tax administration). In some other cases, when the timing was not right for implementing the recommendations, the Government appreciated their value at a later point and relied on them to inform policy choices (e.g., overheating and macroeconomic management). The Bank's advice was found to be most effective when developed around broader themes (e.g., competitiveness, human development and diversification) where different individual work items reinforce each other. One example is the education work prepared in the context of the JERP.

31. High-level brainstorming events help Government set priorities for complex reform agendas. The Bank has supported the Government's ambitious reform agenda through a series of brainstorming events (six since 2004) which focus on learning from international experience as they build their capacity in reform formulation and implementation. The key themes of the Frankfurt brainstorming held in July 2006 were

adopted as the main areas of the Government's medium-term program for 2007-2010. A February 2008 event focused on the Human Development agenda which the Government recognizes as critical for long-term competitiveness of the country. The President referred to some of the recommendations of this session during his annual Address to the Nation. The most recent brainstorming in April 2008 addressed agricultural policy issues.

3. BANK STRATEGY LOOKING FORWARD

32. The overall operational environment for the Bank in Kazakhstan remains positive, with strong demand for non-lending services and the Government recognizing that Bank-supported projects transfer knowledge and skills in ways that a purely analytical program cannot accomplish. JERP will remain the key driver of this CPS, and is expected to be maintained at broadly the same level. The Government and the Bank will work to further increase the direct policy relevance and the impact of each JERP study. The Government is already using JERP to develop its own analytical and policy formulation capacity (a good example is the role of the Prime Minister's National Analytical Center in implementing JERP tasks on administrative reform and the survey of the quality of government services). The Government is stepping up quality control of JERP tasks, scrutinizing them for concrete impact, to make sure that line agencies fully benefit from JERP support. Discussions are underway to extend JERP benefits to agencies such as the National Bank and the national holdings.

33. The Government recognizes that Bank-supported projects facilitate key institutional reforms, accelerate the evolution of fiduciary systems towards international best practice and thus have spillover effects for improving the efficiency of government's own investments. Accordingly, the Government and the Bank have increased the number of projects under preparation (Annex 1). This translates into an average lending envelope of roughly US\$320 million per year over the period 2008-2010, which is higher than the US\$100-150 million originally envisioned in the CPS. Future lending will depend on whether the existing Government consensus that Bank projects deliver tangible value-added will hold.¹⁰ The impact of Bank projects will be determined by the Government's ability to act on the CPPR recommendations and expedite project preparation and execution. For the next few years, the Bank's procurement and financial guidelines will continue to apply. Capacity building in these key areas is programmed under JERP.

Specific Areas of Engagement

34. The new Government appointed in 2007 has reconfirmed its desire that the Bank remain engaged in each of the four pillars of its development strategy. The Government views the Bank as an efficient conduit for international knowledge and experience on key strategic issues, to organize consensus building activities and debates, and to provide implementation support and capacity building. Details of the Bank's FY08 and medium-term programs are presented in Annex 1. The Government is also financing Bank technical support to establish the Bota Foundation to benefit children and youth in Kazakhstan (see Box 2).

¹⁰ Since the Government's fiscal position is forecast to remain strong, significant Government co-financing for most projects (50 percent or more of total project cost) is likely.

35. **As a result of the JERP approach, the Bank has not been engaged in some traditional areas where there was no demand** (e.g., poverty assessment). While official reported poverty numbers (national poverty line) have decreased from 27 percent to 12.7 percent over the CPS period, there is very little knowledge on the distribution of poverty across regions, social groups and the impact of the recent financial sector and rise in food prices on poverty. This work is fundamental to making actionable recommendations for macro management and social protection policies. The Bank proposes to the Government a joint Poverty Assessment in FY09. Similarly, the Bank will recommend work to assess the governance environment and its impact on development effectiveness.

Box 2. The Bota Program

In May 2007, the World Bank agreed to assist the governments of Kazakhstan, the United States, and Switzerland in setting up an independent foundation in Kazakhstan that will use approximately US\$84 million in frozen funds for development projects involving poor children and youth in Kazakhstan. The concept and program of the Bota Foundation (meaning *baby camel* in Kazakh) was developed by the World Bank in response to a request from the three governments to develop a transparent mechanism to use the funds for the direct benefit of the people of Kazakhstan.

The Bota Foundation's purposes are to implement a multi-year program through such activities as: (i) conditional cash payments to Kazakh families for those under school age to receive adequate health care; (ii) educational scholarships to the poorest Kazakh youth to attend university, and (iii) grants to local and international NGOs aimed at improving youth welfare in Kazakhstan. The Bank's work is financed on a fee-for-service basis.

Potential New Clients

36. Opportunities to expand the World Bank Group (WBG) portfolio the International Bank for Reconstruction and Development (IBRD) lending, guarantees and risk management products, and the International Finance Corporation (IFC) long-term financing) exist with regards to the Government holding companies "Samruk" and "Kazyna"¹¹, the newly established Socio-Entrepreneurial Corporations (SECs) and sub-national governments. Similar to other MICs, careful risk analysis should be conducted to determine whether such new business lines can be developed without central government guarantees, which appears to be the stated preference of the Government. In some cases, existing legislation limits the Bank's ability to work with new clients (e.g., local governments other than the municipalities of Almaty and Astana cannot contract foreign debt). The Bank and the IFC are helping the Government strengthen its Public Private Partnership (PPP) program via policy advice (including on the establishment of the PPP unit) and assistance with pilot transactions in the power and transport sectors.

Central Asia Regional Issues

37. **Over the CPS period, Kazakhstan has gained prominence as a regional growth engine and built up its presence in regional structures such as the Central Asia Regional Economic Cooperation (CAREC), Eurasian Economic Community and its Development Bank (EADB).** The Government has expressed interest in contributing to regional development projects both through these regional frameworks and through national holdings, primarily "Kazyna" and "Samruk." Kazakhstan is already the largest

¹¹ "Kazyna" is the Sustainable Development Fund and "Samruk" is Kazakhstan's Holding for the Management of State Assets.

investor in the Kyrgyz Republic, and is a major investor in Georgia and some other CIS countries. In particular, Kazakhstan is interested in supporting large regional projects such as the Rogun power dam in Tajikistan and the Central Asia-South Asia Regional Electricity Market (CASAREM). The Bank is assisting Government to work closely with regional cooperation bodies in the fields of energy, transport, trade and communicable disease. Kazakhstan has also notified the Bank of its intention to make its first contribution to IDA, thus marking its entry into the group of donor countries. The Bank stands ready to assist Kazakhstan establish its development assistance function, which is expected to prioritize its Central Asian neighbors.

Monitoring and Evaluation

38. The CPS' success will continue to be measured primarily in terms of the value-added that Bank interventions bring to Kazakhstan's development agenda. As the program is demand driven, the Bank's effectiveness will, in the first instance, be measured by whether or not the Government remains interested in continued involvement in the JERP and lending. In a broad way, the impact of the CPS on the development of Kazakhstan will be measured in terms of the priorities the authorities set for their development agenda and the pace with which they increase government implementation capacity. The Bank will regularly review the Government's follow-up to the recommendations made through analytic work and in project preparation. Within each of the four pillars, the impact will be measured by the degree to which the Bank promotes dialogue and debate around specific policy issues (e.g., education and health reform, utility tariff reform, capital markets development, etc.), addresses questions raised by the Government in real time, provides advice based on the most relevant international experience and the Bank's understanding of Kazakhstan's circumstances, and provides hands-on institutional support through projects.

39. The Bank will ensure that the environment into which its resources are placed meets reasonable standards of policy direction and governance. This will require monitoring Kazakhstan's overall reform efforts, particularly in macroeconomic and fiscal management, and the various aspects that could contribute to greater competitiveness, transparency, and governance, including implementation of international AML/CFT obligations pursuant to treaties which Kazakhstan has signed and ratified.¹² Outcomes (for example, in diversification, competitiveness, and poverty reduction) will also need to be monitored. An assessment of progress to date under the CPS is provided in Annex 1.

4. RISKS AND CREDITWORTHINESS

Risks

40. In terms of macroeconomic risks, Kazakhstan is well positioned to weather external shocks. Sovereign foreign debt has declined to negligible levels in recent years (under 2 percent of GDP at end-2007). The consolidated government budget is in healthy surplus (5.6 percent of GDP on average for 2004-2007). The country has accumulated

¹² In 2000, Kazakhstan signed, but has not yet ratified the UN Convention against Transnational Organized Crime (Palermo Convention), a major instrument in the fight against AML/CFT.

over US\$40 billion in gross international reserves. The longer-run solvency of the Government appears even stronger, due to the large Kashagan off shore oil field, which is expected to come on line in the next five years and roughly double oil output of the country.

41. By establishing NFRK and by implicitly targeting a certain level of non-oil fiscal deficit, Kazakhstan has done much to mitigate the problems of Dutch disease and overheating. The Tenge has appreciated in real terms to lesser degree than the currencies of most oil exporters have in recent years. Until 2007 inflation associated with oil dependency was kept broadly in check. The significant increase in inflation in 2007 can be largely attributed to sharp increases in world prices for food products.

42. Kazakhstan's outstanding challenges are the need to improve its investment climate by increasing the transparency of corporate governance; reduce its dependence on extractive sectors; consolidate its balance of payments position, primarily with regards to the current account; and to contain the already high private external debt. The Government recognizes its exposure to these risks and relies on the Bank extensively as a source of advice in shaping its macroeconomic and diversification policies. The Bank will also energize the governance dialogue by demonstrating the value of good governance for development effectiveness.

43. Kazakhstan is also vulnerable to other external shocks. These include non-oil commodity shocks, climatic shocks affecting the agricultural sector, the risk of major earthquakes, and other region-wide risks such as drug trafficking and the spillovers from political volatility from other parts of greater Central Asia. To address at least some of these risks, the Bank has offered a full range of new financial instruments, such as the commodity-linked loans and deferred drawdown products to tackle catastrophic risks.

Creditworthiness

44. Despite its recent volatility episode, Kazakhstan remains the net creditor to the world. It is also creditworthy for IBRD lending, and is rated investment grade by all three major commercial rating agencies. Despite rating downgrades in late-2007 which reflected the impact of financial sector problems, Kazakhstan's sovereign ratings are still higher now than in 2004 when the CPS was adopted. Although the country's total external debt is relatively high (over 90 percent of GDP), a third of that debt, and the bulk of private debt, is accounted for by inter-company credits related to foreign direct investment in large oilfields. Debt held by the 12 national public enterprises (the five biggest are under Samruk holding) is moderate and is mainly from multilateral sources. Since the end of 2002, the Government has observed a policy of no explicit sovereign guarantees to state-owned enterprises (SOEs). The only exceptions were two government-guaranteed World Bank loans to KEGOC.

45. In contrast to very modest levels of public debt, private external debt has grown from 63 percent of GDP in 2003 to 91 percent of GDP in 2007. In case of a generalized bailout under the scenario of systemic financial crisis, the Government's creditworthiness may be affected as well. International borrowing by banks and enterprises will be monitored as part of the annual Debt Reporting System exercise.

Annex 1. Assessment of Outcomes: Progress to Date

Instrument	FY05-FY08 activities	Outcomes achieved by Kazakhstan
<i>Pillar 1: Reducing losses in competitiveness through prudent management of the oil windfall and increased public sector efficiency</i>		
Lending JERP	<ul style="list-style-type: none"> ○ Bank: Customs Development (FY08) ○ Four top-level Brainstorms ○ Management of oil windfalls and competitiveness ○ Civil Service Reform and Pay Policy ○ Public Resource management (Procurement and Financial management) ○ Customs/Tax policy and administration ○ Local governments (IGF report) ○ Transparency and corruption ○ Public Utilities reform ○ E-Government 	<ul style="list-style-type: none"> ○ Consistently prudent macroeconomic (fiscal and monetary) policies; establishment of the National (Oil) Reserve Fund helps to cope with financial volatility ○ International reserves now exceed 40% of GDP vs. 25% of GDP in 2003 ○ Sovereign credit ratings have improved since 2004. ○ Civil service reform/medium-term performance-focused budgeting launched based on the Bank's advice; these reforms also address GAC agenda (incentives and transparency) ○ New Tax Code is being formulated on the basis of Bank's Tax Strategy Paper, introducing important tax policy and administration reforms ○ Diagnostics on customs administration has highlighted ways to improve trade facilitation; recommendations are being implemented via the Customs Development Project ○ Mechanism of general intergovernmental transfers implemented (IGF report), which improved the accountability of local governments ○ 99 companies accounting for over 80% of extractive industry revenues have signed the EITI memorandum (Kazakhstan has achieved candidate country status). ○ Governance indicators remain low
<i>Pillar 2 - Promoting competitiveness by strengthening government's capacity to identify and reduce barriers to businesses and private investors</i>		
Lending JERP	<ul style="list-style-type: none"> ○ Bank: Second Agricultural Post privatization support project and Agriculture competitiveness project (both FY05); Technology Commercialization Project (FY08) ○ IFC: (i) SME-oriented bank lending facility with EBRD; (2) SEAF Central Asia Small Enterprise Fund and Aureos Central Asia fund which will invest in SMEs; (3) invest in development of leasing and trade finance 	<ul style="list-style-type: none"> ○ WTO accession at concluding stage (likely in 2009) ○ Competitive selection and financing of agricultural research projects introduced; state extension system advising farmers significantly strengthened, which is likely to increase contribution of agriculture to the economy ○ Drafting of new Competition legislation is creating a more level playing field ○ Law on Concessions amended based on the Bank recommendations to accommodate a greater flow of private investment; Government unit to promote PPP is being established
JERP	<ul style="list-style-type: none"> ○ Top Level Brainstorms on Food Prices and Agricultural Policies and on Financial Volatility ○ WTO accession ○ Agricultural policies and institutions ○ R&D innovation and technology ○ Domestic capital markets development ○ Competition legislation and institutions ○ PPPs 	<ul style="list-style-type: none"> ○ Capital markets' reporting regulations adopted resulting in an improved regulatory framework ○ Kazakhstan's Doing Business ranking has improved in 2008 to 71st and its Ease of Paying Taxes ranking to 44th – the highest in the CIS group ○ Since FY05 US\$106 million committed for financing SMEs through several local banks and funds. ○ Results were disappointing in terms of progress dismantling subsidies and opening markets in the agricultural sector and developing non-oil sectors.

Annex 1. Assessment of Outcomes: Progress to Date (continued)

Instrument	FY05-FY08 activities	Outcomes achieved by Kazakhstan
<i>Pillar 3 - Building the foundation for future competitiveness by investing in human capital and basic infrastructure</i>		
Lending	<ul style="list-style-type: none"> ○ Bank: IDIP-1; SYNAS-1 (both have repeaters in the pipeline); two electricity rehabilitation projects with KEGOC, Road rehab project (all under implementation) ○ IFC: launched advisory projects in corporate governance and in mortgage market development. 	<ul style="list-style-type: none"> ○ Bank advised on and Government adopted strategies for (a) Medium term health sector reform, and (b) Territorial Development ○ State Program on TVE development about to be adopted, based on the Bank recommendations ○ Wholesale electricity market established with Bank support, share of wholesale market in nationwide electricity sales is 11% and growing fast
JERP	<ul style="list-style-type: none"> ○ Two top-level Brainstorms ○ Health Sector and Technical and Vocational Education (TVE) System Reform Policy ○ Higher Education Study ○ Pension Policies ○ Territorial development incl. Transport sector strategy ○ Water sector policies ○ Transport sector reform (railways, roads, aviation, ports) ○ Regional activities through CAREC 	<ul style="list-style-type: none"> ○ The Government has (a) restructured the Rail sector (privatization of non-core services, commercialization of rolling stock management, separate SOEs for freight operations and infrastructure management) – rail services have become more competitive; and (b) privatized road maintenance (still disappointing results on quality) ○ Outcomes of SYNAS-1 much stronger than predicted (e.g., fish catch in Aral has quadrupled; sea level up by 3 meters; surface of Aral sea increased to one third) ○ Irrigated crop yields increased by 10% within 4 years after completion of IDIP 1 ○ Lack of attention to the impact of rapid growth and financial volatility on the distributional aspects of poverty
<i>Pillar 4 - Ensuring future growth will not harm the environment and past liabilities are mitigated</i>		
Lending	<ul style="list-style-type: none"> ○ Bank: Forestry, Nura River Cleanup, Dryland Mgmt Projects (all FY06); Ust Kamenogorsk Environmental Remediation (FY07) 	<ul style="list-style-type: none"> ○ Construction of Nura river landfill for mercury polluted materials is advanced; and dismantling of contaminated old Carbide Factory completed
JERP	<ul style="list-style-type: none"> ○ Environmental Policies and Institutions ○ Environmental Remediation (incl. impact of petrochemical industry of environment) ○ Water Policy Note ○ Dryland Management 	<ul style="list-style-type: none"> ○ New Environmental Code (2007) based on Bank recommendations, e.g. integrated environmental permits reflecting the best available technologies ○ Positive interim results for Dryland Management Project (e.g., cattle count in participating communities doubled since start); Ministry of Environment seeks a repeater ○ Key measurement systems for impact of growth on environment under development

Note: IGF: intergovernmental finance; GAC: Governance and Anti-corruption; JERP: Joint Economic Research Program

Annex 2: Kazakhstan CPS – World Bank Group Engagement

Instrument	Ongoing Activities (FY08)	FY09 Business Plan	Program Areas in Future Years	Expected Direct Contribution in Kazakhstan
<i>Pillar 1: Reducing losses in competitiveness through prudent management of the oil windfall and increased public sector efficiency</i>				
Lending	WB: Customs Development IFC: Invest in non-oil sectors to help efforts to diversify economy	IFC: Invest in non-oil sectors to help efforts to diversify economy	IFC: Invest in non-oil sectors to help efforts to diversify economy	<ul style="list-style-type: none"> - Facilitate increased public sector efficiency - Promote dialogue on (i) efficient use of oil revenues; (ii) optimal public spending paths; (iii) prioritization of public spending; and (iv) intergovernmental finance
JERP	Administrative reform, PFMR; Tax Administration; Statistics Master Plan; EITI, analysis and forecasting of macroeconomic and financial sector risks	Administrative reform; PFMR, revision of the Tax and Budget Codes, analysis and forecasting of macroeconomic and financial sector risks	Analysis and forecasting macroeconomic and financial sector risks	
<i>Pillar 2 - Promoting competitiveness by strengthening the government's capacity to identify and reduce barriers to businesses and private investors</i>				
Lending	WB: TechComm project IFC: Advisory services in corporate governance	WB: Territorial Development project IFC: Advisory services in corporate governance and infrastructure to promote PPP	IFC: Advisory services in corporate governance and infrastructure to promote PPP	<ul style="list-style-type: none"> - Promote dialogue on productive vehicles to support economic diversification, competition, and increase the developmental impact of Kazakhstan R&D - Support innovative pilots to facilitate development in the non-oil sectors, especially in agriculture - Improve food standards and, with this, the potential of higher exports of agricultural products - Facilitate WTO accession
JERP	PPP; Competition policies and market access; Local suppliers and technoparks' development	Agriculture sector competitiveness and productivity; PPP, Markets with limited competition; Survey of the quality of government services	Sectoral analysis of competition, e.g. agriculture sector competitiveness and productivity	
<i>Pillar 3 - Building the foundation for future competitiveness by investing in human capital and basic infrastructure</i>				
Lending	WB: Health reform project IFC, WBI and WB collaborated to provide training to Government on PPP opportunities in infrastructure and how to attract private investment in municipal infrastructure projects	WB: Territorial Development project; IDIP-2; SWC(1), Technical and Vocational Education Project IFC: Infrastructure in advisory services to promote PPP	WB: Synas-2 SWC(2,3) IFC: Advisory services and investment in infrastructure to promote PPP	<ul style="list-style-type: none"> - Assist GOK in laying out strategic directions and improvements to improve health and education systems - Increase the level of understanding about poverty vulnerabilities, particularly across regions - Assist GOK in defining best strategy to maximize the country's transit potential - Assist with the creation of mechanisms that can be used for a steady improvement of drinking water
JERP	IFRS; Vocational Education, Social Protection, Pension System, Reform of utility tariffs (Stage I)	Poverty Assessment, Reform of utility tariffs(Stage II - pilots); Survey of the quality of Health and Education services	Support for the introduction of conditional cash transfer schemes	
<i>Pillar 4 - Ensuring future growth will not harm the environment and past liabilities are mitigated</i>				
Lending	WB: Ust-Kamenogorsk Environmental Remediation project	WB: PCBs (polychlorbiphenyls) and Persistent Organic Pollutants; Elimination	WB: Hydromet Modernization, Dryland Management Scale-up IFC: Support programs delivered through the financial intermediaries to improve energy efficiency in the corporate sector, increase energy-efficient housing and reduce pollution.	<ul style="list-style-type: none"> - Greater understanding of the environmental impact of future growth and introduction of key measurement systems - Support remedial actions in selected areas (e.g., dry lands/forestry) or regions (e.g., Ust-Kamenogorsk) - Increase the value and sustainability and environmental resources such as forests, bodies of water and rangelands
JERP				

Annex 2: Kazakhstan CPS – World Bank Group Engagement (continued)

Brief Description of Activities

1. Joint Economic and Research Program (JERP)

- The Bank's analytical and advisory services are provided to Kazakhstan via the JERP, which is a cornerstone of the CPS and allows the Bank to expediently respond to Government's development needs. The FY07 program initially focused on three main areas: (i) economic diversification and competitiveness; (ii) review of public expenditures and institutions, and (iii) improvement of pension system and quality of medical services, as well as development of socio-entrepreneurial corporations and higher education. From December 2006, the Program expanded to include EITI and Public Finance Management Review (PFMR). A novel feature of the FY07 JERP was the allocation of funds for the preparation of four investment projects (100 percent funded by GOK), two of which were recently approved by Government (Customs Development and Health Reform). For FY08, JERP includes two investment projects (Vocational and Technical Education; and Territorial Development) and amounts to US\$3 million with 66 percent Government financing. FY08 JERP includes four main activities aligned with the Government's development priorities: (i) public finance management, (ii) administrative reform, (iii) modernization of communal services, and (iv) private sector development.
- *For the past three years JERP highlights have been the top-level brainstorming sessions on Kazakhstan's strategic policy directions organized at the GOK's request.* The first such brainstorming was held in February 2004 in Geneva. It was followed by the brainstorm in Frankfurt in July 2006, focused on the challenges of economic diversification, overheating and competitiveness. In July 2007 and February 2008, the Bank organized two more brainstorming events at the request of the Prime Minister. The July 2007 event focused on implementation of reforms in: (i) public administration; (ii) economic diversification; (iii) containing overheating of the economy; and (iv) housing and utilities. The February 2008 brainstorm tackled a broad range of human development challenges – demography, health, education, social protection and labor markets. In each session, Government speakers outlined their vision and plans and international speakers provided insights, drawing on lessons from their experience. The most recent event was on agricultural policy and food prices (April 2008). The Prime Minister co-chaired all recent events; their findings were used to develop key Government documents and its policy stance in vital areas of public policy.
- *Agricultural Policy Review.* Since 2001, the Government has increased public expenditures in agriculture to around US\$610 million in 2005, representing 13.5 percent of the agricultural GDP. The Agricultural Policy Review, completed in December 2007, analyzes the main aspects of the Kazakh agricultural sector, including the actual impact of the current support programs and reports the findings of two surveys on farmers' perception of the support programs. On the basis of these analyses, the study recommends to modify the nature and vehicles of public support by: (a) reviewing and adjusting the respective roles of state institutions and private sector in the development of the agricultural and food sector; (b) improving the functioning of private product and service markets in agriculture and reducing interference by state institutions in the development of private markets using modern marketing infrastructure and exchange

instruments; (c) improving the functioning of factor markets in rural areas; and (d) facilitating the development of a modern and mostly demand-driven agro-processing sector (food and non-food) to add as much value as possible to agricultural products. In addition, while short-term policy measures should be scaled back, some important areas would need more attention, including: adjusting or privatizing state-owned enterprises; focusing on innovation and Research and Development; developing more value added to agricultural products by the agro-processing industry; improving irrigation infrastructure; and building public capacities to ensure competitiveness and food safety in preparation for WTO accession.

- *PFMR* is prepared under a special MOU signed by the GOK with the World Bank in December 2006. This programmatic report aims to provide: (a) general assessment of budgetary and fiscal sustainability, and budget reform since the previous Public Expenditure Review (PER) prepared in 2000, putting basic budgetary practices in international perspective and outlining primary risks, vulnerabilities, and contingent liabilities; (b) summary of the current state of budgetary management based on the Public Expenditure and Financial Responsibility Framework (PEFA), methodology, and concentrating on intergovernmental fiscal issues and the current position in legislation and implementation of budgetary reform; (c) identification of a realistic sequenced plan over a number of years for the implementation of performance-based budgeting
- *Market analysis to enhance competition and elimination of impediments to market access*. The overall objective of this JERP activity, continued from FY07, is to promote growth through enhanced competition in the private sector. Key output is the new competition-enhancing legislation.
- *Development of local suppliers (SMEs) for large transnational companies (TNCs)* aims to create linkages between domestic and transnational enterprises by upgrading the enterprises to the levels required by TNCs. An actionable implementation plan and an Operational Manual will be prepared based on the findings of a feasibility study, based on international experience in supplier development programs. The Manual will consist of the recommendations on fostering supplier development and an assessment guide for the participating government agencies and firms.
- *Facilitation of Innovative Entrepreneurship through Technoparks*: While much progress is being made in developing innovation infrastructure in Kazakhstan, there is a large scope for improving their effectiveness in promoting links between industry and science, supporting the introduction of innovation and technology in domestic enterprises and creating conditions for establishment of production with high added value. This action is aimed at improving the effectiveness of Kazakhstan's current and future technopark infrastructure. The study will assess and provide recommendations for improving Kazakhstan's technopark infrastructure on the basis of international best practice, taking into account the current economic, innovation, institutional and policy environment of Kazakhstan.
- *Comprehensive modernization of the public utilities sector*. At the request of the Government, the Bank prepared in April 2007 the first report analyzing the constraints underlying the poor performance of communal services and proposing strategies for improving them. A second phase of assistance in FY08 provided more detailed analytical

support and guidance. The longer term intent is to plan and pilot comprehensive reforms in four akimats, to dovetail with and be partially financed through the proposed Territorial Development Project. A key area for technical assistance is to develop mechanisms for financing utilities' rehabilitation.

- *Tax administration.* The task involved developing a strategy for the modernization of the Tax Committee based on assessment and diagnostic analysis of current organization, administration, procedures and policies. “*A Strategic Plan for Tax Administration*” outlines seven areas that would require attention in the medium term: (i) planning, organization and staffing; (ii) taxpayer service; (iii) tax audit; (iv) large taxpayers; (v) anti-corruption; (vi) tax collection; and (vii) appeals. The strategy paper was submitted to the Tax Committee in early 2008, and the printing and dissemination of this paper, along with the Tax Policy paper took place in May 2008.
- *Development Program of the Agency of the Republic of Kazakhstan for Statistics (ARKS) up to 2015.* The task involved development of the statistical master plan (SMP) which is the internationally accepted starting point for comprehensive improvement of national statistics. The SMP was prepared by the ARKS with the assistance of a team of international experts based on the assessment of the current situation, and identification of problems, development opportunities and constraints. Preparation involved intensive consultation and input from the full range of stakeholders. Based on the second draft SMP, a National Strategy for Statistics was prepared. It is now accepted by the Prime Minister.
- *Supporting the EITI in Kazakhstan.* In line with the MOU between the GOK and World Bank dated December 1, 2006, the Bank provided technical assistance to the EITI Secretariat and National Stakeholder Council. This allowed Kazakhstan to successfully pass the international pre-validation procedure and get acknowledged as an EITI Candidate country. The first National EITI report was presented to the First National Stakeholder Conference in Astana in February 2008; and several more regional consultative workshops are being planned.
- *Technical assistance on PPPs* helps GOK to establish a central PPP Unit, including (i) its legal form, mandate and governance structure, (ii) process for PPP project selection, approval and development, (iii) management of fiscal risks stemming from PPP projects. The activity includes an external review by leading experts in PPP programs - *Partnerships UK*, stakeholder workshops and the review of legislation necessary for the PPP Unit to have a firm mandate. Many of the Bank recommendations are reflected in the amended Law on Concessions (January 2008), notably the establishment of the PPP Unit as a Government-owned Joint Stock Company (JSC). Operational and project management procedures will be developed once the form and mandate of the Unit is endorsed, expected by mid-2008.
- *Build-up of a training basis for state financial institutions' staff as well as accountants and auditors.* The GOK has made it mandatory for large companies to follow International Financial Reporting Standards (IFRS). The introduction of IFRS will improve transparency and clarity in information to investors and creditors. But it is also likely to increase the gap between financial and tax accounting, which could adversely affect budget revenue. Amendments to the Tax Code are needed to avoid, or compensate

for, loss to budget revenue. In view of these considerations, the Ministry of Finance had requested technical assistance for: (i) development of an internationally acknowledged training program curriculum in IFRS for accountants and auditors in state financial institutions and government agencies; and (ii) analysis of the impact of implementation of IFRS on the tax base, its effect on budget revenue, and proposal for amendments to the Tax Code.

- *Increasing the sustainability of pension system.* This activity implements the recommendations of the Pension Policy Note (completed in FY07) and includes capacity-building in pension policy analysis through training in simulation model, actuarial analysis, and conference with participation of international and local experts.
- The FY08 JERP includes funds for the *preparation of two projects* supported by Bank loans – Reform of Vocational Education and Territorial Development project, which are described in the next section.
- Since 2006, JERP includes a small "*rapid response*" facility (typically 5-7 percent of the total) which allows the Bank teams to react to emerging needs of the Government. This facility has proved valuable in responding to quickly shifting market trends. It helps the Government to promptly receive analysis of an urgent issue and to plan its future policy interventions. In FY08 the Government used JERP's rapid response facility to conduct a brainstorm on the volatility of financial markets and to jumpstart the work on the revision of the Tax Code.

2. Pipeline of Projects

As of May 2008, the Bank's program comprises 12 active projects totaling US\$618.1 million, including two projects supported with GEF grants, and two PHRD grants for project preparation for US\$1.4 million.

Five projects are at different stages of preparation:

- *Irrigation and Drainage Improvement (IDIP-2)* is a repeater project of the successful IDIP-1 and aims to rehabilitate approximately 260,000 ha throughout selected areas in Southern Kazakhstan, Kzyl-orda, Zhambyl and Almaty Oblasts. Within each of the sub-project areas, main components would be: (i) rehabilitation and modernization of irrigation and drainage systems; (ii) sustainable management operation and maintenance; and (iii) agricultural development. The cost is estimated at US\$630 million, with a proposed Bank-financing of 30 percent of it. Implementation will be two phases between 2008 and 2017. Successful implementation of the project would improve irrigation and drainage service delivery and land and water management for the benefit of sustainable increases in irrigated agricultural productivity. The preparation studies for IDIP-2 were completed in 2007, including receiving positive State Construction Expertise and expertise by the MOEBP. The project's appraisal is under way. Project approval is expected in early FY09.
- *The Syr Darya and Northern Aral Sea Project (SYNAS-2)* is a follow-on project of the successful SYNAS-1 and aims at further improvement of water resources management in the Syr Darya Basin for the benefit of agriculture, fisheries, the environment, and the Northern Aral Sea. Project preparation has started, focusing on the development of infrastructure in the Syr Darya and Northern Aral Sea and the institutional developments

needed for improved water resources management. Project preparation is expected to be completed in the summer of 2008 and approval is planned for late FY09.

- *South-West Transport Corridor Road Rehabilitation project (SWTC)*. The feasibility study for the entire South West Transport Corridor (from the China border, via Almaty and Shymkent, to the Russian border) was prepared by the Committee for Transport Infrastructure Development (CTID) in December 2007. The Bank has assessed the compliance of this feasibility study with the Bank's requirements for project preparation, especially with regard to environment and social safeguards. Project preparation is expected to be finalized by May 2008. The date for the submission of the project for approval by the Bank will depend on the approval process of the Government.
- *Technical and Vocational Education project*. The project assists Kazakhstan with addressing technical skills shortage and has two main strategies: (a) to foster stronger integration of upper secondary TVE with general secondary education, and (b) to strengthen and expand post-secondary TVE by making it more flexible, modularized, and strongly linked with higher education. To do this, the project focuses on two components: (i) improving quality and relevance of technical and vocational education system; and (ii) increasing the efficiency of its management and governance. The first component focuses on modernizing content of TVE education and supports the restructuring of technical and vocational education system by using competitive mechanisms to identify reform-oriented beneficiaries of investments. The second component aims to improve funding allocations, introduce solid qualification and certification systems, labor market data collection and institutional capacity building.
- The *Territorial Development project* will support and accelerate the implementation of the National Territorial Development Strategy (NTDS) in a programmatic fashion, with a focus in its first phase (the Project) on the: (i) creation of the needed capacities to implement and manage the entire program in all regions of Kazakhstan, (ii) establishment of the funding mechanisms, (iii) implementation of pilot projects in several key areas of the NTDS, and (iv) preparation of future projects through improving and updating the regional and sector strategies. To achieve its objectives, the TD Program will be comprised of (i) an economic governance and institutional umbrella; (ii) three core programs: workforce development, economic infrastructure development, and enterprise development; (iii) cross-cutting frameworks to support regional development: public-private partnerships, regional fiscal reform, subnational finance, integrated corridor development, environmental and hazard risk management; and (iv) an implementation and funding framework, with the creation of strong implementation capacities at national and regional level, and competitive, performance-based funding windows (budget line items) for each core program.

3. International Finance Corporation in Kazakhstan

Since the beginning of the CPS period in FY05, IFC has invested over US\$175 million in six projects. These included investing in three financial institutions to increase leasing, investment finance, and trade finance for SMEs and supporting Italcementi's (a world leader in cement) expansion in Kazakhstan. IFC also invested US\$10 million in Aureos Central Asia Fund, a private regional equity fund which will make equity-related investments in SMEs primarily in Kazakhstan and Azerbaijan. Since FY05 US\$106 million committed for

financing SMEs through several local banks and funds. On the advisory services side, during the same period, IFC launched a corporate governance program to help improve local governance practices of local joint stock companies and banks, as well as an advisory services program to help improve the legal and regulatory environment for the mortgage markets. Between 1998 and 2006, IFC's financed project Karachaganak has spent over US\$124 million in the local administrative region on infrastructure projects such as schools and hospital refurbishment. The project also generates long-term benefits as it purchases supplies and services locally, resulting in an economic boost of more than half a billion dollars in 2007 alone.

IFC's efforts in Kazakhstan are directed to foster a dynamic private sector led growth, particularly in the non-extractive sectors. This includes ongoing support to the financial sector and investments to promote SME development as well as investments in the real sectors such as manufacturing, retail, construction materials, infrastructure, and the service sector. In view of the high relative importance of the oil and gas sector in Kazakhstan's economy, financing of investments in this sector may be considered, but only on a selective basis.

Although the lack of good corporate governance and transparency in the Kazak banking sector remain challenging, IFC has identified several local financial institutions and significantly increased volume of its investment operations. The recent measures taken by the banking sector regulator to improve corporate governance is a step in the right direction and should put more pressure on shareholders to disclose more information. Specifically to the financial sector, IFC's strategy includes; (i) supporting select well-managed institutions and enable them to grow their leasing, micro and SME businesses through credit lines and advisory services, (ii) facilitating access to international markets for medium and smaller-sized banks with transparent ownership and governance at a time when the international markets are temporarily closed to Kazakhstan, (iii) to create sources of long term finance in local currency and support the development of mortgages in the long term and (iv) selectively support Kazakh outward investments in the neighboring countries as well as inward investments from global players. The objective is to support banks with transparent ownership in managing their financing access problems and ensuring that credit is kept flowing to key economic segments like SMEs at a time when the banks are downsizing/stopping lending.

Pipeline. In FY08, IFC has invested over US\$109 million in three projects, two in the financial sectors for trade finance and SMEs financing and one regional private equity fund with a significant focus on Kazakhstan. Several potential investments have been identified for FY09 and are currently being prepared.

4. Multilateral Investment Guarantee Agency (MIGA) in Kazakhstan

MIGA's portfolio in Kazakhstan consists of three guarantees in support of projects, sponsored by Dutch and Austrian investors, in the financial and manufacturing sectors. The combined gross exposure from these investments is nearly US\$62 million. Since the beginning of the CPS period in FY05, MIGA provided guarantees for two projects in the financial sector. In FY06, MIGA issued coverage to ABN-Amro Bank in support of a mortgage-backed securitization. MIGA's guarantee was a condition of credit rating agencies to improve the rating of the transaction and bring it above the sovereign ceiling. This award-

winning deal was the first securitization of mortgages in Kazakhstan. In February 2008, the Agency issued guarantee coverage of US\$47.5 million to Raffeisen Zentralbank Osterreich AG of Austria (RZB) for a shareholder loan to its leasing subsidiary in Kazakhstan. Going forward, MIGA will be open to support foreign investment in Kazakhstan through the provision of political risk guarantees, particularly in the non-extractive sectors. MIGA could provide guarantees to foreign investors in the financial sector, focusing on projects which would improve SMEs' access to finance or promote the development of non-bank financial institutions, such as leasing companies. MIGA would also consider opportunities to support foreign investment in the manufacturing sector.

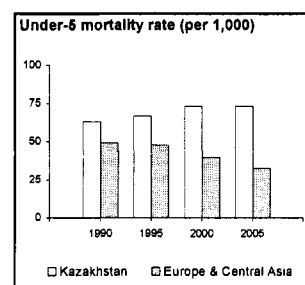
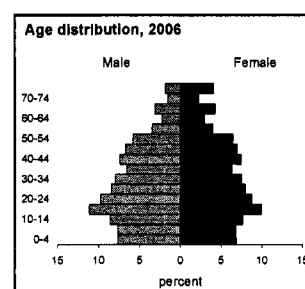
Kazakhstan at a glance

4/10/08

Key Development Indicators	Kazakhstan 2007	Europe & Central Asia 2006	Upper middle income 2006
Population, mid-year (millions)	15.5	460	810
Surface area (thousand sq. km)	2,725	24,114	41,460
Population growth (%)	1.1	0.0	0.7
Urban population (% of total population)	53	64	75
GNI (Atlas method, US\$ billions)	77.2	2,206	4,790
GNI per capita (Atlas method, US\$)	4,990	4,796	5,913
GNI per capita (PPP, international \$)	..	9,662	10,817
GDP growth (%)	8.5	6.8	5.6
GDP per capita growth (%)	7.3	6.8	4.9

(most recent estimate, 2000–2006)

Poverty headcount ratio at \$1 a day (PPP, %)	<2	1	..
Poverty headcount ratio at \$2 a day (PPP, %)	16	10	..
Life expectancy at birth (years)	66	69	70
Infant mortality (per 1,000 live births)	63	28	26
Child malnutrition (% of children under 5)	..	5	..
Adult literacy, male (% of ages 15 and older)	..	99	94
Adult literacy, female (% of ages 15 and older)	..	96	92
Gross primary enrollment, male (% of age group)	110	103	106
Gross primary enrollment, female (% of age group)	108	100	104
Access to an improved water source (% of population)	86	92	93
Access to improved sanitation facilities (% of population)	72	85	81

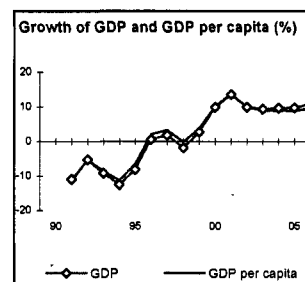


Net Aid Flows	1980	1990	2000	2007 ^a
(US\$ millions)				
Net ODA and official aid	..	112	189	229
Top 3 donors (in 2005):				
Japan	..	1	83	66
United States	..	2	58	57
Turkey	..	2	2	46
Aid (% of GNI)	..	0.4	1.1	0.4
Aid per capita (US\$)	..	7	13	15

Long-Term Economic Trends

Consumer prices (annual % change)	..	90.9	13.2	10.8
GDP implicit deflator (annual % change)	..	96.4	17.4	14.8
Exchange rate (annual average, local per US\$)	..	0.0	142.1	122.6
Terms of trade index (2000 = 100)	..	74	100	98

Population, mid-year (millions)	14.9	16.3	14.9	15.5
GDP (US\$ millions)	..	26,933	18,292	103,840
		(% of GDP)		
Agriculture	..	26.7	8.7	6.1
Industry	..	44.6	40.5	41.4
Manufacturing	..	8.9	17.7	12.1
Services	..	28.7	50.8	52.4
Household final consumption expenditure	..	51.6	62.3	45.5
General gov't final consumption expenditure	..	18.2	12.1	10.3
Gross capital formation	..	31.5	18.1	37.3
Exports of goods and services	..	74.0	56.6	50.0
Imports of goods and services	..	75.3	49.1	43.1
Gross savings	..	13.3	20.8	30.4



1980–90 1990–2000 2000–06
(average annual growth %)

0.9	-0.9	0.5
..	-4.1	10.1

Note: Figures in italics are for years other than those specified. 2006 data are preliminary. .. indicates data are not available.
a. Aid data are for 2005.

Development Economics, Development Data Group (DECDG).

Balance of Payments and Trade

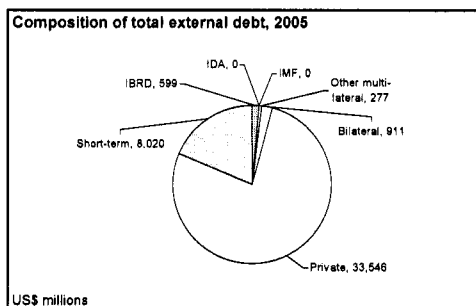
	2000	2007
<i>(US\$ millions)</i>		
Total merchandise exports (fob)	9,288	48,349
Total merchandise imports (cif)	7,120	33,208
Net trade in goods and services	1,371	7,170
Workers' remittances and compensation of employees (receipts)	122	164
Current account balance as a % of GDP	3.66	-7.184
	2.0	-6.9
Reserves, including gold	2,096	17,392

Central Government Finance

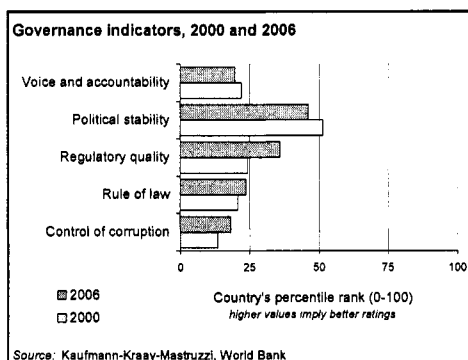
	2000	2007
<i>(% of GDP)</i>		
Current revenue (including grants)	21.8	30.0
Tax revenue	20.2	26.7
Current expenditure	20.3	14.9
Overall surplus/deficit	-1.0	5.6
Highest marginal tax rate (%)		
Individual (PII) and Social tax	30	23
Corporate	30	30

External Debt and Resource Flows

	2000	2007
<i>(US\$ millions)</i>		
Total debt outstanding and disbursed	12,433	96,369
Total debt service	3,371	25,427
Debt relief (HIPC, MDRI)	-	-
Total debt (% of GDP)	68.0	92.8
Total debt service (% of exports)	32.0	49.0
Foreign direct investment (net inflows)	1,283	7,099
Portfolio equity (net inflows)	19	-4,601

**Private Sector Development**

	2000	2006
Time required to start a business (days)	-	21
Cost to start a business (% of GNI per capita)	-	7.0
Time required to register property (days)	-	52
Ranked as a major constraint to business (% of managers surveyed who agreed)		
Access to/cost of financing	..	20.1
Tax rates	..	15.4
Stock market capitalization (% of GDP)	7.3	18.4
Bank capital to asset ratio (%)	13.6	8.7

**Technology and Infrastructure**

	2000	2006
Paved roads (% of total)	86.5	93.4
Fixed line and mobile phone subscribers (per 1,000 people)	136	350
High technology exports (% of manufactured exports)	10.7	2.3

Environment

	2000	2007
Agricultural land (% of land area)	77	77
Forest area (% of land area)	1.2	1.2
Nationally protected areas (% of land area)	..	2.9
Freshwater resources per capita (cu. meters)	..	4,978
Freshwater withdrawal (% of internal resources)	46.4	..
CO2 emissions per capita (mt)	8.1	10.7
GDP per unit of energy use (2000 PPP \$ per kg of oil equivalent)	1.6	1.8
Energy use per capita (kg of oil equivalent)	2,666	3,651

World Bank Group portfolio

	2000	2006
<i>(US\$ millions)</i>		
IBRD		
Total debt outstanding and disbursed	1,057	502
Disbursements	50	29
Principal repayments	20	130
Interest payments	62	31
IDA		
Total debt outstanding and disbursed	0	0
Disbursements	0	0
Total debt service	0	0
IFC (fiscal year)		
Total disbursed and outstanding portfolio	89	146
of which IFC own account	89	108
Disbursements for IFC own account	29	15
Portfolio sales, prepayments and repayments for IFC own account	3	16
MIGA		
Gross exposure	22	82
New guarantees	0	75

Note: Figures in italics are for years other than those specified. 2006 data are preliminary.
 .. indicates data are not available. - indicates observation is not applicable.

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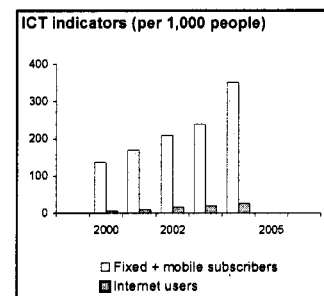
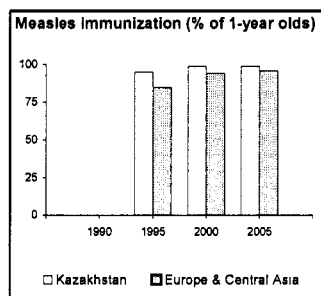
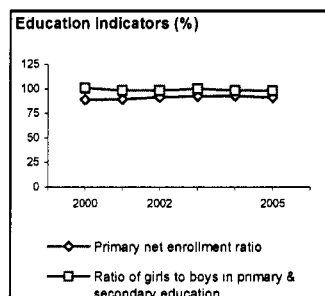
Development Economics, Development Data Group (DECDG).

Millennium Development Goals

Kazakhstan

With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

	Kazakhstan			
	1990	1995	2000	2005
Goal 1: halve the rates for \$1 a day poverty and malnutrition				
Poverty headcount ratio at \$1 a day (PPP, % of population)	<2	<2	<2	<2
Poverty headcount ratio at national poverty line (% of population)	..	34.6	..	..
Share of income or consumption to the poorest quintile (%)	9.5	6.7	8.1	7.4
Prevalence of malnutrition (% of children under 5)	..	8.3	4.2	..
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	89	..	89	91
Primary completion rate (% of relevant age group)	..	..	93	114
Secondary school enrollment (gross, %)	99	..	91	99
Youth literacy rate (% of people ages 15-24)	100	..	100	..
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	102	..	101	98
Women employed in the nonagricultural sector (% of nonagricultural employment)	45	46	48	49
Proportion of seats held by women in national parliament (%)	..	13	10	10
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	63	67	73	73
Infant mortality rate (per 1,000 live births)	53	57	63	63
Measles immunization (proportion of one-year olds immunized, %)	89	95	99	99
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	210	..
Births attended by skilled health staff (% of total)	..	100	99	..
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	..	..	0.1
Contraceptive prevalence (% of women ages 15-49)	..	59	66	..
Incidence of tuberculosis (per 100,000 people)	59	62	141	144
Tuberculosis cases detected under DOTS (%)	..	..	93	72
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	87	87	86	86
Access to improved sanitation facilities (% of population)	72	72	72	72
Forest area (% of total land area)	1.3	..	1.2	1.2
Nationally protected areas (% of total land area)	..	..	..	2.9
CO2 emissions (metric tons per capita)	17.6	10.5	8.1	10.7
GDP per unit of energy use (constant 2000 PPP \$ per kg of oil equivalent)	1.0	1.1	1.6	1.8
Goal 8: develop a global partnership for development				
Fixed line and mobile phone subscribers (per 1,000 people)	82	124	136	350
Internet users (per 1,000 people)	0	0	7	27
Personal computers (per 1,000 people)	..	..	..	..
Youth unemployment (% of total labor force ages 15-24)	..	..	17.3	14.3



Note: Figures in italics are for years other than those specified. .. indicates data are not available.

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Development Economics, Development Data Group (DECDG).

CAS Annex B2 - Kazakhstan
Selected Indicators* of Bank Portfolio Performance and Management
As Of 04/16/2008

Indicator	2005	2006	2007	2008
Portfolio Assessment				
Number of Projects Under Implementation ^a	8	10	10	11
Average Implementation Period (years) ^b	3.7	4.0	4.0	3.4
Percent of Problem Projects by Number ^{a, c}	0.0	10.0	30.0	18.2
Percent of Problem Projects by Amount ^{a, c}	0.0	3.7	16.5	9.8
Percent of Projects at Risk by Number ^{a, d}	0.0	20.0	30.0	18.2
Percent of Projects at Risk by Amount ^{a, d}	0.0	19.0	16.5	9.8
Disbursement Ratio (%) ^e	20.3	15.1	14.5	13.3
Portfolio Management				
CPPR during the year (yes/no)	no	no	no	yes
Supervision Resources (total US\$)	795	902.5	906	735
Average Supervision (US\$/project)	88.3	100.3	90.6	81.7

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	19	4
Proj Eval by OED by Amt (US\$ millions)	1,344.9	202.5
% of OED Projects Rated U or HU by Number	15.8	0.0
% of OED Projects Rated U or HU by Amt	2.1	0.0

a. As shown in the Annual Report on Portfolio Performance (except for current FY).

b. Average age of projects in the Bank's country portfolio.

c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).

d. As defined under the Portfolio Improvement Program.

e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Annex B3: Kazakhstan: IFC Investment Operations Program

	2005	2006	2007	2008*
Commitments (US\$m)				
Gross	11.0	5.0	60.5	99.4
Net	11.0	5.0	60.5	99.4
Net Commitment by Investment Instrument (%)				
Equity	10	0	100	0
Loan**	90	100	0	100
Total Commitment	100	100	100	100
Net Commitment by Industry (%)				
CGF	100	100	17	100
CGM	0	0	83	0
Total	100	100	100	100

Note:

*2008 is as of April 23, 2008

*** Loan includes quasi equity and quasi loan

Kazakhstan: MIGA Outstanding Exposure (Gross Exposure, US\$ million)				
As of end of fiscal year	FY05	FY06	FY07	FY2008 through 3/31/08
Sectoral Distribution				
Finance	0.0	75.0	10.3	57.8
Infrastructure	0.0	0.0	0.0	0.0
Manufacturing	7.2	6.5	4.1	4.1
	7.2	81.5	14.3	61.8
MIGA's Risk Profile				
Transfer Restriction	7.2	81.5	14.3	61.8
Expropriation	7.2	81.5	14.3	61.8
War & Civil Disturbance	7.2	6.5	4.1	4.1
Breach of Contract	0.0	0.0	0.0	0.0
MIGA's Gross Exposure in Country				
MIGA's Gross Exposure in Country	7.2	81.5	14.3	61.8
% Share of MIGA's Gross Exposure	0.1%	1.5%	0.3%	1.0%
MIGA Net Exposure in Country				
MIGA Net Exposure in Country	6.5	73.4	12.4	59.9
% Share of MIGA's Net Exposure	0.2%	2.2%	0.4%	1.7%

CAS Annex B4 - Summary of Nonlending Services - Kazakhstan

<i>Product</i>	<i>Completion FY</i>	<i>Cost (US\$000)</i>	<i>Audience^a</i>	<i>Objective^b</i>
Recent completions				
E-Government	FY06	200.8	Government	KG/PS
Fin. Systems Enhancement	FY06	146.8	Government	KG/PS
ROSC	FY06	122.9	Bank	KG/PS
Health Dialogue/TA	FY06	510.3	Government	KG/PS
TA on Private Sector	FY06	34.1	Government	KG/PS
Private Public Partnership	FY06	47.3	Government	KG/PS
Env. Strategy	FY06	226.2	Government	KG/PS
Health Dialogue	FY06	255.0	Government	KG/PS
Agr. Policy Assessment	FY07	250.0	Government	KG/PS
Top-level Brainstorming events	FY07	186.0	Government	KG/PS
Customs	FY07	22.0	Government	KG/PS
Education Policy Dialogue	FY07	142.3	Government	KG/PS
E-Government Phase 2	FY07	280.0	Government	KG/PS
Fodder & Pasture Management	FY07	20.0	Govt/Bank	KG/PS
Health Care Quality TA	FY07	150.0	Government	KG/PS
Higher Education and Innov. Dev.	FY07	156.0	Government	KG/PS
WTO Accession	FY07	450	Government	KG/PS
Mgmt & Governance of State				
Sharehold	FY07	78.0	Government	KG/PS
Pensions Study	FY07	150.0	Government	KG/PS
Private Partnership TA	FY07	150.0	Government	KG/PS
Tax Policy	FY07	307.6	Government	KG/PS
Territorial Development	FY07	263.0	Government	KG/PS
Utilities Tariff Reform	FY07	50	Government	KG/PS
Underway				
Enhancing Competitiveness	FY08	280	Government	KG/PS
EITI	FY08	240	Government	KG/PS
Tax Administration	FY08	50	Government	KG/PS
Public Utilities Reform 2	FY08	150	Government	KG/PS
Efficiency of Social Protection	FY08	100	Government	KG/PS
Efficiency of Pensions System	FY08	100	Government	KG/PS
Development of Statistics	FY08	110	Government	KG/PS
Policy Adv. On PAR	FY08	250	Government	KG/PS
Private Partnership TA	FY08	125	Government	KG/PS
Supply Chain Development	FY08	100	Government	KG/PS
Technoparks	FY08	100	Government	KG/PS
Implementation of IFPS	FY08	150	Government	KG/PS
Public Finance Management Review	FY09	600	Government	KG/PS

a. Government, donor, Bank, public dissemination.

b. Knowledge generation, public debate, problem-solving.

CAS Annex B6 - Kazakhstan - Key Economic Indicators

Indicator	Actual			Estimate			Projected			
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
National accounts (as % of GDP)										
Gross domestic product ^a	100	100	100	100	100	100	100	100	100	100
Agriculture	9	9	8	8	7	6	6	6	6	6
Industry	39	39	38	38	40	42	43	45	48	49
Services	52	53	54	55	53	52	51	49	47	44
Total Consumption	74	73	69	65	60	57	60	64	66	70
Gross domestic fixed investment	24	24	23	25	28	29	29	29	29	29
Government investment	1	3	3	4	4	5	6	6	6	6
Private investment	22	21	20	21	24	25	23	23	23	23
Exports (GNFS) ^b	46	47	48	52	54	51	47	40	34	29
Imports (GNFS)	47	47	43	43	45	40	38	35	32	30
Gross domestic savings	26	27	31	35	40	43	40	36	34	30
Gross national savings ^c	22	23	25	27	30	31	28	23	21	18
<i>Memorandum items</i>										
Gross domestic product (US\$ million at current prices)	22153	24637	30834	43152	57124	81003	107126	126729	150060	176624
GNI per capita (US\$, Atlas method)	1350	1520	1800	2300	2940	3870	5080	6300	7670	9020
Real annual growth rates (%), calculated from 1993 prices)										
Gross domestic product at market prices	13.5	9.8	9.3	9.6	9.7	10.7	8.7	5.5	6.3	5.6
Gross Domestic Income	6.0	5.8	8.2	13.4	13.8	14.7	8.0	4.8	4.5	2.0

Indicator	Actual			Estimate				Projected		
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Real annual per capita growth rates (% calculated from 1993 prices)										
Gross domestic product at market prices	13.7	9.8	8.9	8.8	8.7	9.5	7.3	6.0	5.4	4.9
Total consumption	9.8	9.1	6.7	12.5	9.7	9.6	8.7	8.8	9.0	9.2
Private consumption	8.3	12.3	7.1	8.4	10.1	12.6	8.7	8.8	9.0	9.2
Balance of Payments (US\$ millions)										
Exports (GNFS) ^b	10188	11567	14945	22612	30529	41570	51310	61596	61917	60633
Merchandise FOB	8928	10027	13233	20603	28301	38762	47788	57874	57995	56511
Imports (GNFS) ^b	10579	11578	13306	18926	25474	32840	42777	46477	50177	53877
Merchandise FOB	7944	8040	9554	13818	17979	24120	31554	34554	37554	40554
Resource balance	-391	-11	1639	3687	5055	8730	8533	15118	11740	6756
Net current transfers	238	114	-165	-488	-413	-1207	-1500	-1793	-2086	-2379
Current account balance	-1390	-1024	-273	335	-1056	-1795	-4725	-982	-7282	-14796
Net private foreign direct investment	2861	2164	2213	5436	2123	6626	4834	5069	4502	5299
Long-term loans (net)	463	758	2188	1977	2203	14535	9411	4822	4667	5333
Official	34	76	198	136	-1018	40	971	356	484	1122
Private	429	682	1991	1840	3221	14494	8441	4466	4183	4211
Other capital (net, incl. errors & omissions)	-1549	-1362	-2596	-3749	-5214	-8291	-7785	-10882	-3428	2622
Change in reserves ^d	-385	-535	-1534	-3999	1944	-11075	-1735	1973	1542	1542
<i>Memorandum items</i>										
Resource balance (% of GDP)	-1.8	0.0	5.3	8.5	8.8	10.8	8.0	11.9	7.8	3.8
Real annual growth rates (YR93 prices)										
Merchandise exports (FOB)	-1.8	16.6	7.5	10.9	1.1	6.9	9.3	8.5	8.0	8.0
Merchandise imports (CIF)	-1.5	3.1	-7.6	14.8	12.5	12.1	9.6	10.3	9.0	9.0

Indicator	Actual					Estimate					Projected	
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		
Public finance (as % of GDP at market prices)^e												
Current revenues	24.6	22.4	24.3	23.4	27.8	27.1	26.8	26.1	25.8	25.4		
Current expenditures	19.5	17.2	16.6	16.2	15.8	14.2	16.1	16.3	16.4	16.6		
Current account surplus	5.1	5.2	7.6	7.2	12.0	12.9	10.7	9.8	9.4	8.8		
Capital expenditure	3.5	4.2	5.9	5.8	6.5	6.1	6.5	6.6	6.7	6.8		
Foreign financing	0.3	-1.4	0.2	-0.8	-1.5	0.0	-0.3	-0.1	-0.1	0.0		
Monetary indicators												
M3/GDP	17.7	20.3	21.1	28.1	27.2	36.0	41.1	41.4	41.6	41.4		
Growth of M3 (%)	45.1	32.8	27.0	69.8	25.2	78.1	43.8	25.0	23.0	20.0		
Price indices(YR93 =100)												
Merchandise export price index	141.4	136.2	167.2	234.7	318.9	408.6	446.8	416.9	394.6	363.5		
Merchandise import price index	142.2	139.6	179.5	226.2	261.6	313.0	358.6	357.3	357.3	354.9		
Merchandise terms of trade index	99.4	97.6	93.1	103.8	121.9	130.5	124.6	116.7	110.5	102.4		
Real exchange rate (US\$/LCU) ^f	100.7	105.7	110.7	106.9	103.6	95.8	92.1	90.7	89.8	89.3		
Real interest rates												
Consumer price index (% change)	8.4	5.8	6.4	6.9	7.6	8.6	10.8	8.0	7.0	6.0		
GDP deflator (% change)	10.2	5.8	11.7	16.1	17.9	21.6	16.0	16.0	15.0	14.0		

a. GDP at factor cost

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Consolidated general government.

f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes depreciation.

CAS Annex B7 - Kazakhstan - Key Exposure Indicators

Indicator	Actual				Actual			Projected		
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total debt outstanding and disbursed (TDO) (US\$m) ^a	15157	18251	22920	32946	43623	73243	99927	117356	132518	148954
Net disbursements (US\$m) ^a	2140	2375	3754	9046	6455	26230	25523	16140	13607	14930
Total debt service (TDS) (US\$m) ^a	3834	4095	5259	8185	11742	13748	17873	23068	26417	29302
Debt and debt service indicators (%)										
TDO/XGS ^b	148.8	157.8	153.4	145.7	142.9	176.2	202.1	233.3	256.5	288.0
TDO/GDP	68.4	74.1	74.3	76.4	76.4	90.4	95.5	93.0	88.2	83.8
TDS/XGS	37.6	35.4	35.2	36.2	38.5	33.1	36.2	45.9	51.1	56.7
Concessional/TDO	2.6	2.7	3.6							0.0
IBRD exposure indicators (%)										
IBRD DS/public DS Preferred creditor	21.6	11.6	24.0	14.7	47.9	19.3	9.3	11.1	10.2	9.4
DS/public DS (%) ^c	29.7	18.5	39.0	24.4	73.9	29.3	13.4	16.2	15.0	14.5
IBRD DS/XGS	1.0	1.0	0.8	0.6	2.2	0.2	0.1	0.2	0.2	0.1
IBRD TDO (US\$m) ^d	1203	1232	1226	1201	592	647	677	701	779	809
Of which present value of guarantees (US\$m)										
Share of IBRD portfolio (%)	1.0	1.0	1.1	1.1	0.6	0.6	0.7	0.7	0.7	0.7
IDA TDO (US\$m) ^d	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IFC (US\$m)	121.1	117.4	215.10	166.8	139.2	128.2	129.3	204.4		
Loans	114.6	105.9	200.2	151.0	125.8	115.8	107.9	182.9/c		
Equity	6.5	11.5	14.9	15.8	13.4	12.4	21.4	21.5		
MIGA guarantees (US\$m)		30.7	9.0	9.0	7.2	81.5	14.3	61.8		

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. As of April 2008

d. Includes present value of guarantees.

Statement of IFC's
Held and Disbursed Portfolio
In Kazakhstan, As of April, 2008, (US\$ Million)

Commitment Fiscal Year	Institution Short Name	LN Cmtd-IFC	ET Cmtd-IFC	QL+QE Cmtd-IFC	GT Cmtd-IFC	All Cmtd-IFC	LN Out-IFC	ET Out-IFC	QL+QE Out-IFC	GT Out-IFC	All Out-IFC
1994/ 1996/ 1998/ 2003/ 2007	ABN AMRO Kazak	0.0	15.4	10.0	0.0	0.0	0.0	15.4	10.0	0.0	25.4
2005/ 2008	BCC	8.0	0.0	0.0	19.5	0.0	8.0	0.0	0.0	19.5	27.5
2005/ 2006	BTA Leasing	3.8	1.1	0.0	0.0	0.0	3.8	1.1	0.0	0.0	4.8
2003	Karachaganak	0.0	0.0	5.0	0.0	0.0	0.0	0.0	5.0	0.0	5.0
2003	MSME Resource	0.0	0.1	3.3	0.0	0.0	0.0	0.1	1.5	0.0	1.6
2000/ 2002	Rambutya LLP	2.5	0.0	0.0	0.0	0.0	2.5	0.0	0.0	0.0	2.5
2001	SEF NeftBank	0.0	0.0	0.6	0.0	0.0	0.0	0.0	0.6	0.0	0.6
2000	TuranAlem	0.0	4.9	0.0	0.0	0.0	0.0	4.9	0.0	0.0	4.9
Total		14.3	21.5	18.9	19.5	0.0	14.3	21.5	17.1	19.5	72.4

Portfolio:

Statement of IFC's Approvals Pending Commitment
As of April, 2008 (US\$ Million)

Project Short Name	Project Id	Approval FY	Loan		Equity		RM	Appr	Appr Vol - Part
			IFC	Appr Vol - IFC	IFC	Appr Vol - IFC			
BTA Leasing	11507 *	2005	0.0	0.1	0.0	0.0	0.0	0.1	0.0
Bank Caspian	25959 *	2008	80.0	0.0	0.0	0.0	0.0	80.0	0.0
GTFP BCC	26044 *	2007	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rambutya II	10602 *	2002	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Kazakhstan Total:			80.0	0.1	0.0	0.0	0.0	80.1	0.0

CAS Annex B8 - Kazakhstan

Operations Portfolio (IBRD/IDA and Grants)

As Of Date 05/01/2008

Closed Projects 20

IBRD/IDA *	
Total Disbursed (Active)	222.09
of which has been repaid	23.59
Total Disbursed (Closed)	1,440.47
of which has been repaid	1,215.13
Total Disbursed (Active + Closed)	1,662.56
of which has been repaid	1,238.72
Total Undisbursed (Active)	383.13
Total Undisbursed (Closed)	4.40
Total Undisbursed (Active + Closed)	387.53

Active Projects

Project ID	Project Name	Supervision Rating		Fiscal Year	Original Amount in US\$ Millions				Undisb.	Orig. Frm Rev'd	Difference Between Expected and Actual Disbursements ^{av}
		Development Objectives	Implementation Progress		IBRD	IDA	GRANT	Cancel.			
P058015	AG POST PRIV ASSIST (APL #2)	U	U	2005	35.00				34.83	16.17	
P049721	AGRIC COMPETITIVENESS	MS	MU	2005	24.00				22.62	10.59	
P096998	CUSTOMS DEVT (JERP)	#	#	2008	18.50				18.50		
P071525	DRYLANDS MGMT (GEF)	S	S	2003		5.27			0.92	0.18	
P065414	ELEC TRANS REHAB	S	S	2000	140.00				17.72	17.72 -1.45	
P078301	FORESTRY	MS	MS	2006	30.00				29.36	1.03	
P087485	FORESTRY (GEF) - KZ	MS	MS	2006		5.00			4.91	0.54	
P101928	HEALTH SEC TECH (JERP)	#	#	2008	117.70				117.70		
P095155	N-S ELEC TRANSM	S	S	2006	100.00				71.75	22.75	
P059803	NURA RIVER CLEAN-UP	MS	MS	2003	40.39				27.92	12.16	
P046045	SYR DARYA CONTROL N. ARAL SEA	S	S	2001	64.50				5.04	5.04 2.79	
P090695	TECHNOLOGY COMMERCIALIZATION	#	#	2008	13.40				13.40		
P078342	UST-KAMENOGORSK ENV REMED	S	S	2007	24.29				24.29		
Overall Result					607.78	10.27		388.96	86.17	1.34	

Map Section

