

COUNTRY PARTNERSHIP FRAMEWORK FOR KAZAKHSTAN 2019-23

Consultations with Stakeholders



WORLD BANK GROUP

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WORLD BANK GROUP

The World Bank Group (WBG) is an international financial institution with a mission to fight poverty and support inclusive growth.

The WBG consists of 5 institutions:

The International Bank for Reconstruction and Development

The International Development Association

Together, IBRD and IDA make up the World Bank.



The International Finance Corporation (IFC)

The Multilateral Investment Guarantee Agency

The International Centre for Settlement of Investment Disputes

Kazakhstan has been a member of the World Bank since 1992. Since then, the Bank has provided 46 loans to the country for more than US\$8 billion.

Since 2003, the Bank has provided significant Advisory Services and Analytics (ASA) to the GoK under the Joint Economic Research Program (JERP). The program provides innovative solutions to help improve the quality and sustainability of Kazakhstan's growth, governance, and public-service delivery agenda. The JERP also supported high level brainstorming on topics of transformative value.

Outline

- I. Current WBG Portfolio and Activities**
- II. What has changed since the last Country Partnership Strategy?**
- III. Lessons from FY12-17 Country Partnership Strategy (CPS)**
- IV. Key Findings from the Systematic Country Diagnostic (SCD) and Country Private-Sector Diagnostic (CPSD)**
- V. Kazakhstan's Development Priorities**
- VI. Proposed FY19-23 Country Partnership Framework (CPF)**
- VII. Main Risks to Success**
- VIII. Issues for Discussion**

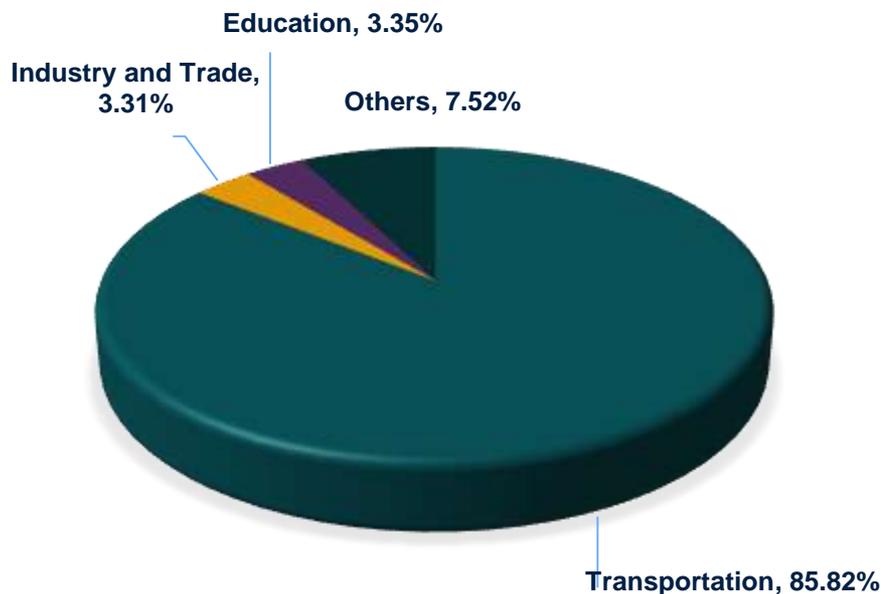
I. Current Portfolio of World Bank Lending Operations

LENDING PORTFOLIO BY SECTOR

Thirteen operations (US\$3.8 billion)

- 85 percent in transport sector

TOP 3 SECTORS OF ACTIVE PORTFOLIO



PROJECTS UNDER IMPLEMENTATION

- Irrigation and Drainage Improvement
- South-West Roads
- Tax Administration Reform
- Youth Corps program
- East-West Roads
- Energy Efficiency
- Justice Sector Institutional Strengthening
- SME Competitiveness
- Skills and Jobs
- Fostering Productive Innovation
- Catastrophe Risk Insurance Facility
- Social Health Insurance
- Education Modernization

I. Current Joint Economic Research Program (JERP) and other Analytical, Diagnostic and Advisory Support

JERP FY18

- Subnational *Doing Business*
- Measuring the Effectiveness of Tax Incentives
- Strengthening Statistical Capacity (National Accounts and SDGs)
- Managing Public Debt
- Insolvency Legislation and Personal Insolvency
- Public Expenditure Review (Agricultural Sector)
- Results-Based Budgeting
- Social Safety Net System

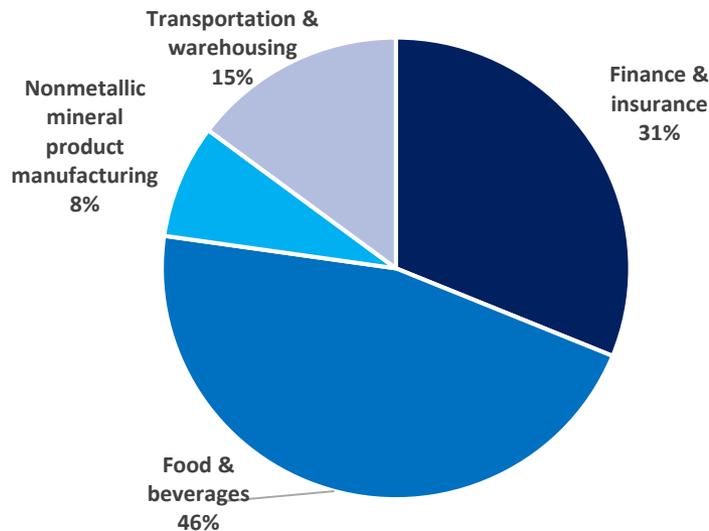
Other Analytical, Diagnostic and Advisory Work

- Public Procurement Assessment
- Public Expenditure and Financial Accountability Assessment
- Kazakhstan Priority Sector Competitiveness
- Enterprise Survey Update

I. IFC and MIGA Portfolio

IFC

- Seven investments in current portfolio
 - US\$ 114.5 million in loans
 - US\$27.8 million in equity



MIGA

- No current exposure
- Last transaction was in FY2010 for US\$190 million in gross exposure (banking sector project)
- MIGA has issued guarantees for 10 projects: in manufacturing, telecoms and financial/ leasing sectors for US\$0.6 billion (gross exposure at issuance)

II. What has changed since the last Country Partnership Strategy (CPS) FY12-17?

- Low (and often volatile) oil prices, and a long-term decline in global demand for fossil fuels and carbon-intensive goods
 - Kazakhstan recognizes need to move to a new economic growth model to reduce fiscal and economic vulnerabilities and sustainably improve living standards.
- Increased fiscal stress in Kazakhstan requires that public-resources be used more efficiently and the quality of public spending be improved.
- International recognition that development goals cannot be achieved with public-sector resources alone. Public policy is shifting strongly to creating conditions to mobilize and catalyze greater private investment.
- Disruptive technologies increasingly require a work force and supporting education system that is agile and can adapt to changing circumstances.

III. Lessons from Implementation of CPS FY12-17

- Implementation of FY12-17 CPS “**Moderately Satisfactory**”
 - Most CPS outcomes either “**fully**” or “**partially achieved**”
- **Main obstacles:**
 - Worse-than-expected economic and fiscal situation
 - Process and procedural bottlenecks delayed project implementation.
 - Frequent lack of alignment between GoK and WBG processes. Remedial actions partly implemented; more needed.
 - JERP work program relevance, coherence and impact could have been enhanced with a more medium-term planning horizon.

IV. Key Findings from Systematic Country Diagnostic (SCD)

SCD PILLAR	CONSTRAINTS TO GROWTH
PILLAR 1: Economic management for diversification	<ul style="list-style-type: none"> • Low capability to formulate and execute sound macroeconomic policy • Unsustainable non-oil fiscal deficit • Large contingent liabilities from the banking and SOE sectors
PILLAR 2: Private sector driven economic growth	<ul style="list-style-type: none"> • Financial sector does not actively supported investors and SMEs • Weak incentives for private-sector investment due to heavy state presence and un-level playing field
PILLAR 3: Increased integration into the global economy and connectivity for Kazakhstan's regions	<ul style="list-style-type: none"> • Shortcomings in trade facilitation and transport logistics • Weak impact of programs to support regional development • Poor connectivity across the country • Limited internal migration to urban areas
PILLAR 4: Productive and sustainable human and natural capital	<ul style="list-style-type: none"> • Uneven delivery of education and health services (urban/rural) • Insufficient quality and relevance of education and skills training • Poor health outcomes, particularly for males • Fragmented, inadequate social safety net, with minimal use of means testing • Insufficient education financing and unsustainable health financing • Environmental constraints, including air pollution, solid and hazardous waste management and sustainability of water resources

IV. Country Private-Sector Diagnostic (CPSD)

Key Findings from Deep Dives



What is the opportunity?

- Belt & Road Initiative with major investments in transport
- Superiority of land-transport: faster than sea, lower cost than air

Why hasn't the sector developed?

- Insufficient scale, partly due to weak sectoral performance (low demand)
- Time and cost for trading across borders

What would it take to open the sector?

- State-of the art risk management and an integrated IT backbone
- Upgrading of rail and road network and multimodal connectivity
- Liberalization of the market access for the intermodal operations



- Rapidly growing demand in China
- Brand premium in Xinjiang
- Low cost of production

- Small scale production needing tech transfer and capital investment to capture economies of scale
- Gaps in upstream value chain make it hard to meet standards

- Invest in quality -standards, testing, infrastructure
- Improved transport logistics and market access
- FDI for tech transfer into Value Chain



- Capture growing regional demand (S.Asia, China, Iran)
- Drive a more competitive meat sector

- Distressed incumbents & PEP issues
- Low productivity
- Weak position in major markets

- Corporate restructuring and subsidy reform
- Improved transport logistics and market access

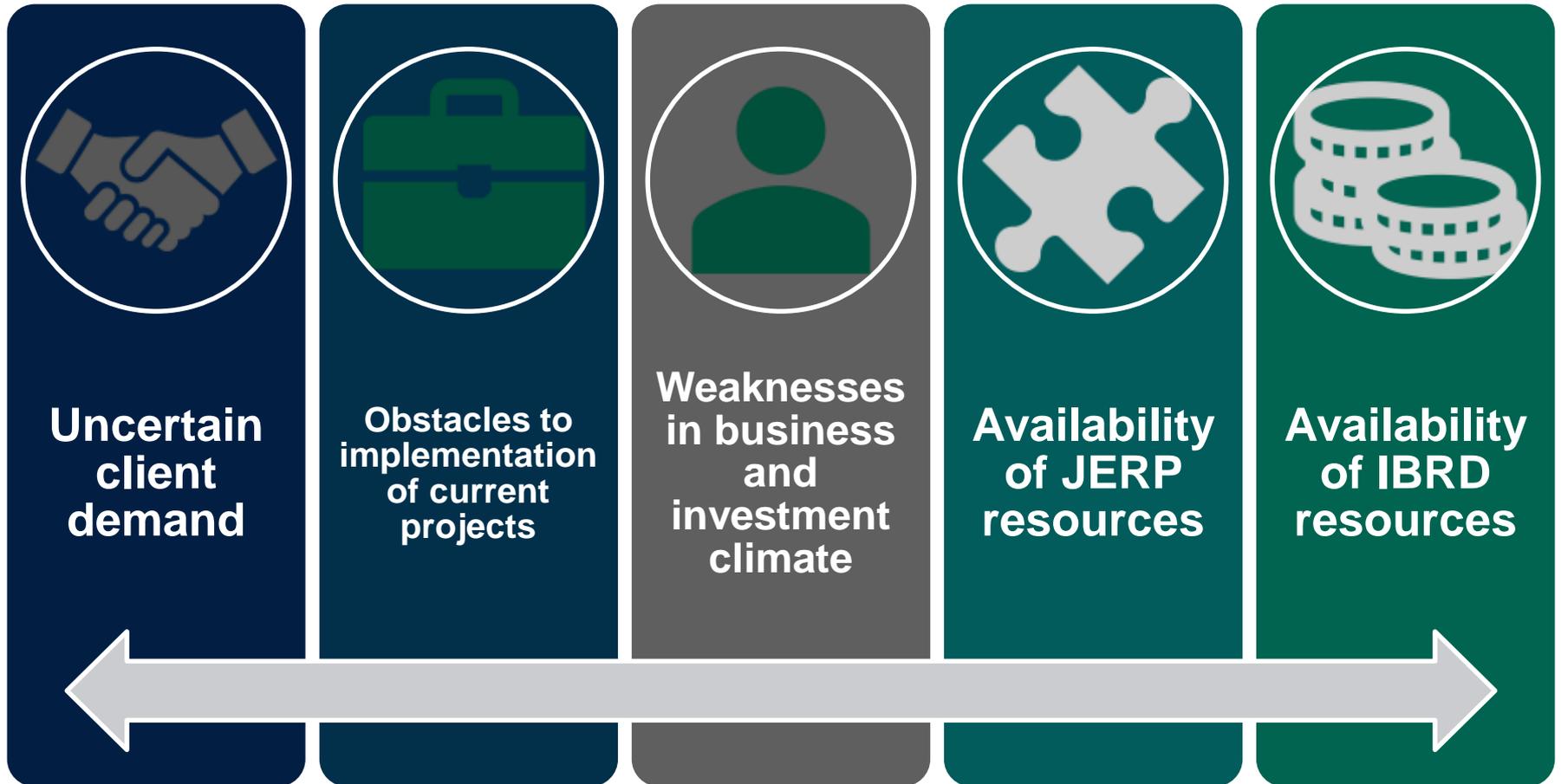
V. Kazakhstan's Development Priorities: Seven Major Systemic Reforms (Kazakhstan 2025)

1. **Skills and capabilities for the new economy** - meet demand for skilled labor by improving quality of training, enhancing labor mobility, and adopting lifelong learning
2. **Technological innovation and digital transformation** - higher enterprise productivity based on technology and creation of infrastructure for digitalization and innovation
3. **Competition and competitiveness of business** - fostering private sector development by creating conditions for business growth, reducing role of government in the economy
4. **Rule of law - state free of corruption** - creating an investment climate characterized by rule of law and prevention of corruption
5. **Strong regions and urbanization** - increased independence and accountability of regions
6. **Modernization of public mindset** - building a nation of strong, competitive, and pragmatic people, with responsibility for their own future and that of the country
7. **Public sector as a leader of change** - promoting role of central and local government as agents for change, including through a more motivated civil service.

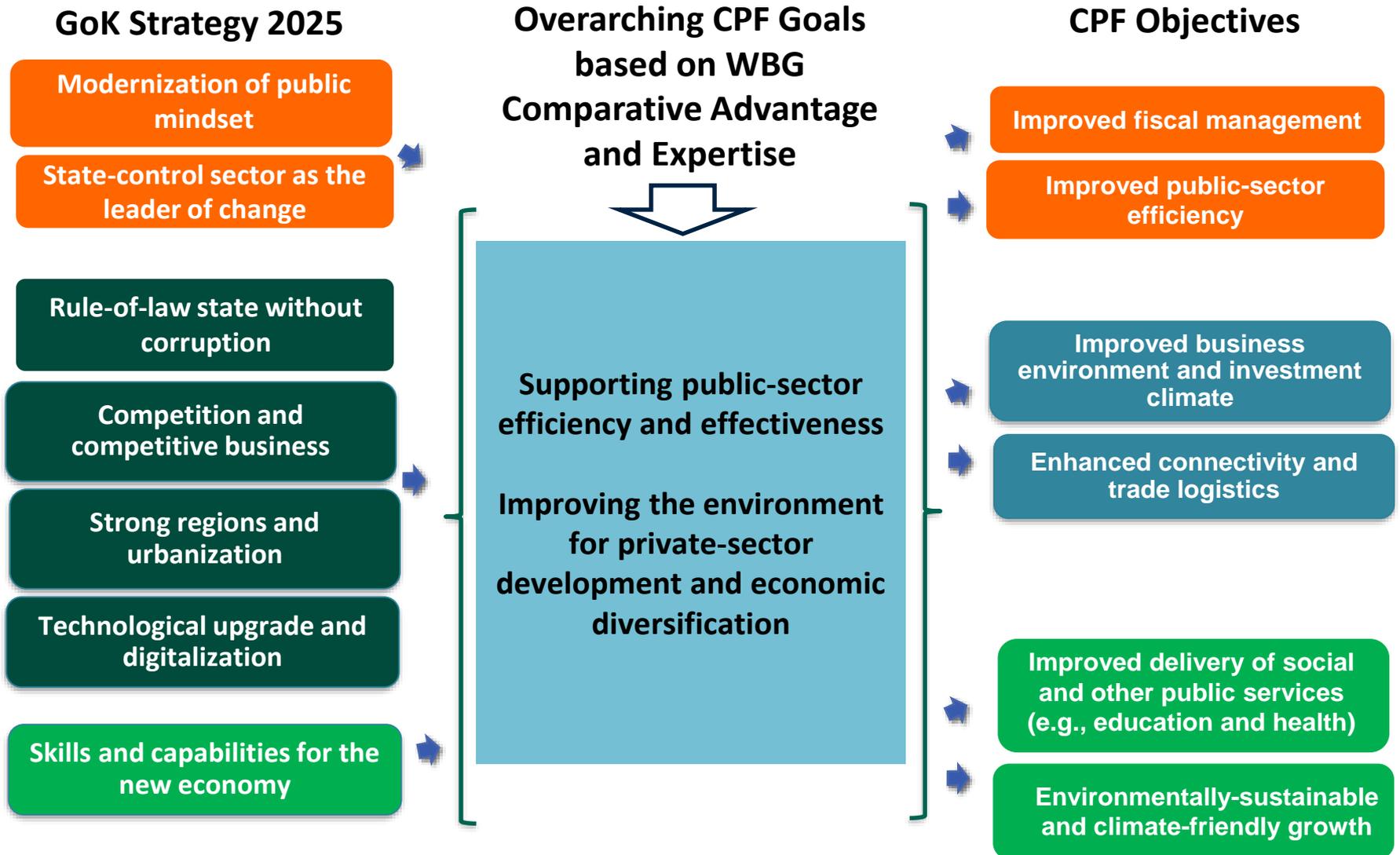


VI. Country Partnership Framework (CPF)

VI. Factors Influencing Design of the FY19-23 CPF



VI. OUTLINE OF KAZAKHSTAN COUNTRY PARTNERSHIP FRAMEWORK



VI. Portfolio Update and Current Resources

- ✓ US\$1.35 billion undisbursed, out of which US\$0.9 billion is being reallocated
- ✓ Large projects with less than 60% disbursement: East-West Roads; IDIP2; Social Health Insurance; SME Competitiveness; FPIP; Skills and Jobs
- ✓ US\$100M potential savings for new operations
- ✓ Opportunity to discuss new CPF operations for the next five years in support of Kazakhstan 2025 Strategy

Potential cancellation/savings:

Project	US\$ in millions
Short-term restructuring:	
1 TARP (done)	3.5
2 Justice Sector Institutional Strengthening	9
Sub-Total:	12.5
Potential restructuring by March 2018:	
3 SME Competitiveness	15
4 FPIP	20
5 Skills & Jobs	31
Sub-Total:	66
Long-term potential:	
6 East West Roads	30
Total:	≈US\$108.5M

VI. CPF – Current and Potential Lending Operations

CPF Objectives

Improved fiscal management

Improved public-sector efficiency

Improved business environment and investment climate

Enhanced connectivity and trade logistics

Improved delivery of social and other public services (e.g., education and health)

Environmentally-sustainable and climate-friendly growth

Active Portfolio of Projects

- Tax Administration
- Justice Sector Institutional Strengthening

- Fostering Productive Innovation
- SME Competitiveness
- East-West Roads
- South-West Roads

- Education Modernization
- Skills and Jobs
- Youth Corps program (TF)
- Social Health Insurance
- Energy Efficiency project (TF)
- SEECA Catastrophe Risk Insurance facility (GEF)
- Second Irrigation and Drainage Improvement

Potential New Operations

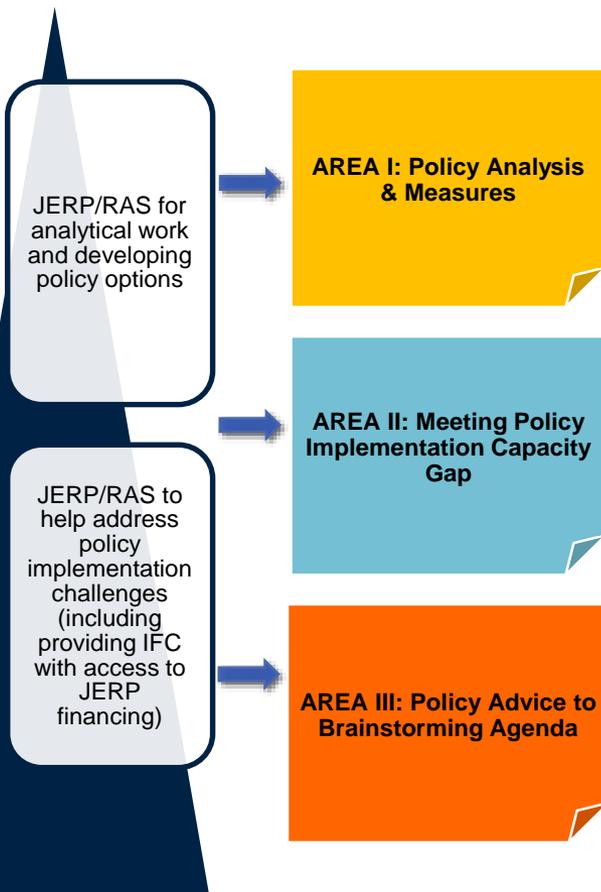
- Policy Loan(s) for major reforms
- SOE reform

- Digital Kazakhstan
- Urban Infrastructure Financing Facility
- Rural Water Supply Project
- Secondary and Rural Road
- Sector Policy Loan(s)
- BRI Enhancement (border logistics and trade facilitation)

- Northern Aral Sea Development (SYNAS II)
- Sector Policy Loan(s)
- Enhancing quality and relevance of education

VI. Potential New Analytical and Advisory Work (JERP)

MEDIUM-TERM PERSPECTIVE FOR JERP/RAS



Indicative Topics

- a) Follow up to recommendations of 2017 Public Finance Review
- b) Sector-specific public expenditure reviews to improve efficiency, identify savings, and increase impact
- c) Analytical input to development of high potential export markets/industries (e.g., agribusiness, minerals, expanding value chains, logistics support)
- d) Update to 2013 Enterprise Survey
- e) Extending Subnational Doing Business work
- f) Green Economy Development (Green Transport/ Energy Efficiency/Renewable Energy)
- g) Assessing environmental and climate impact of agribusiness sector development
- h) Accessible Housing, Labor Mobility and Growth
- i) Enhancing Local Government Capacity
- j) Financial Sector Reform
- k) Periodic high-level brainstorming sessions

VI. Maximizing Financing for Development: Opportunities and Instruments

One World Bank Group (IBRD, IFC, MIGA) working to leverage and catalyze large-scale private-sector investment and activity

Instruments

- Helping creating and develop new markets and industries (livestock, energy, logistics & trade facilitation)
- Supporting reforms to lower risk by improving enabling environment for private investment and private sector-development
- Support for Public-Private Partnerships, including through management of associated contingent liabilities
- Financial-sector development to improve stability and financial inclusion
- Policy Loans or Policy-Based Guarantees
- Results Based Lending (Program for Result (PforR)) aligned with budget process and development targets
- Investment Project Financing
- Other WB Treasury Instruments
- MIGA Guarantees and credit enhancements

VI. Almaty Ring Road (BAKAD): What is Achievable in Kazakhstan in Partnership with the WBG

- Ministry for Investment and Development and Turkish-South Korean consortium recently **signed 20-year concession agreement** to Design-Finance-Build-Transfer-Operate a **66km tolled motorway, with modern traffic management and toll collection systems (BAKAD) to the north of Almaty City**. This is the first infrastructure PPP of this type and magnitude in Central Asia.
- Consortium will invest **about US\$ 740 million** and will maintain road and collect tolls from users for GoK which will compensate private-sector partners through annual availability payments, set against strict performance criteria.
- **IFC advised** key policy and decision makers on best international practice in PPP structuring, novel contractual concepts and inclusion of environmental and social safeguards. IFC was a leading advisor to the GoK for this transaction and worked closely with client ministry, regulatory bodies, and Ministry of Economy.
- Development partners, **especially World Bank (using the JERP) and EBRD**, helped with identification and implementation of changes to the legal framework that had been a disincentive to private financing of infrastructure projects.

VII. Risks to Success in Implementing the FY19-23 CPF

1. **Political and governance risk** - transition, transparency and accountability, fiduciary concerns
2. **Macroeconomic risk**- heavy reliance of budget on oil, implications for exchange rate, significant fiscal costs of inefficient public spending, fiscal risks from SOEs
3. **Financial sector risk** - large implicit contingent liabilities, hidden NPLs, weak corporate governance
4. **Environmental and climate risk** - climate change impact on agriculture, potential environmental impact of agri-business development
5. **Implementation capacity risk** - weaknesses in framework for project approval and implementation

VIII. Issues for Discussion



Have we identified the right priorities on which to support Kazakhstan over the next five years? Is anything missing?

What are the main constraints to achieving Kazakhstan's development goals?

Have we identified the main risks to CPF implementation? What can we do to reduce them?

How do we increase impact of WBG support? What has worked and what needs to improve?

LET'S STAY IN TOUCH

If you have views on the direction of our program in Kazakhstan, please see <https://consultations.worldbank.org/consultation/kazakhstan-country-partnership-framework-2019-2023>

OR

send your comments, questions or suggestions to the World Bank Country Office in Astana, astana_office@worldbank.org

CPF Consultations Period: March 30 - May 14, 2018



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