COUNTRY PARTNERSHIP FRAMEWORK FOR KAZAKHSTAN FY 2020-25

STRONGER INSTITUTIONS FOR INCREASED PRODUCTIVITY, SUSTAINABLE GROWTH, AND INCLUSION

WORLD BANK GROUP

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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)
V. Proposed FY20-25 Country Partnership Framework (CPF)
VI. Partnership and WBG Instruments
VII. Main Risks to Success
VIII. Public Consultations
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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

- Transportation, 85.82%
- Industry and Trade, 3.31%
- Education, 3.35%
- Others, 7.52%

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
… with projects covering all regions of Kazakhstan

Kazakhstan Energy Efficiency Project

**BATCH I - 18 subprojects (2016-2017)**

18 sites in 5 regions: Pavlodar, Krymsk, East-Kazakhstan, West-Kazakhstan (13 kindergartens and 8 schools)

**BATCH II - 25 subprojects (2018)**

25 sites in 8 regions: West-Kazakhstan, Kostanay, North-Kazakhstan, Pavlodar, East-Kazakhstan, Almaty, Akмолa, South-Kazakhstan (13 schools, 4 kindergartens, 5 medical institutions, 3 street lighting sites)

**BATCH III - 31 subprojects (2018-2019)**

31 sites in 7 regions: West Kazakhstan, Kostanay, Akmo, Pavlov, East Kazakhstan, Almaty, South Kazakhstan (19 schools, 4 kindergartens, 5 medical institutions (hospital/polyclinics), 3 street lighting sites)

**BATCH IV - 10 subprojects (2018-2019)**

10 sites in 4 regions: West Kazakhstan, Kostanay, Akmo, South Kazakhstan (4 schools, 2 kindergartens, 2 medical institutions (hospital/polyclinics), 3 street lighting sites)

YOUTH CORPS PROGRAM: PARTICIPANTS AND REGIONS

TOTAL 8500 participants

Regions for 2019
It is planned to engage 3500 participants and 1100 projects

Project will cover the whole Kazakhstan by 2020

Regions covered in 2017
2000 participants
589 projects

Regions covered in 2018
3500 participants
1027 projects
I. Joint Economic Research Program (JERP) and other Analytical, Diagnostic, and Advisory Support

JERP FY19 (completed)
- Subnational Doing Business II
- Measuring the Effectiveness of Tax Incentives
- Strengthening Statistical Capacity II
- Analytical support for developing a methodology for assessing economic and social impact of digitalization in Kazakhstan
- Improvement of Social Payments to Socially Vulnerable Segments of the Population
- Support to Kazakhstan’s 2025 Strategic Development Plan Implementation
- Brainstorming sessions

Other Analytical, Diagnostic, and Advisory Work (FY18/19) (completed)
- Public Procurement Assessment (with OECD)
- Public Expenditure and Financial Accountability Assessment
- Kazakhstan Priority Sectors Competitiveness (agriculture, logistics)
- Support to Livestock Breeding Development Program
- Financial Sector Monitoring
- Macro Analytical Dialogue
- Digital Platform in Kazakhstan
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 during downturn 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.

- Poverty reduction was temporarily halted and reversed during the 2015-2016 period, showing the need for rethinking inclusion and regional disparities.
III. Lessons from Implementation of CPS FY12-17

Implementation of FY12-17 CPS “Moderately Satisfactory”
Most CPS outcomes either “fully” or “partially achieved”

The program design was considered relevant to Kazakhstan’s development goals and supported by a mix of adequate interventions and instruments

Main obstacles:
- Worse-than-expected economic and fiscal situation
- Process and procedural bottlenecks delayed projects implementation.
  - Frequent lack of alignment between GoK and WBG processes. Remedial actions partly implemented; more needed.
- JERP work program was highlighted as an important tool for strengthening the partnership and advancing the reform agenda, but with diverse results.
IV. Key Findings from Systematic Country Diagnostic (SCD)

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<th>SCD PILLAR</th>
<th>CONSTRAINTS TO GROWTH</th>
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| PILLAR 1: Economic management for diversification | • 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 | • Financial sector does not actively support 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 | • 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 | • 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 |
V. Country Partnership Framework (CPF) FY20-25

STRONGER INSTITUTIONS FOR INCREASED PRODUCTIVITY, SUSTAINABLE GROWTH, AND INCLUSION
V. CPF Focus:
STRONGER INSTITUTIONS

GOK strategies emphasize institutional reforms to support economic transformation:

- “One Hundred Steps, Modern State for All” (2015): focus on public administration, rule of law, transparency and accountability
- Development Strategy 2025: focus on government and public sector to initiate and be agents of change
- State of the Nation Address of President Tokayev (September 2019) and Action Plan: focus on raising living standards, overcoming inequalities, and strengthening civil society to complement the traditional prioritization of growth and social expenditures

Accordingly, CPF plans to support institutions in three ways across all sectors:

- Orienting public institutions from control and subsidies provision to market creation/private-sector facilitation, reinforcing SOE and public institutions governance
- Improving budget planning and performance management to more effectively run public institutions including through programs linked to budget expenditures (programs for results)
- Working with private sector and civil society institutions to support faster growth and better services
- At central government level and at ministry/local government level
V. CPF Program:
OBJECTIVE AND FOCUS AREAS

CROSS CUTTING THEME:
Leaner and more effective governance, and strengthened market and social institutions

Cross cutting objectives: 7. Supporting evidence-based delivery of government and SOE reforms
8. Supporting digitization and improving social and market engagement

FOCUS AREA 1: Promoting Inclusive Growth
- Objective 1: Strengthen Environment for Private Sector Development
- Objective 2: Promote Market-led Agriculture Transformation
- Objective 3: Strengthen Connectivity Infrastructure and Regional Services Delivery for Regional Integration

FOCUS AREA 2: Strengthening Human Capital
- Objective 4: Enhance Relevance and Quality of Education and Skills Development
- Objective 5: Increase Access to Quality Health Services and Social Protection

FOCUS AREA 3: Securing Sustainable Growth
- Objective 6: Enhance Energy Efficiency and Natural Resource Management
V. CPF Strategy:
SUPPORTING KAZAKHSTAN’S STRATEGY

KZ 2025 Strategy:

1. State as the leader of change
2. Modernization of public mindset
3. Rule-of-law state without corruption
4. Competition and Competitive Business
5. Strong regions and urbanization
6. Skills and capabilities for the new economy
7. Technological upgrade and digitization

Proposed CPF Strategy:

Cross-Cutting Theme
Leaner and more effective governance, and strengthened market and social institutions
- Supporting Digitization, Improving Social and Market Engagement
- Supporting Delivery of Government and SOE Reforms

Focus Areas:

A. Promoting Inclusive Growth:
- Strengthening Environment for Private Sector Development
- Promote Market-led Agriculture Transformation
- Strengthen Connectivity Infrastructure and Regional Services Delivery for Better Local and Regional Integration

B. Strengthening Human Capital:
- Enhance Relevance and Quality of Education & Skills Development
- Increase Access to Quality Health Services and Social Protection

C. Securing Sustainable Growth:
- Enhance Energy Efficiency and Natural Resources Management
- Ensure resilience in all investment
V. CPF Interventions

PROPOSED IBRD LENDING AND ANALYTIC ACTIVITIES

**Focus Area 1: Promoting Inclusive Growth**
- SME Competitiveness
- Tax Administration
- Justice Sector Reform
- Second Irrigation and Drainage Improvement
- Roads – SWRP/EWRP

**Focus Area 2: Strengthening Human Capital**
- Education Modernization
- Skills and Jobs
- Youth Corps program
- Social Health Insurance
- Productive Innovation

**Focus Area 3: Securing Sustainable Growth**
- Roads – SWRP/EWRP
- Water – IDIP2
- Energy Efficiency project
- SEECA Catastrophe Risk Insurance Facility (GEF)

**Analytic Support to Institutions covering all areas**
- Setting & Monitoring National Goals
- Linking Plans to Budgets and Staffing
- Public-Private Partnerships
- Citizen Outreach Development
- Open government
- Comparison of Economic Reforms in the Region

**Current Portfolio**

- Livestock Development
- National Connectivity Improvement
- MSME Finance

**Proposed New Projects**

- Livestock Development
- National Connectivity Improvement
- MSME Finance

**Initial Analytic Activities**

- Subnational Doing Business
- Firm Productivity and Innovation
- Regional Productivity, Reg Trade
- Strengthening Public Sector Perf
- Supporting State Info-Analytical Env

- Strengthening the Labor Market and Complementary Social Policies
- Public Programs and Expenditure Reviews (Education, Innovation, Health, etc.)

- Partnership for Market Readiness
- Supporting Energy Transition and Improving Energy Efficiency
- CAWEP Reg Program on Water Resource Efficiency

**Cross Cutting:**
Leaver and more effective governance, and strengthened market and social institutions

• Other possible projects include the financial sector, urban infrastructure, renewable energy, or additional finance for ongoing programs
VI. INCREASING PARTNERSHIP AND DIVERSIFICATION OF WBG INSTRUMENTS

Increasing Partnership

• The Bank Group will be collaborating with a number of partners in implementing its program, with different partners in particular sectors:
  • IMF: macroeconomic issues
  • UN and OECD: human capital - education, health, and social insurance
  • ADB, EBRD, IsDB, and JICA: connectivity, agriculture and private sector development
  • EU, ADB, UN, GIZ: public expenditures and fiduciary strengthening, justice and rule of law
  • UNDP, EBRD, ADB, GIZ, USAID: energy sector and natural resources management
  • OECD: monitoring progress towards national goals, strengthening institutions
  • Civil society: at each project level and on policy

• Partnership is particularly important in regional development, the WBG’s program will therefore pay close attention to the alignment of its program with those of regional groupings involved in economic development: Shanghai Cooperation Organization (SCO), Central Asian Regional Economic Cooperation group (CAREC), and the International Fund to Save the Aral Sea (IFAS)

Diversifying WBG Instruments

• Results Based Lending (Program for Result (PforR)) aligned with budget process and development targets
• Policy Loans or Policy-Based Guarantees
• Investment Project Financing
• Other WB Treasury Instruments (local currency financing, currency swaps)
• IFC instruments
• MIGA Guarantees and credit enhancements
VII. Risks to Success in Implementing the FY20-25 CPF

1. **Political and governance risk** - transition, transparency and accountability, fiduciary

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, 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, over reliance on PIUs
VIII. Public Consultations and feedback

- Process not easy to follow as spread over a long period
- Very valuable feedback which have influenced the design: sustainability/natural capital, importance of institutions, open government and accountability
- Influencing the way we do our analytics (e.g.: procurement)
- There are many topics for which we share CSOs interest and still need to find the right channel (local government, implementing bottom up in reforms)
- Joint interest from everyone on accountability

Some reminders:
- CPF provides a framework, so flexibility in activities
- High income level of Kazakhstan means selectivity and focus on public goods/transformation
VIII. Public Consultations and feedback

Sector specific feedbacks
• Commonality of views with the orientations (climate change, oil and gas)
• Importance of inclusion, education, local government
• Infrastructure: evolution of needs and of added value of the world bank given level reached by the country (more private sector funding for energy sector, less financing in roads)
• Reactions/disagreement on issues such as PPPs
• Perception of a private sector first approach

Comments on the process and involvement of CSO
• BIC training provided some insights
• Civil society engagement at project level
• Civil society engagement and oversight at advisory service level
• E-government type of portal at project or for main policy issue
• For CPF itself – sector specific sessions
• Calendar mapping for implementation for regular stock taking
• Role in CSO to monitor and oversee
IX. Issues for Discussion

Have we identified the right priorities on which to support Kazakhstan over the next five years and main risks to CPF implementation?

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

How better we can engage with civil society during CPF implementation?
Thank you!