COUNTRY PARTNERSHIP FRAMEWORK FOR KAZAKHSTAN FY 2020-25

STRONGER INSTITUTIONS FOR INCREASED PRODUCTIVITY, SUSTAINABLE GROWTH, AND INCLUSION

WORLD BANK GROUP

October 9, 2019
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 and 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
- 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, Atyrau, 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, Akmola, South Kazakhstan (13 schools, 4 kindergartens, 5 medical institutions, 5 street lighting sites)

**BATCH III - 31 subprojects (2018-2019)**
31 sites in 7 regions: West Kazakhstan, Kostanay, Akmola, Pavlodar, East Kazakhstan, Almaty, South Kazakhstan (19 schools, 4 kindergartens, 5 medical institutions (hospitals/polyclinics), 3 street lighting sites)

**BATCH IV - 10 subprojects (2018-2019)**
10 sites in 4 regions: West Kazakhstan, Kostanay, Akmola, South Kazakhstan (8 schools, 2 kindergartens, 2 medical institutions (hospitals/polyclinics), 2 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
599 projects

Regions covered in 2018
3508 participants
1027 projects
I. Joint Economic Research Program (JERP) and other Analytical, Diagnostic, and Advisory Support

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

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
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, although relevance, coherence and impact could have been enhanced with a more medium-term planning horizon.
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<th>SCD PILLAR</th>
<th>CONSTRAINTS TO GROWTH</th>
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<tr>
<td><strong>PILLAR 1: Economic management for diversification</strong></td>
<td>• Low capability to formulate and execute sound macroeconomic policy&lt;br&gt;• Unsustainable non-oil fiscal deficit&lt;br&gt;• Large contingent liabilities from the banking and SOE sectors</td>
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<td><strong>PILLAR 2: Private sector driven economic growth</strong></td>
<td>• Financial sector does not actively support investors and SMEs&lt;br&gt;• Weak incentives for private-sector investment due to heavy state presence and un-level playing field</td>
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<td><strong>PILLAR 3: Increased integration into the global economy and connectivity for Kazakhstan’s regions</strong></td>
<td>• Shortcomings in trade facilitation and transport logistics&lt;br&gt;• Weak impact of programs to support regional development&lt;br&gt;• Poor connectivity across the country&lt;br&gt;• Limited internal migration to urban areas</td>
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<td><strong>PILLAR 4: Productive and sustainable human and natural capital</strong></td>
<td>• Uneven delivery of education and health services (urban/rural)&lt;br&gt;• Insufficient quality and relevance of education and skills training&lt;br&gt;• Poor health outcomes, particularly for males&lt;br&gt;• Fragmented, inadequate social safety net, with minimal use of means testing&lt;br&gt;• Insufficient education financing and unsustainable health financing&lt;br&gt;• Environmental constraints, including air pollution, solid and hazardous waste management and sustainability of water resources</td>
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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 supports institutional reforms in three ways:

- 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 for more effectively run of public institutions including through programs linked to budget expenditures (programs for results)
- Nurturing private sector and civil society institutions to support faster growth and better services
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
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
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

• 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)
• 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

- **June 15, 2017** – Presentation of Systematic Country Diagnostics at Astana Economic Forum
VIII. Public Consultations

- April 11, 2018 - Meeting with Government
- April 12, 2018 - Meeting with MPs
- April 12, 2018 - Public consultations with civil society, think tanks, and private sector (involved participation from Almaty, Astana, Aktau, Karaganda, Kostanay, Pavlodar, and Shymkent).
- April 13, 2018 - Consultations with business community in Almaty (led by IFC)
VIII. Public Consultations

• **until June 30, 2019 - On-line consultations (CPF Consultation webpage)**

• Civil society reiterated the need for continued focus on **protection of the environment and socially inclusive regional development** supported by increased access to modern healthcare and education.

• Significant regional disparities were noted, particularly in relation to **strategic assistance to regions, the need for local government development, opportunities for adult education, poverty reduction, and social housing.**
VIII. 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!