

**EVALUATION OF WORLD BANK ASSISTANCE TO  
KAZAKHSTAN  
(BORROWER'S POINT OF VIEW)**

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This report is a background paper to OED's Evaluation of World Bank Assistance to the Transition Economies. It has been prepared in accordance with the terms of reference outlined by the Operations Evaluation Department of the World Bank, and with materials and discussions of the entry workshop on *OED Evaluation of World Bank Assistance to Transition Economies*, Washington, DC, May 15, 2002. In addition, as a part of the study, interviews were conducted with former and present policy makers. The usual caveats apply.

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## **Preface**

The study was commissioned by the Operations Evaluation Department of the World Bank within the scope of the broader evaluation of the World Bank activities in the transition countries of the Central and Eastern Europe, and the former Soviet Union. The OED team kindly provided me with the necessary materials and studies, and invited me to the entry workshop held in Washington in May 2002.

The research done by the Bank staff on the transition countries in general and Kazakhstan in particular is substantial and ever growing. It took me a while to read or glance through the materials for this study. The main question I was asked to explore was this: How the Bank did in Kazakhstan in the last decade and what could have been done differently?

Despite its seeming simplicity, this is a very difficult question even for someone closely engaged in the reform process. Only now is the extent of transformation the country has had to achieve after the disintegration of the Soviet Union gradually becoming apparent. The 1990s are now a part of our history, the history of independent Kazakhstan. A new generation is growing, a generation that has never lived or worked under the socialism. This generation takes for granted many things that were unheard or unseen just 10 - 12 years ago. Yet for a substantial proportion of our population the Soviet Union times are not history, but perhaps their best memories. These are the pensioners and the elderly. In between is my generation, the generation in their 30s and 40s. In a sense, the question about how the Bank did in Kazakhstan in the last ten years could be reframed as how did we do in the last ten years?

We cannot evaluate the World Bank assistance to the country unless we first evaluate ourselves. After all, the Bank worked and acted largely in accordance with the priorities established by the authorities of Kazakhstan. It is ultimately they and not the Bank who bear the responsibility for success or failure of reform in the country.

Judging by the overall results the country did quite well. Macroeconomic stabilization and financial sector reforms were successful. The public sector reforms have become models for other countries in the region. Kazakhstan has attracted one of the highest levels of FDI per capita in the region in the resource based sectors, whose operations provided the budget with the funds necessary for fulfilling the state obligations. The external balance and prospects are favorable. The national currency is competitive, and the country was the first among the CIS countries to achieve the investment grade rating.

We did well. Could certain things have been done differently? Perhaps, they could, and we could have paid a lower price for what has been achieved. But let us leave this for the historians and academics that may have more time and energy to study and discuss it. For the policymakers and the Bank staff it is more important to draw operational conclusions from the lessons of the World Bank in Kazakhstan. While the country and its policy makers did well, they don't have the luxury of relaxing and renegeing on the important second-generation reforms. The country has found its place in the international system among the commodity exporting developing countries.

But Kazakhstan's sustainable development to a large extent depends on whether its leadership manages to diversify the economy away from the commodity to the non-extracting and processing sectors. This is an equally challenging task, and this is where the Bank can make a substantial contribution in the second decade of transition.

But this is the topic of the different study, perhaps, the new World Bank Country Assistance Strategy for Kazakhstan. And this is also the litmus test for the present Government, the test of its commitment and capacity to live up to the promises to the business community and population of Kazakhstan. And of whether this can be achieved without serious reformation of the country political system.

The present study is much less ambitious in scope. It draws on my personal experience, interviews and discussions with my former colleagues and current policy-makers whom I've known and worked with or alongside for many years. It should be seen as complementary to the work done by the OED on Kazakhstan and other transition countries. I hope the Bank staff would find it useful in their future work both in Kazakhstan and elsewhere.

Finally I would like to thank Ms. Alice Galenson (OED) for her patience and understanding and Mr. Nadir Burnashev for his assistance in completing this important study.

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## **Intellectual Capacity**

- 1. How well did the Bank understand the changing political, economic and social landscape in Kazakhstan?*
- 2. Did the Bank contribute substantially to the intellectual debate? What was the quality of Bank advice?*
- 3. Did the Bank focus on the right priorities? Did it respect the country's priorities? Did it miss critical areas?*

In general the World Bank understood well the changing environment in Kazakhstan. Both the local resident mission and the regional department in Washington were well informed about the latest developments, and well prepared for the discussions with their counterparts in the government.

Analyzing the World Bank activities in the country for 1991 – 2001 it is useful to divide it into three periods: from 1991 to 1994-95, from 1995 to 1997, and from 1998 to 2001.

During the first period the Bank along with the Fund, and other donors tried to apply standard instruments used in other developing countries and post socialist countries to deal with the difficult situation in the country. While Kazakhstan's economy was also a command one, it had several important distinctions from other countries. It was primarily resource based, energy sufficient, and had fewer intermediate and high-end industries than, for example, Russia, Ukraine or the Baltic states. It was integrated in a different way into the Soviet economy. Its population was thinly spread across the huge territory, with North and South integrated into the Russia's Ural and Siberian, and the Central Asian economic zones respectively. Finally, it was landlocked, and highly dependent on Russia.

It was also obvious that the Bank-Fund staff were under the pressure from the shareholders whose overwhelming task was not to allow the return of communism and communists in the post-Soviet republics. But, again, in Kazakhstan this threat was perhaps never as acute as it was in more industrialized Russia and Ukraine. And the country's leader, Nursultan Nazarbayev, was better prepared for the transition challenges than his counterparts in other republics.

The Bretton Woods institutions initially lacked personnel who knew or even understood the countries that emerged after the USSR disintegration. Very few staff people who visited Kazakhstan in the first years after independence as members of the Bank and the Fund missions had been there before, spoke the local language, lived or worked previously in the socialist countries. Eager to help and contribute to the domestic reform process, they soon realized that Kazakhstan was not a Latin American, Asian or even eastern European country, and had to start learning the country from the bottom up. To their credit, generally the Bank staff learned fast. With every new mission they knew more and more, and sometimes the extent of their knowledge of the domestic intricacies amazed even some of the policy makers.

Unlike the Bank, the Fund staff operated more like a paratroopers' squad. They parachuted in once a quarter, spent the first half of the mission inspecting the staff of the National Bank and the Ministry of Finance, and the second half of the mission

inspecting the authorities and prescribing to them what to do further. What was amazing for the domestic authorities was the extent of self-confidence and self-assuredness often heard or noticed in the discussions with the Fund experts who had never been in the country before, knew almost nil about its economy and institutions, and who, nevertheless pretended they were always right even if they knew this was not the case. Once in a while, the Fund personnel changed, and the process of recognizing and understanding each other had to start all over again. Gradually, over time this process has become more institutionalized, and the Fund's Kazakh counterparts have been better trained and prepared for the discussions. And the Kazakh economy has grown into a market one and better fits into standard macroeconomic models.

The general impression on the Kazakh side was that while the choice of the instruments recommended by the IMF and the World Bank was the right one, the speed of their use and the speed of initial macroeconomic reforms appeared somewhat excessive. Not always could the Fund and the Bank establish a common position among themselves in deciding on the sequencing and mix of the instruments, leading to confusion among the Kazakh policymakers. Often the Fund-Bank staff recommendations placed an additional burden on domestic authorities already operating under the heavy pressure, while a more consistent and gradual approach would have achieved the same results at less cost. Let us give one concrete example.

Perhaps, the most serious mistake of the World Bank and the IMF in the early reform years (1991-1993) was the insistence on preserving the common rouble zone for the CIS countries. The largest singly beneficiary of this wrong decision appeared to be not the Paris and London Clubs, but the Russian Federation, which managed to reap large seignorage and other gains from having the rouble as common currency for almost two years after the dissolution of the Soviet Union. After this became clear to the multilaterals, and the rouble zone was no longer seen as a sustainable policy option, the recommendations were changed to the opposite. But precious time was lost, and the authorities had to introduce the tenge and carry out the Fund and the Bank recommendations rapidly. Had the National Bank and the Ministry of Finance enough resources and qualified staff, received as a part of the technical assistance, by the time of introduction of the national currency, they would not have operated under such heavy strain for several years after 1993.

Other Bank mistakes included proceeding with investment lending projects in the absence of the right macro environment and adequate institutional capacity in the sectoral ministries. The Bank personnel perceived the ministries to be in control of the situation in the real sectors of economy, while this was far from the case. For the sectoral ministries the Bank was primarily the granting institution, a kind of international branch of the former Gosplan. They did not view the World Bank lending to them as a part of the general strategy to promote structural reforms in the country. Unfortunately, nor did the Bank staff themselves working on the investment projects seem to view it this way. The result was, for example, the Bank urban transport project approved in 1994 and aimed at procuring buses and trolley buses for the cities in Kazakhstan. Another project worth mentioning in this respect was the Uzen Oil Field Rehabilitation project. The relevance of these projects for the ongoing macroeconomic and structural reforms is an open question. At the same time, it took a long time for the National Bank and the Government officials to encourage initially

reluctant World Bank staff to participate in the domestic bank recapitalization and restructuring program, as well as to work more actively in the pension reform issues where initially the Bank didn't even have the appropriate specialists.

Of course, more accent on poverty reduction issues in the early 90s would have been desirable. The World Bank, along with other multilaterals, could have spent more time and resources on building the institutional capacity of the social sector ministries, including training and education of the relevant officials who would have been better prepared for the consequent pension and social sector reforms and would not have operated under such heavy pressure for the next few years.

Speaking on the Bank involvement in agricultural sector reform it is useful to remember that the authorities actually started reforming the sector in the late 90s. From 1991 to 1994 it was not clear to either the government or the Prime Minister himself, a former agro-engineer, how the sector should function in the market economy. They continued to subsidize it until 1994, when serious macroeconomic and financial stabilization began. From 1994 to 1998 the government practically withdrew from the agriculture, since it did not have the funds to support it at any substantial level. The sector had to survive on its own, and only the best and most efficient farms were able to restructure and survive, fitting into the new Kazakh economy. From 1998-99 the government resumed agricultural sector reforms. In my personal view, the Bank involvement in the first and second periods was rather marginal, in terms of both financial assistance and economic and sectoral work. Again, most of the blame should be shared equally with the agriculture ministry officials, who were unable to formulate what they would need from the Bank.

It seems to me that the Bank's main problem in the first and partially in the second period is that the Bank staff perceived their counterparts on the Kazakh side as the real clients who could formulate what they would need and the directions in which the reforms should go. In reality, however, the institutional structure of the well functioning government had just been forming, and the institutional capacity of many ministries was rather uneven. To lend to a counterpart that does not have the institutional capacity to utilize the loans is the way to create future problems. And just a look at the list of the Bank's underperforming investment projects seems to confirm this conclusion. Many problem projects started in the period when the sectoral ministries were not operating to their optimal capacity.

That being said, both the IMF and the World Bank provided generally good policy advice and technical assistance to their Kazakh counterparts. They were patient, receptive, diligent, and committed to helping the country, and were not afraid of taking on the challenges. Many Bank and Fund critics forget that the quality and usefulness of their advice, first of all, depend on the other side, that is, on the quality and professional qualifications of the country's authorities. The Bank and the Fund were instrumental in training and teaching many former and present Kazakh policy makers, as well as the key staff of many ministries and agencies. For many public servants in Kazakhstan, the initial acquaintance with modern market economies started with attendance at Bank and Fund seminars and teaching courses.

From the mid-90s the quality of the authorities' macroeconomic management improved considerably, becoming more consistent in both planning and

implementation. This was the result of the government's increased intellectual capacity and better intragovernmental and interagency management. From the mid-90s until late 2001 almost the same economic team planned, coordinated and implemented the crucial macroeconomic and some of the structural reforms. The team consisted of people who had known or worked with each other before, had received a good education, and were ready to undertake the necessary reforms. The team members headed the key economic positions in three successive governments, ensuring policy and reform continuity in several important sectors. Another factor crucial for success was that the team had the strong backing and support of the President Nursultan Nazarbayev who had been committed to market reforms.

During the second and third periods the multilaterals have had counterparts in the government and the National Bank with whom they can discuss, structure and implement the reforms needed for the country. The reforms have been well documented and described in numerous Bank publications and internal documents, and we will not repeat them here. For the purposes of this study it is worth mentioning several key areas where Bank assistance was crucial for the reform progress.

1. *Balance of payments support and donors' mobilization.* The World Bank helped the country organize and carry out four conferences with the participation of multilateral agencies and external donors that provided the bridge financing and BOP support in the early period following the introduction of the national currency. In particular, it was World Bank staff who mobilized the Japanese support for Kazakhstan and other Central Asian countries.
2. *Social sector and public sector reforms.* The World Bank technical and financial assistance was invaluable in reforming the public sector and social sphere in Kazakhstan. Our reforms have become the success stories, and the lessons learned in Kazakhstan are used by Bank staff in other developing and post socialist countries.
3. *Public sector transparency.* The Bank has done a lot for increasing the transparency of general government operations in Kazakhstan. In addition to numerous studies and reports, the Bank helped the country to introduce and implement transparent and efficient procurement procedures for public sector.
4. *Crisis assistance.* Following a request by the Kazakh authorities made at the peak of the Asian and Russian crises in 1998-1999, the Bank promptly restructured the lending program and increased country assistance. It helped stabilize the fiscal position and continue the economic transformation. Overall the degree of cooperation between the Bank and the authorities during the crisis was excellent, making it possible for the country to overcome the crisis with minimal losses.

With regard to priorities, the Bank was focused on the priorities set up by the country authorities. Whether these were the right ones was a question of the respective governments, not the Bank management and staff. The general reform direction was the right one, but the reform implementation was uneven, depending on the professional qualities of the individual Members of the Cabinet of Ministers, and the staff of the ministries. The implementation of macroeconomic reforms was generally better than that of sectoral reforms.

In certain cases Bank personnel were initially against the authorities' policy course, but had to go along with the authorities' will. Here one may mention the choice and direction of privatization that eventually created powerful vested interests blocking further reforms and forcing some reformers out of the government. On the other hand, it remains an open question whether the Kazakh authorities had at that time any genuine will or technical capabilities to implement a different privatization scheme. At the same time, however, the voucher privatization schemes, i.e. the establishment and management of investment privatization funds actively promoted by the World Bank in the beginning of the 90s were absolutely unrealistic and wasteful. First, Kazakhstan, which was just starting the reforms, was very different from the more advanced countries of central and eastern Europe. The country didn't have any financial markets whatsoever, any viable central bank or ministry of finance, or to tell the truth, any agency institutionally capable of implementing the scheme. Second, the population of Kazakhstan had a very different and more paternalistic mentality than the population in Czech Republic, Hungary and Poland who had already lived under the quasi-market economy for, at least, two decades before the privatization started. Third, the structure of the economy was very different. Kazakhstan traditionally was predominantly the Union's resource base, and the huge town enterprises could not be privatized via voucher scheme before being effectively restructured and recapitalized. The population as the new owners could not do it. The government could not do it. Frankly speaking, nobody in the country at the time could do it. Again, why the Bank actively promoted this scheme, not listening to comments and objections on the Kazakh side, and wasting a lot of time and resources that could have been devoted instead, for example, to building the institutional capacity of the general government or improving the transparency of privatization process, is an open question.

In evaluating the effectiveness of multilateral assistance in a particular country it is useful to bear in mind that it can be as effective or harmful as the country leadership and the general policy course are good or bad. The fact that after the first ten years of transition, the share of the poor in the population and the degree of inequality in the society increased should be attributed not to the Bank and the Fund, but to the chaotic dissolution of the Soviet Union; unrealistic expectations among the last Soviet leadership and the Russian mladoreformators that it would be enough to fix several things and the rest would be equilibrated automatically; lack of institutional structure to support the reforms; and the initial absence of viable state institutions in many post Soviet republics.

After ten years of transition it was clear that the reforms in the FSU countries were neither shock therapy nor gradualism, but more the result of the forced adjustment the countries had to undertake in order to survive and develop as viable independent states. Due to a variety of reasons, the West and the international organizations played a useful but complementary role in this process. Most likely, this course will be continued in the future. Accordingly, the fight against poverty should be the primary responsibility of the leadership of the recipient countries, and not of the World Bank or IMF personnel.

## **Lending mix**

*Did the Bank use appropriate instruments? Was the mix between adjustment and investment lending appropriate?*

The general perception is that Bank mix between adjustment and investment lending has been appropriate.

It is often argued by the Bank officials in their discussions with the Kazakh authorities that Kazakhstan has had too much adjustment lending and that it should “buy more investment lending” to stay in line with other ECA countries. The numbers, however, tell a somewhat different story.

From 1991 to 2000 the Bank approved 21 loans amounting to US\$1.8 billion, out of which adjustment lending comprised approximately \$1 billion or 56 percent of total, the rest being investment lending and technical assistance (44 percent). Meanwhile, the average mix for FSU countries, excluding Russia, for the same period is 57 percent adjustment lending, and 43 percent investment and TA lending. Only in Russia is the split roughly 50/50. True, for the countries of central and eastern Europe the mix between adjustment and investment lending is closer to 40/60. But these countries complemented lending from the World Bank by lending from other sources, the biggest one being the European Union with succession programs, and hence they needed less adjustment loans. Among the FSU countries, Ukraine stands apart with its \$2,260 million (72 percent) in adjustment and \$882.5 million (28 percent) in investment lending.

Furthermore, adding to IBRD investment lending the IFC and MIGA projects totaling \$425.5 million would bring the share of investment lending to \$1.2 billion or roughly 55 percent of total World Bank lending to Kazakhstan. And why should MIGA and IFC loans be classified as investment lending? Because by mandate these two organizations invest to promote foreign direct investment and facilitate private sector development, goals that are perfectly in agreement with sound investment-lending objectives. Most likely, IBRD staff would not agree with this statement from the operational standpoint, but from the host’s point of view it is investment lending. Besides, it reduces the burden on public finances and does not crowd out private investment.

Another frequently heard argument is that Bank lending should have focused more on agriculture and private sector development, as well as corporate governance and enterprise reform. This was the case in the countries of central and eastern Europe, and southeastern Europe and it led to a higher proportion of investment vis-à-vis adjustment lending. This argument may also be flawed. First, these countries had an entirely different institutional environment and historic background; they were not part of the Soviet Union. The World Bank was involved long before 1989, and it had made several loans to Romania, Poland, Hungary and former FRY. The loans were directed towards improving the productivity and modernization of the state enterprises of the export sector. This was investment lending. Since the countries at that time remained firmly socialist, there could be no adjustment lending by definition, to support the transformation of the state institutions into a market economy. Even the presently used definition of adjustment lending was coined after 1991 to help the successor states of the Soviet Union manage their transition from plan to market.

Second, before making recommendations on the lending mix and program priorities, one has to evaluate the outcomes and results of Bank lending to the countries of eastern and central Europe, and southeastern Europe. According to the available information and studies, the 40/60 mix was not the crucial factor behind the success or failure of Bank assistance to the countries of the region, and not something that should be strongly advocated by the Bank to the FSU countries.

Third, the ECA region itself is no longer a homogeneous group. There are the countries of central and eastern Europe, and southeastern Europe, and the Baltic states. Most of them will eventually become EU members. Looking east, Russia and Ukraine have been special both in treatment, and in the number of exemptions and exceptions received from the international community, and the multilateral institutions like the IMF and the World Bank. On the other hand, there are Belarus, Uzbekistan, and Turkmenistan with largely unreformed economies. There is a newly emerging group of heavily indebted poor CIS countries: Armenia, Georgia, Moldova, Kyrgyzstan, and Tajikistan. Hydrocarbon riches put Azerbaijan, otherwise a poor country, aside from this group. De facto, these countries are already in the HIPC and IDA group, and their formal inclusion in the group may more be a matter of time than principle. What group does Kazakhstan belong to? Geographically, it is in Central Asia. But one cannot compare the lending mix in Kazakhstan to that in four other countries, two of which deserve a special treatment, and the other two of which haven't started serious reforms yet. If Kazakhstan is a special case like Russia or Ukraine, then the lending mix was right, since it helped support crucial public sector reforms, foster transition to market economy, and develop a new private sector.

We conclude by saying that the mix between adjustment and investment lending in Kazakhstan has been appropriate and helpful. In any case, the lending mix and projects have to be determined based on the country's priorities and needs, and not the World Bank internal rules of the thumb. To its credit, Bank management has been largely attentive to the Kazakh authorities' requests.

### **Economic and Sectoral Work**

*Was the Bank's economic and sectoral work relevant? Was it of good quality? Did it incorporate knowledge and views from within the country? Did it provide practical recommendations? Did it reach people who could make use of it?*

The Bank, along with all the other donors, and the Kazakh authorities as well, underestimated the scope and extent of the transition in Kazakhstan, and in the beginning had very few qualified people prepared for the transition challenges.

Most of Economic and Sector Work (ESW) was relevant, but completely insufficient for the country. Although the ESW disaggregation by countries in the ECA region is not available, it is a good guess that most of it initially went to Russia, Ukraine, and the Baltics. It was not until the mid-90s when it became clear that the first two countries were not making good use of it, that the Bank increased ESW funding for other FSU states, including Kazakhstan and other central Asian states.

The second Country Assistance Strategy (CAS), adopted in July 1997, saw a moderate increase in the amount of ESW proposed for Kazakhstan, but it was still insufficient. As a consequence, ESW did not, as it should, precede or lay the groundwork for the Bank's involvement and operations in particular sectors of the economy, but mostly was done in parallel or after the completion of the projects.

The initial ESW structure was unfit for the fast changing priorities and realities of the Kazakh transformation process. The studies were long both in size and in the time it took the authors to complete and translate them into Russian. Sometimes they were contradictory to studies done by other donors (e.g. privatization, pension reform, agriculture), which affected their impact on policymakers. Some of the officials who worked with or supervised Bank staff and external consultants working on ESW felt that the Bank could have hired better consultants. If a particular consultant working on ESW or a particular Bank project failed to make good contacts with the host side (usually mid- or lower level officials at sectoral ministries), the quality of the report suffered, and the Kazakh side could not always correct the situation or the report before its release. There was no well functioning feedback mechanism for ESW, since the authors often felt that their employer was the World Bank, and not the host government or the ministry.

Despite the drawbacks, ESW was, to a large extent, relevant and helpful to the country's policymakers. It laid the background and framed the thinking for discussions with the World Bank on the details of subsequent projects. Appropriately structured and targeted, it had a much higher impact on government officials than it did in other FSU countries, notably Russia and Ukraine, since initially the Kazakh government had fewer intellectual resources at its disposal from whom to seek professional and impartial advice.

### **Internal Organization**

*Was the Bank organized appropriately to assist Kazakhstan?*

Generally yes, the Bank was organized properly, although personnel turnover negatively affected the Bank's activities in the country. For example, the current CAS was drafted by one lead economist for Kazakhstan, redrafted and defended at the Board by another one, and is being implemented by the third one. A total of three changes of key personnel in less than two years of operations!

Also the government officials felt that in certain cases the Bank's formidable bureaucracy and cumbersome internal procedures seriously hampered efficacy and slowed down the operations. However, whatever problems existed back in headquarters, the local World Bank staff and the resident representative were professional, accommodating and attentive to the needs of the Kazakh side. It is they who often felt the weight of the Bank's internal procedures and bureaucracy first.

To be balanced and objective, the Kazakh government and its bureaucracy in many cases made the Bank staff feel the same, if not worse.

## **External Coordination**

1. *How well did the Bank coordinate with other donors? Did it help attract co-financing and harmonize donor policies and procedures?*
2. *Did the Bank help encourage private investment?*

As previously noted the World Bank played a crucial role in organizing and carrying out several external donors' meetings for Kazakhstan when the country introduced the national currency, had just started the reforms and didn't have the funds to finance the initial balance of payments' and fiscal deficit. It helped to bring in the donors and mobilize the funding previously unavailable for the country.

Coordination between the World Bank and other donors has improved over the last few years. Generally the degree of coordination is greater between the donors' country representatives than between their respective staff back in the headquarters.

The Bank helped encourage private investment by assisting the authorities in reforming and improving public institutions, achieving macro- and financial stability, and improving investment climate. The IFC was involved in developing private financial institutions, and SMEs, although its impact beyond the financial sector has been very limited. MIGA's involvement in Kazakhstan to date has been more modest (if not negligible), and its assistance in encouraging private direct investment through the available instruments lagged well below its potential and individual country ceiling.

## **Development Outcomes**

1. *Did the Bank's assistance achieve its objectives? What was its impact?*
2. *Was the outcome sustainable?*

During the first period the Bank's assistance and impact on the country's development was very limited. The country was just emerging from the wreckage of the Soviet Union, and did not have viable state institutions that could be the Bank counterparts. The Bank's assistance aimed at building the state institutional infrastructure, including education and training of the public servants has had a positive and lasting effect.

During the second period the impact and quality of the Bank's assistance was generally improved, along with the quality and professionalism of the Kazakh government itself. The Bank did help the country greatly by supporting the crucial macroeconomic and structural reforms during the crises times.

In the third period, the first generation reforms have been largely completed. In my view, their outcome has been successful as evidenced by the economic development in the last several years. However, the second generation reforms stalled, the reform momentum dissipated, and the special and group interests prevailed in the policy formulation and implementation process. In the last two years, the Bank did not play an active role in helping to preserve the reform momentum and led it slide backwards. It passed the lead to the government counterparts, claiming it is their responsibility to determine the directions. This may be correct, but it appears now as if the Bank

disappeared from the public debates and internal processes going on in the country, or just assumed there was not much it could do under the circumstances. The new regional director or his staff could play a more active role or take a visible profile on the current policy stance, particularly now when the Bank office has become much closer to the field.

Generally speaking, the overriding objective of international assistance, including the World Bank assistance in the first ten years was to ensure that Kazakhstan would develop as an independent, viable and stable nation state with a market based economy. In that sense the outcome is sustainable, and its sustainability is unquestionable.

## **Lessons for the Future**

*What are the lessons from the Bank's experience in Kazakhstan, particularly those that would be most useful for future lending in Kazakhstan and in other transition economies?*

Lessons for Bank-wide staff and management:

1. Study the country, the economy and the people well, preferably before moving in and starting the operations.
2. Learn the local language.
3. Start operations only after finding viable government counterparts able to deliver on the promises and reform agenda. If such counterparts either do not exist or are unprepared for working with the multilaterals, spend time and resources on training and preparing them. Do not try to save on training and educating the government officials. In many developing countries with a thin intellectual layer, this activity has the highest payoff and ensures reform and program continuity at different levels of governmental. Moreover, it helps establish good interpersonal contacts and promote the Bank's image in the countries.
4. Do not start program or project lending if the host government is vague or unspecific about the final outcome. Make sure both parties fully understand what they are trying to achieve. In determining the objectives do not try to please everybody; be specific and concrete. Remember that in certain countries the Bank project manager may have a longer time span than his government counterparts.
5. Having worked through jointly with government counterparts a viable and realistic program, go back to Washington and defend it with the Bank management. Do not bend to their pressure if you know it may harm project implementation or hamper its efficiency. Be driven by the project's successful outcomes, and not by running many projects in different countries. Make sure the client government perceives you as the project manager, and not as a bureaucrat.
6. In working with the government as the main counterpart, make sure you have established contacts with the wider community (parliament, academia, NGOs, different professional associations, mass media, etc.). Ideally, every World Bank representative office should have an advertising and PR budget for

informing the local population (and the tax payers as well!) about its activities in the host country. If the country doesn't have a lending program, this should not preclude Bank staff from staying engaged in policy formulation and making progress in that country.

#### Lessons for future Bank lending to Kazakhstan:

1. Economic and Sectoral Work (ESW) should precede any substantial Bank lending operation in Kazakhstan. The larger the project, and the greater the potential lending amount, the larger the resources that should be allocated for ESW.
2. The ESW resource allocation process should be clear and transparent to the host government. Any country specific resource constraints on the Bank side should be thoroughly explained to the domestic authorities.
3. The Bank should pay much more attention to developing indigenous analytical and research capacities among young and capable Kazakh scholars and officials. Any ESW study should be a joint venture between the Bank and the Kazakh side, with both parties responsible for its success. To increase the impact of ESW on intellectual debate and increase its effectiveness, the Bank and the government could, for example, establish a joint collaborative initiative to promote economic and policy research in Kazakhstan through a series of commissioned studies, workshops, seminars, round tables, etc. As the Kazakh economy develops and strengthens, public policy formulation and conduct is to shift from the narrow circle of the government officials to general public, academia, economic agents and businesses. ESW will help in that.
4. The Bank should establish a rigorous internal selection, monitoring and evaluation process for ESW. This will help bring the best qualified personnel, ensure timeliness and effectiveness of the studies for the host government, and prevent a possible waste of resources on activities marginal for work success. As a rule, the Kazakh side should have an equal say on matters pertaining to personnel selection, drafting and approving the terms of reference, evaluating the work in progress, and approving the completed products.
5. ESW should be widely disseminated. The Kazakh authorities should stop thinking that they are the final users of the studies, and the Bank staff, that their job is to produce the studies, and it is the job of the Kazakh authorities to disseminate and make use of it. Since ESW is to be seen as the precondition for Bank involvement in the particular area or the sector of economy, it should promote the dialogue among the Bank, the government and the general public and foster consensus on the policy options and alternatives.
6. CAS drafting and preparation should be a joint venture between the Bank and the government. The Bank should take into account the government's suggestions and corrections. If the Bank finds that the current government commitment to the future CAS is insufficient, it should not proceed until the necessary commitment is established. The Bank should not write the CAS for the government. Otherwise, it would have to rewrite it every time the government is changed.
7. In drafting and discussing the CAS the government should appoint a high level liaison, for example, the Governor for the World Bank, responsible for coordinating and preparing the CAS on the host side. The responsible

- government agency should have adequate resources and staff for the work on CAS. If this is not the case, the Bank should make it clear to the government that it would be in the government's best interests to work on the CAS preparation, and that no lending will be disbursed until the government is fully engaged. The Bank may provide selected assistance mostly on the narrow sectoral issues, but the host ministries should draft their part themselves.
8. CASs should envisage built-in safety mechanisms ensuring an adequate level of disbursement. For example, these could be administrative penalties for the government officials failing to ensure the proper program or project implementation, or fees charged on undisbursed amounts. This is why it is important to make sure the host ministries fully collaborate with the Bank in CAS preparation.
  9. To ensure smooth implementation the CAS should be part of the appropriate medium term government action plan.
  10. The CAS objectives, main blocks, macroeconomic and sectoral priorities should be communicated to the general public. Ideally, the Russian version of the CAS should be posted on the government's external web site after the CAS is approved by the Bank's Board of Directors.
  11. Private Sector Development (PSD) should not be constrained to financing private domestic and foreign entities operating in Kazakhstan. A greater emphasis needs to be placed on improving the institutional and regulatory infrastructure, leveling the playing field, and increasing the transparency of operations. This would require a much greater degree of coordination among the IBRD, IFC, and MIGA than is currently the case. In addition, the Bank's regional office should establish reliable and efficient communication channels with the Kazakh private sector and find the ways to engage it in further reform processes. It is the private sector that should become the driving force for greater diversification and development of the domestic economy.
  12. The Bank's activities in Kazakhstan, the status of discussions with the authorities, and research and studies on transition countries should be communicated to the general public via mass media, television, regular briefings and press conferences. For that the Bank resident mission should have an adequate PR budget or use the government media resources.
  13. In order to account for the necessary degree of flexibility in CAS implementation, it is necessary to change the existing mechanism for adjustment lending. I propose that the authorities and the Bank agree on a three-year structural reform program with 8-10 main policy directions, progress on which allows the government to tap the predetermined amount of adjustment lending. Accounting for uneven progress in different sectors, the overall program implementation progress can be determined as the weighted average based on biannual joint reviews by the Bank and the government. Based on the evaluation results and depending on the general macroeconomic situation the government can either receive the financing immediately, or reserve the right to use the funds later during the three year period. If the government does not need the financing, the right to use available financing is void by the end of the end of the third year. Such a program must contain a number of prior necessary conditions, one of which is the framework agreement with the IMF or the Fund's agreement with the government policies.

14. The Bank should concentrate more on ensuring successful project outcomes than on dictating to the government how to achieve them. This means, for example, that Bank disbursements should not be used for hiring the external consultants or buying services that government ministries don't really need for successful project implementation. The government must decide for itself how it is going to achieve the program or project targets.
15. The Bank should use every available opportunity to promote the positive experience of the Kazakh economic reforms, and to form teams of the former Kazakh policy makers and officials together with Bank staff to assist other transition countries in reforming their economies.

## **Annex 1**

### **List of People Interviewed for This Study**

1. Mr. Daulet Sembayev, former 1<sup>st</sup> Deputy Prime Minister, Government of Kazakhstan, Governor, National Bank of Kazakhstan.
2. Mr. Kadyrzhan Damitov, former Deputy Minister of Economy, Government of Kazakhstan, Governor, National Bank of Kazakhstan.
3. Mr. Serik Akhanov, former Deputy Governor, National Bank of Kazakhstan, former 1<sup>st</sup> Deputy Minister of Economy, and Vice Minister of Finance, Government of Kazakhstan.
4. Ms. Zhannat Ertlessova, former 1<sup>st</sup> Deputy Minister of Economy and 1<sup>st</sup> Vice Minister of Finance, Government of Kazakhstan.
5. Mr. Alexander Pavlov, 1<sup>st</sup> Deputy Prime Minister, Government of Kazakhstan, Governor of the Republic of Kazakhstan for the World Bank Group.
6. Mr. Anvar Saidenov, Deputy Governor, National Bank of Kazakhstan.
7. Mr. Kairat Kelimbetov, Minister of Economy and Budgetary Planning, Government of Kazakhstan, Alternate Governor of the Republic of Kazakhstan for the World Bank Group.
8. Mr. Nadir Burnashev, former Assistant to Executive Director, IMF, Advisor to the Governor, National Bank of Kazakhstan, 1<sup>st</sup> Deputy Prime Minister, Government of Kazakhstan.