

STRATEGY FOR KAZAKHSTAN 1994-95

SUMMARY

SYNOPSIS

The EBRD's principal operational objectives in Kazakhstan are as follows:

- **financial sector development, restructuring and trade facilitation** in conjunction with particular support for SMEs and the private sector including foreign joint ventures;
- **transport and communications facilitation** to help relieve both physical and institutional trade bottlenecks and to pave the way for the development of a Euro-Asian corridor;
- **hydrocarbon and mining sector development** to catalyse private and bilateral capital flows;
- **support for agricultural reform, agribusiness and related industries** to take stock of the inherent short-term export potential.

Another important strategic objective is the development of productive synergies between the policy-based lending activities of other IFIs (for example, the World Bank and the Asian Development Bank) and the more project-by-project approach of the EBRD.

This document is based on the EBRD's Strategy for Kazakhstan, approved on 9 May 1994, which is for official use only.

STRATEGY

1 FINANCIAL AND PRIVATE SECTOR DEVELOPMENT

Acknowledging the importance of the rapid emergence of new private businesses for the success of Kazakhstan's transition to a market economy and as a foundation block for sustainable economic growth, the EBRD's initial response to the challenge of financial and private sector development was the establishment of a credit line focusing on SME development. The ECU 100 million Apex Credit Line project with the National Bank of Kazakhstan, approved in November 1993, for providing sub-loans through five participating commercial banks to the emerging private sector is expected to cater for the necessary financing of a large number of profitable, export-oriented private sector projects.

The EBRD will make efficient use of local financial intermediary arrangements to channel Bank funding to viable export-oriented private sector projects and trade facilitation. It will consider direct loan windows on a case-by-case basis for larger projects and encourage commercial co-financing. As inflation comes down and domestic foreign exchange markets improve, it will examine the possibility of including private sector projects that involve import substitution.

Furthermore, closely in association with the Apex Credit Line, the Bank is preparing an enterprise/banking sector restructuring project. This project will support the necessary restructuring and recapitalisation of two of the five participating commercial banks and the creation of work-out units in these banks. In addition, the project will support the creation of a restructuring fund. The Bank is providing technical cooperation to support the various elements of the project and will finance advisers for the management of the Restructuring Fund.

2 TRANSPORT AND COMMUNICATIONS

The Bank will pursue projects that will contribute to the improvement of foreign-exchange related transport and communications, with particular reference to the promotion of commercial and market-driven operations and the involvement of the private sector, either by way of creating new entities or transforming existing ones that are involved in operations, equipment or facilities in international and inter-regional trade. Environmental improvements, particularly important in urban transport, form an essential ingredient of the strategy.

The Bank will pursue a comprehensive regional Euro-Asian Transport and Communications Programme directed at the improvement of economic and operational efficiency and the reduction of physical and non-physical trade barriers. As the first step, in 1994 the Bank will undertake a technical cooperation programme to identify, within the development of an outline long-term strategy for the facilitation of inter-regional and international transport, a programme of high-priority projects directed at:

- major current bottlenecks
- facility and equipment rehabilitation and modernisation
- intermodal operations and facilities

- opportunities for privatisation and commercialisation
- research and feasibility studies especially related to important existing or new links in the Euro-Asian corridors, and other strategic initiatives
- environmental issues.

The programme will focus primarily on surface transport, power transmission and pipelines, but attention will also be given to any high-priority airport, air navigation or transport-related telecommunication projects. This programme will produce a ranked portfolio of investment and technical cooperation projects.

3 NATURAL RESOURCES, MINING AND ENERGY

Mining sector development

The EBRD's strategy is to pursue debt and equity investment opportunities in private joint-venture mining and metal processing facilities, both greenfield development and upgrading of existing facilities. While the Bank's focus will be on copper, gold and chrome, the strategy will be regularly modified to reflect any changes in the strategic goals that may be introduced by the Kazakh government. Given the sensitivity of environmental issues associated with the mining sector, the Bank will pay particular attention to their impact and associated costs and benefits in all operations.

Privatisation

The Bank plans to assist the government to privatise and attract foreign investment, new technology and know-how to one or two selected enterprises in the country's mining industry. The Bank's strategy will be to use these pilot transactions in addressing the initial obstacles for mining projects in Kazakhstan, and to solve these with the Bank's assistance enabling the State Property Committee and the Ministry of Industry to carry out future transactions without the Bank's advisory support. The emphasis is on resolving such issues in the context of dealing with concrete cases in a specific pilot project.

In addition, the Bank will play a particularly active role in screening the candidate enterprises for privatisation to ensure that they will be eligible for Bank finance following privatisation and the participation of a strategic investor.

The aim of this programme is to:

- use strategic partners to help restructure the mining industry;
- introduce new capital, know-how and technology to selected enterprises;
- support a package of policy and institutional reforms, which is critical to the optimal use of existing assets and their modernisation;
- demonstrate the viability and efficiency of early stage equity capital from the Bank to stimulate the investment by strategic partners;
- provide the government with access to the highest quality financial, legal, strategic and technical expertise;
- create joint-venture projects eligible for Bank financing.

Joint ventures

The Bank will work closely with the authorities to make its intentions and support capability known and will proactively encourage foreign joint ventures to invest in the mining sector.

The government's primary focus for development of the mining sector is to encourage foreign investors to form joint ventures which will undertake the development of unexploited mine deposits and new processing facilities.

Oil and gas sector development

The government has declared foreign investment into the oil and gas sectors, including the expansion of refinery capacities and related transportation facilities, a priority. In this sector, EBRD involvement is seen as highly catalytic; it will also help to ensure that environmental concerns are being appropriately addressed.

The Bank will treat the oil and gas sector as a high priority area, encouraging foreign investors and helping to design innovative non-recourse-based financing structures for oil and gas sector development. It will work closely with the government for early identification and agreement on economically feasible and environmentally sound priority public sector projects, which may require sovereign guarantees. The Bank will continue to pursue export pipeline and other oilfield development projects.

Energy

In 1993, the Bank initiated a least-cost study for the development and investment planning of the power supply sector. It also pursued two combined heat and power plant projects. Both projects aim at capacity expansion and efficiency improvement.

The Bank will explore investment alternatives and priorities for energy efficiency, environmental improvements and energy conservation.

4 AGRICULTURAL REFORM, AGRIBUSINESS AND RELATED INDUSTRIES

During 1993 the Bank initiated two important technical cooperation projects. The first was for the establishment of a project preparation unit (PPU) for the agribusiness sector. The second was a pre-feasibility study focusing on the restructuring of the grain industry.

The EBRD will proactively help develop innovative private sector projects for direct Bank financing with important demonstrational features to catalyse investment, technology and know-how transfer and to guide policy reforms and institutional development. In each case the Bank will seek to minimise environmental degradation. It will make efficient use of the PPU to identify export-oriented private sector projects for financing out of the Bank's Apex Credit Line.

Bank involvement in privatisation and restructuring of agricultural activities will be considered on a case-by-case basis, primarily through possible joint ventures with foreign sponsors.

Bank support for the food processing and distribution sector will be mainly through the PPU, which started work in February 1994, and the Apex Credit Line.

The restructuring of the agro-machinery sector will be approached on a case-by-case basis. The Bank will continue to consider project proposals submitted by project

sponsors but will also take a proactive approach in identifying foreign partners that could introduce capital, technology and management expertise.

COOPERATION WITH OTHER IFIs

In view of the large number of IFIs and donors involved and the large volume of anticipated external capital inflows, donor coordination is of highest priority. The EBRD participates in Consultative Group meetings.

The apparent congruence of operational objectives between the **Asian Development Bank** (ADB) and the EBRD highlights the need to maintain a continuing dialogue with the ADB to ensure a complementarity of operations. Of particular importance will be the synergy that could be created between the ADB's envisaged policy-based sector lending and the Bank's more project-by-project approach.

Close cooperation with the **World Bank** is envisaged, particularly in the area of restructuring of banks and enterprises. The EBRD will focus on the recapitalisation of two former state banks within the policy framework agreed upon with the World Bank, and will help create work-out units in these banks. Moreover, the EBRD will support the restructuring of medium-sized enterprises through the creation of a Restructuring Fund.

The **International Finance Corporation** is pursuing the establishment of an investment fund for SME support. In order to ensure maximum complementarity with the Bank's initiatives, close cooperation and possible co-financing with the IFC is pursued.

The Bank will also establish a close and continuing working relationship with the **EC's TACIS** coordination unit in Almaty. Cooperation is particularly envisaged in the operation of the PPU, which is perceived as a joint EC-EBRD project.

In dealing with the needs of the Central Asian republics within the context of the **TRACECA** concept and the Bank's Euro-Asian Transport and Communications Programme, the Bank is working closely with the EC, the World Bank and other UN agencies and has recently agreed arrangements for cooperation with the ADB.

European Bank for Reconstruction and Development

One Exchange Square
 London EC2A 2EH
 United Kingdom
 Telephone: +44 171 338 6000
 Fax: +44 171 338 6100
 Telex: 8812161 EBRD L G
 Swift: EBRD GB2L