

**ASIAN DEVELOPMENT BANK**

**PPA: KAZ 28449**

**PROGRAM PERFORMANCE AUDIT REPORT**

**ON THE**

**AGRICULTURE SECTOR PROGRAM  
(Loan 1406-KAZ)**

**IN**

**KAZAKHSTAN**

**November 2001**

## CURRENCY EQUIVALENTS

Currency Unit – Tenge (T)

		<b>At Appraisal</b> (November 1995)	<b>At Project Completion</b> (December 1997)	<b>At Operations Evaluation</b> (May 2001)
T1.00	=	\$0.0167	\$0.0132	\$0.00684
\$1.00	=	T60.00	T75.55	T146.10

## ABBREVIATIONS

ADB	–	Asian Development Bank
APB	–	Agroprombank
ASF	–	Agriculture Support Fund
ASP	–	Agriculture Sector Program
FAO	–	Food and Agriculture Organization
FSU	–	former Soviet Union
ha	–	hectare
IMF	–	International Monetary Fund
MOA	–	Ministry of Agriculture
MOF	–	Ministry of Finance
OEM	–	Operations Evaluation Mission
PCR	–	project completion report
t	–	metric ton
TA	–	technical assistance
WTO	–	World Trade Organization

## NOTES

- (i) In this report, "\$" refers to US dollars.
- (ii) The fiscal year (FY) of the Government is the same as the calendar year.

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**BASIC DATA**  
**Agriculture Sector Program (Loan 1406-KAZ)**

**PROGRAM PREPARATION/INSTITUTION BUILDING**

TA No.	TA Name	Type	Person-Months	Amount <sup>1</sup> (\$)	Approval Date
2356	Strengthening the Implementation of Agriculture Sector Reforms	ADTA	40	600,000	4 Jul 1995
2448	Study on Market Reform in the Agriculture Sector	ADTA	54	1,044,000	23 Nov 1995
2449	Study on Rural Credit and Savings	ADTA	24	470,000	23 Nov 1995

KEY PROGRAM DATA (\$ million)	As per ADB Loan Documents	Actual
Total Program Cost	100.0	100.0
Foreign Exchange Cost	100.0	100.0
ADB Loan Amount/Utilization	100.0	100.0

KEY DATES	Expected	Actual
Reconnaissance	Aug 1995	20 Feb-4 Mar 1995
Fact-Finding		6-26 May 1995
Appraisal		10-28 Jul 1995
Loan Negotiations	16-19 Oct 1995	16-17 Oct 1995
Board Approval	21 Nov 1995	23 Nov 1995
Loan Agreement	Dec 1995	11 Dec 1995
Loan Effectiveness	Dec 1995	22 Dec 1995
First Disbursement		26 Dec 1995
Program Completion	31 Dec 1997	31 Dec 1997
Loan Closing	30 Sep 1997	26 Jun 1997
Months (effectiveness to completion)	24	24

**BORROWER** Republic of Kazakhstan

**EXECUTING AGENCY** Ministry of Finance

**MISSION DATA**

Type of Mission	No. of Missions	Person-Days
Reconnaissance	1	36
Fact-Finding	1	118
Appraisal	1	87
Project Administration		
Inception	1	28
Review	4	68
Program Completion	1	14
Operations Evaluation <sup>2</sup>	1	46

ADB = Asian Development Bank, ADTA = advisory technical assistance, TA = technical assistance.

<sup>1</sup> Approved amount of TA.

<sup>2</sup> Comprising N. Bestari, Evaluation Specialist (Mission Leader), and J. Shaw, staff consultant.

## EXECUTIVE SUMMARY

Following the breakup of the former Soviet Union (FSU), the transition of the agriculture sector from a command economy to a market-based system was at the forefront of the policy agenda of the Government of Kazakhstan. Initial reforms were focused on dismantling state ownership that prevailed under the command economy, and establishing the legal and institutional basis for a privatized and market-based agriculture. The design of the Agriculture Sector Program (ASP) was formulated in the context of the difficult tasks that the country faced during its first four years in initiating reforms. With the FSU breakup, the transformation of the economy had to be undertaken during massive declines in incomes and disruptions of trading relations. The sector was destabilized and there was no experience elsewhere that paralleled the scope, magnitude, and abruptness of the disruptions that took place.

The ASP loan of \$100 million from the ordinary capital resources of the Asian Development Bank (ADB) was approved on 23 November 1995 to strengthen the reform process by establishing a competitive and market-based agriculture sector. The ASP covered three broad policy areas: creating markets, promoting market competitiveness, and strengthening social and environmental protection. Eleven specific objectives were set and 42 policy measures to achieve these objectives were designed. The objectives and scope of the ASP were detailed in the development policy letter and its policy matrix. The loan became effective on 22 December 1995 and was disbursed in two equal tranches. ADB provided three complementary technical assistance (TA) grants to assist the Government in the ASP implementation.<sup>3</sup>

Seven policy measures were complied with before ADB approval of the ASP, and the remaining 35 measures were implemented largely as planned. Seven of the eight second-tranche release conditions were fulfilled on time, including tough conditions covering the abolition of the grain export tax, liquidation of state monopoly holding companies, and the phasing out of agricultural input subsidies. The release of the second tranche was delayed from December 1996 to June 1997 due to late issuance of a decree for the establishment of a land registration system. The loan proceeds were fully liquidated by 26 June 1997 and the loan account was closed three months ahead of the target closing date. There is strong evidence that the ASP reform direction has been sustained and augmented, and is unlikely to be reversed. With the dismantling of direct state controls in production and marketing, farms have since been exposed to domestic and international market forces and benefited from farmgate prices that have reached world price levels.

**Encouraging the Growth of an Agricultural Land Market.** The relevant ASP policy measures have remained in place, although the Presidential Decree on Land (22 December 1995) was replaced by the new Land Law<sup>4</sup> (24 January 2001). The Land Law went through debates in the Parliament, and public opinion and news media had made the process politically sensitive. The Land Law reflects the country's current political economy, which has not accepted private ownership of agricultural land. There is genuine concern that allowing private ownership may irreversibly lead to permanent ownership of farmlands by a small number of people. The current arrangements allow the State some control on land use, while permitting land-use rights that can be sold, bequeathed, leased, and mortgaged. Land leases of up to 49 years still represent an attractive investment period for land users.

<sup>3</sup> TA 2448-KAZ: *Study on Market Reform in the Agriculture Sector*, for \$1,044,000, approved on 23 November 1995. TA 2449-KAZ: *Study on Rural Credit and Savings*, for \$470,000, approved on 23 November 1995. TA 2356-KAZ: *Strengthening the Implementation of Agriculture Sector Reforms*, for \$600,000, approved on 4 July 1995.

<sup>4</sup> While the Land Law does not allow private ownership of agricultural land, except for plots for household farming and gardening, it allows temporary land-use rights for up to 5 years (previously 3 years) for short-term rights and up to 49 years (previously 99 years) for long-term rights.

**Strengthening Farm Workers' Property Rights in Farm Enterprises.** The Government initiated a program in March 1995 to issue land share certificates to individual farm workers of newly privatized state farms, although the legal rights represented by these certificates were not clearly defined. These rights were later clarified under Presidential Decree 2717 of 1995 and reaffirmed in the Land Law of 2001. These land shares can be used as capital contribution for farm business entities, and may also be used for allocating land plots to certificate holders.

**Encouraging the Efficient Use of Agricultural Land and Investment.** The transfer of state and collective farms into private ownership has been completed. The State no longer operates any commercial farms. The area actually cultivated declined from about 28.7 million hectares (ha) in 1996 to 19.7 million ha by 1999 as marginal land was taken out of production. Crop productivity levels have generally improved since 1996, although these improvements have been constrained by (i) limited investments and poor access to credit, (ii) deteriorating irrigation water supply, and (iii) incomplete structural adjustments including requirements for farm restructuring.

**Accelerating the Liberalization of International Trade.** The agricultural economy has become remarkably open. With minor exceptions, there are no export taxes on agricultural products nor export price restrictions for grains and other crops. Within the Customs Union, which includes Belarus, Kazakhstan, Kyrgyz Republic, and Russia, import duties have been removed. Other countries face import tariffs for agricultural goods ranging from 5 to 30 percent, with most tariffs below 20 percent. In the past, the Government introduced temporary tariffs for specific goods from designated countries. No such temporary tariffs are currently in operation.

**Ensuring Market-Based Farmgate Prices of Agricultural Products.** The dismantling of state-controlled monopolistic holding companies has been followed by an increasingly competitive agricultural trading regime. Farmgate prices of grains have reached world price equivalents. The remaining impediments are transaction costs, especially where goods are transported significant distances. Agricultural producers in Kazakhstan are much better informed now than five years ago about world prices and regional price variations. For grains and cotton, there are commodity exchanges that are linked to international commodity exchanges.

**Reducing Government Intervention in Domestic Agricultural Markets and Improving Market-Based Resource Allocations.** The Government's intervention in domestic agricultural markets has been curtailed. The State's control on price markups and price support has been eliminated. The Agriculture Support Fund has been restructured and its role limited to debt recovery. Local administrations, however, continue to have significant influence, especially through their roles as conduits of agricultural support measures of the Ministry of Agriculture (MOA). The reform implementation has been influenced by the interpretation of reform measures at the local level.

**Strengthening the Capacity for Agricultural Policy Formulation.** MOA has sustained the development of information systems to support policy formulation and analyses. MOA uses a wide range of data compiled by the National Statistical Agency and data obtained directly from local departments of agriculture. Strategic plans have been prepared and MOA is up-to-date on a wide range of sector issues. Nonetheless, the capacity of MOA to undertake policy and sector analyses remains constrained.

**Promoting the Growth of Voluntary Farmer Associations.** The ASP laid the groundwork for establishing the legal framework for voluntary farmer associations. Subsequent to the ASP, the Law of Peasant Farms (March 1998) allows family members to form voluntary associations without the necessity of becoming a legal entity, while the Law on Rural Consumer

Cooperatives (July 1999) provides the basis for establishing a wide range of voluntary farmer organizations, and enables legal entities and individuals to form associations.

**Strengthening the Commercial Orientation of Rural Financial Services.** The ASP accomplishments were as follows: (i) nonperforming loans of the Kazakh Joint Stock Agro-Industrial Bank (Agroprombank [APB]), the main agricultural bank, were transferred to the Agriculture Support Fund; (ii) an external audit of APB was performed; (iii) the Government divested its shareholding in APB; (iv) all banks were allowed to operate in agriculture; and (v) a plan was developed to promote rural credit and savings services. Despite its restructuring, in 1999 APB ran into financial difficulties that made it necessary to place APB under a conservatorship. It was eventually sold to private investors in early 2001. Although commercial lending to agriculture has amounted to 8 percent of total commercial loans in 2000, banks still consider the majority of farms not creditworthy. The Government has taken steps to promote options for rural finance, albeit with slow progress. The Government currently pursues the development of nonbank financial institutions to provide rural financial services.

**Strengthening Social Protection Measures for Vulnerable Groups.** The ASP provided resources for social protection for vulnerable groups. In hindsight, these resources were inadequate for the scale of retrenchment in agriculture. The Employment Fund was abolished in January 1999, and a targeted social assistance replaced it from April 1999. Targeted unemployment benefits are now administered and provided by local administrations. Emphasis is on providing people with the skills to enter the workforce and enabling them to contribute to their own pension fund. The full effects of retrenchment in agriculture and the social protection measures to mitigate these effects were not adequately monitored.

**Ensuring Sustainable Management of the Environment in Agriculture.** The ASP initiatives for environmental protection were completed and largely sustained. In 1996, Kazakhstan became a member of the Food and Agriculture Organization (FAO) of the United Nations and committed itself to meeting FAO reporting requirements on pesticides under the 1985 International Code of Conduct on the Distribution and Use of Pesticides. MOA has used the FAO guidelines in amending the FSU era regulations and is currently preparing a draft law on plant protection to include FAO recommendations on the use of pesticides. Complementary to the ASP, the Law on Environment Protection was issued on 14 July 1997, with subsequent amendments.

Performance indicators to capture the ASP impacts were broadly specified, but not quantified at appraisal. The indicators included emergence of a land market, increased productivity, resource efficiency, increased farmgate prices, increased farm incomes, and increased credit supply. The marketability of agricultural land unavoidably depends on its potential use, productivity, and scarcity. The massive contraction in the agriculture sector has left large areas of land idle. Together with restrictions on agricultural land ownership, the contraction has dampened the development of an agricultural land market. Limiting factors also include the use of administrative land values for land leases by local administrations, the relatively small number of profitable farms, and practical constraints to land registration. The transition has caused the use of production factors to adjust. Use of arable and agricultural lands declined as marginal lands were taken out of production. Crop productivity has increased since 1996, particularly in 1999. Production data show that, with the exception of 1998 due to severe drought, grain production increased in 1997, 1999, and 2000 from the 1995 production level. The contribution of private family (peasant) farms to grain production increased from 9 percent in 1996 to 37 percent in 2000, while the share of farm enterprises declined from 91 to 63 percent. Livestock populations have stabilized since 1997. Farmgate prices for grain have reached export parity levels with the dismantling of state interference in marketing and pricing. With the exception of 1998, agricultural production has not contracted further from 1995, and has been recovering. Farmers have benefited from this recovery.

The ASP measures have remained largely in place. The Government has undertaken further reforms parallel to and beyond the ASP to transform the sector to a privatized and market-based system. There are no significant threats of reversal to the reform direction, although the sector has not yet completed its structural adjustments to function more efficiently due to (i) incomplete farm restructuring, (ii) difficulties with access to credit, and (iii) limited information and support services. Farm privatization has not automatically led to the restructuring of farm operations and many farms have retained management styles unsuited to responding to a market-based environment. Nonetheless, an emerging core of farms have focused on timeliness of operation to optimize productivity, adjust cropping patterns to respond to market demands, and rationalize operating costs. Restructuring to form a stable farm structure and improve farm management will remain the dominating issue for some time to come. Agriculture faces difficulties in accessing credit because the commercial banks' confidence in and ability to service agriculture are limited. Alternative financing modalities will need to be established. Local administrations continue to have a significant influence over farm operations through their role as a conduit of government support. Awareness building and publicity campaigns to increase farmers' understanding of their rights in the context of the changing legal and institutional framework require attention and support of the Government. Further refinements will be required as society and its constituencies adjust to the new realities.

The Operations Evaluation Mission has recommended several follow-up actions. First, farmers need to be informed of the implications of the new Land Law on their existing land-use rights, including the requirements for reregistration and revalidation. Second, the existing prebankruptcy procedures for agriculture require further refinement to remove disincentives for banks to lend to agriculture. Although the protection of assets may be legitimate for debts largely owed to the Government because of past interventionist policies, future commercial lending, including rural financial services, requires bankruptcy procedures that protect the interests of creditors. Third, the Government should reexamine the practices of introducing temporary tariffs against imports of agricultural goods and avoid the reintroduction of such tariffs to maintain trade openness. Antidumping rules should be followed instead of using punitive tariffs without clear grounds. Fourth, the Ministry of Finance should end government-sponsored lending at below market rates to farms and enterprises. This practice runs against commercial principles and the efforts to attract commercial banks to lend to agriculture, and undermines the development of alternative rural financial services. Finally, in connection with the retrenchment in agriculture, the Government should develop complementary initiatives to create nonagricultural employment opportunities in rural areas.

Considering its significant achievements and some shortcomings, the ASP is rated as successful.



## I. BACKGROUND

### A. Rationale

1. Kazakhstan was the last soviet republic that declared independence (16 December 1991) from the former Soviet Union (FSU). The Kazakhstan economy existed as a highly integrated part of the FSU production system, specializing in agriculture, metallurgy, and oil and mineral extraction. As a consequence of the breakup of the FSU, the country faced serious economic and fiscal crises. Large fiscal transfers to the country ended abruptly, centrally planned flows of outputs and input supplies ceased, and the trade and payment systems collapsed. From 1990 to 1995, the country's gross domestic product fell by 51.8 percent.<sup>5</sup> Annual inflation jumped from about 4 percent in 1990 to nearly 1,900 percent in 1994, while the country suffered from severe depression as most of the newly independent countries of the FSU. Immediately after independence, Kazakhstan initiated a series of fundamental policy reforms and began the transition to a market-based economy. With support from the International Monetary Fund (IMF), the Government in 1993 began a macroeconomic stabilization and structural reform program. The macroeconomic program was aimed at (i) stabilizing the financial situation through tight fiscal and monetary policies to reduce inflation, (ii) containing the decline in real output and living standards, (iii) building up net international official reserves, and (iv) instituting a range of systemic reforms. The stabilization program was deepened with the support of the World Bank, and the Asian Development Bank (ADB) through the Special Assistance Project.<sup>6</sup> As an outcome, inflation fell from an end-of-year annual rate of 1,160 percent in 1994 to 60 percent in 1995, and to as low as 11 percent by 1997, along with other improvements. Appendix 1 provides selected economic and social indicators from 1994 to 2000.

2. As the second largest country in the FSU, Kazakhstan is endowed with abundant agricultural land. Before independence, agricultural production took place on 2,055 large state farms and 430 collective farms with an average farm size of around 80,000 hectares (ha), accounted for more than 22 percent of employment, and contributed over 30 percent of the country's net material product.<sup>7</sup> The centerpiece of agricultural production was the state order system under which agricultural inputs were centrally organized, and outputs purchased by the State on the basis of long-standing production plans.<sup>8</sup> Transition of the agriculture sector to a market-based system was at the forefront of the Government's policy agenda, and initial reforms were focused on dismantling the system of state ownership and interventions that prevailed under the command economy, and establishing the legal and institutional framework for private sector-oriented agriculture. The reforms in agriculture were aimed at creating markets, promoting market competitiveness, and addressing social concerns.

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<sup>5</sup> CER: KAZ 97027: *Country Economic Review, Kazakhstan*, October 1997. Subsequent official estimates indicated an output decline of about 40 percent during this period. An IMF working paper (IMF, 1998. Output Decline in Transition: The Case of Kazakhstan. WP/98/45) analyzed the causes and dynamics of the sharp output decline, and examined data quality and output measurement.

<sup>6</sup> On 6 December 1994, ADB approved Loans 1337-KAZ(SF)/1338-KAZ: *Special Assistance Project*, for a total of \$60 million to support the Government's macroeconomic stabilization and structural reform program during its transition to a market economy by easing the shortage of foreign exchange urgently needed for critical imports.

<sup>7</sup> As a measure used in the FSU era, net material product differs from gross domestic product as defined under the United Nations System of National Accounts by excluding outputs of nonmaterial services. The estimation of net material product was discontinued in 1995 and replaced with the gross domestic product measure.

<sup>8</sup> Production targets were determined and output prices were set administratively using cost-plus pricing, which covered costs of production, processing, and distribution. The system was oriented to fulfill production targets with little regard to costs, providing no incentives to change cropping patterns and improve efficiency.

## **B. Formulation**

3. By 1994, the Government recognized that the existing reform agenda was incomplete (paras. 8 and 9) and slowing the momentum of the transition of agriculture. Accordingly, the Government requested ADB to provide assistance to strengthen and accelerate sector policy reforms. Responding to the Government's request, ADB fielded a Reconnaissance Mission in February-March 1995, a Fact-Finding Mission in May 1995, and an Appraisal Mission in July 1995, to formulate an Agriculture Sector Program (ASP). The program formulation did not engage a conventional program preparatory technical assistance (TA). ADB relied on an in-house pool of expertise to respond quickly to the Government's request for assistance in a rapidly changing policy environment in the country. The commissioning of a consultant-led program formulation would have been inappropriate in an environment where an intense and iterative series of policy dialogue between ADB and the Government was required. The program formulation also capitalized on the comprehensive analyses and findings of the ADB macroeconomic and sector assessments of the country in 1994,<sup>9</sup> and a detailed agricultural sector review by the World Bank in 1994.<sup>10</sup>

## **C. Objectives and Scope**

4. The overall objective of the ASP was to strengthen the reform process by establishing a competitive and market-based agriculture sector. The ASP covered three broad policy areas: creating markets, promoting market competitiveness, and strengthening social and environmental protection. Eleven specific objectives were targeted (para. 10). The objectives and scope of the ASP were detailed in the development policy letter and its policy matrix.

## **D. Financing Arrangements**

5. On 23 November 1995, the Board approved the ASP loan in the amount of \$100 million from ADB's ordinary capital resources. The loan became effective on 22 December 1995 and was disbursed in two equal tranches. Together with the loan, ADB provided two TA grants of \$1.51 million to assist the Government in ASP implementation: (i) TA 2448-KAZ: Study on Market Reform in the Agriculture Sector,<sup>11</sup> and (ii) TA 2449-KAZ: Study on Rural Credit and Savings.<sup>12</sup> Prior to that, ADB provided a separate TA for strengthening the Government's capacity to manage its ongoing agriculture sector reforms.<sup>13</sup> The loan was to be disbursed by March 1997 against a broad range of imports subject to a negative list of items. Reimbursements of eligible imports were allowed to cover expenditures incurred for up to 180 days before loan effectiveness. The Executing Agency was the Ministry of Finance (MOF). The financing arrangements prescribed that the counterpart funds generated from the loan

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<sup>9</sup> ECR: KAZ 94019: *Economic Report on Kazakhstan*, October 1994.

<sup>10</sup> World Bank. 1994. *Kazakhstan Agricultural Sector Review*. Report 13334-KZ. Washington, DC.

<sup>11</sup> TA 2448-KAZ: *Study on Market Reform in the Agriculture Sector*, for \$1,044,000, approved on 23 November 1995. The TA objectives were to (i) obtain comprehensive understanding of the key sector constraints and recommend further reform measures or improvements; (ii) monitor the impacts of the reform measures; and (iii) strengthen the capacity of the Government for policy analysis, formulation, implementation, and monitoring.

<sup>12</sup> TA 2449-KAZ: *Study on Rural Credit and Savings*, for \$470,000, approved on 23 November 1995. The TA objective was to assist the Government in reforming the rural credit and savings services. The TA included (i) a review of policy issues for rural credit and savings, and (ii) policy recommendations to reform the rural credit and savings services. Recommendations included a five-year plan to reorient rural financial services by strengthening existing commercial banks and establishing voluntary credit unions to serve the needs of small rural savers and borrowers.

<sup>13</sup> TA 2356-KAZ: *Strengthening the Implementation of Agriculture Sector Reforms*, for \$600,000, approved on 4 July 1995.

proceeds would be used by the Government to support the transition of the agriculture sector to a market-based system.

## **E. Program Completion Report**

6. The program completion report (PCR) rated the ASP as successful, confirming ASP design was based on the policy reforms initiated by the Government fully committed to the measures.<sup>14</sup> The ASP was implemented without serious delays, establishing a broad legal and policy framework without which the transition of the sector to a market economy would not have been possible. The performance of the Government was considered by the PCR as commendable, given the complexity of the ASP design that involved 14 government ministries and agencies, and difficult reform measures that included the phasing out of agricultural input subsidies. Most of the loan covenants were fully complied with except for submission to ADB of a PCR. Although bimonthly progress reports on program implementation were submitted regularly to ADB in 1996 and 1997, none were submitted to ADB after the release of the second tranche of the loan. The PCR highlighted that the policy environment created by the ASP had supported private farming, although the impact of the ASP on sector performance was not yet fully realized. There was evidence that the Government had continued the reform direction and introduced new measures to deepen the sector reforms.<sup>15</sup> The PCR emphasized several lessons: (i) government functions of policy implementation and law enforcement at national and local levels require investments in capacity building, (ii) policy and institutional change is a long-term process and the dynamic nature of policy reforms makes it difficult to design reform packages with a long time horizon, and (iii) policy and institutional reforms bring changes to society and affect various groups; stakeholder consensus and public support for the reforms are key to their effective implementation.

## **F. Operations Evaluation**

7. An Operations Evaluation Mission (OEM) visited Kazakhstan in May-June 2001 to evaluate the performance of the ASP. The OEM held discussions with representatives of various government agencies, commercial banks, farm enterprises, multilateral organizations, and other stakeholders. Considering the transitional nature of the agriculture sector and the economy as a whole, many institutional and policy changes have occurred concurrently with and after the ASP. In this transitional context, the OEM focused on the relevance and achievements of ASP reforms, their contribution to the development of a market-based and privatized agriculture, and the sustainability of ASP achievements. Copies of the draft program performance audit report were provided to the Ministry of Agriculture (MOA), MOF, and concerned ADB staff for review. Their comments were considered in the preparation of this report.

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<sup>14</sup> PCR: 1406-KAZ: *Agriculture Sector Program*, August 1999.

<sup>15</sup> ADB provided further assistance through (i) TA 2737-KAZ: *Farm Restructuring and Development*, for \$1.2 million, approved on 31 December 1996; (ii) Loans 1592-KAZ/1593-KAZ(SF): *Water Resources Management and Land Improvement Project*, for \$40 million, approved on 17 December 1997; (iii) TA 2946-KAZ: *Institutional Development and Policy Reforms for Improving Water Management*, for \$600,000, approved on 17 December 1997; (iv) Loans 1779-KAZ/1780-KAZ: *Farm Restructuring Sector Development Program*, for \$45 million, approved on 14 November 2000; and (v) TA 3541-KAZ: *Deepening of Agricultural Reforms and Development Programs*, for \$800,000, approved on 14 November 2000.

## II. IMPLEMENTATION PERFORMANCE

### A. Effectiveness of Design

8. The design of the ASP was formulated in the context of difficult tasks that the country faced during its first four years of initiating reforms to transform its economy from a command system to a market-based system. With the FSU breakup, the transformation of the economy had to be undertaken in an environment characterized by massive declines in incomes, and disruptions of trading relations that depressed markets for agricultural exports and created shortages of agricultural inputs. The agriculture sector was destabilized and there was no experience elsewhere that paralleled the scope, magnitude, and abruptness of the disruptions that took place following the FSU breakup. The conventional wisdom called for the country to lay a strong foundation for a market-based privatized agriculture. The country had few options and chose to accelerate the transition to overcome its debilitating economic difficulties.

9. The Government was fully committed to reforming the economy, with support at the highest level. The ASP design was endorsed by cabinet ministers, and policy dialogue during its preparation involved a large number of government ministers. The preparation of the ASP took place in the midst of ongoing reforms and benefited from the reformist stance of the political structure. Major reform measures that had been taken by the Government by 1995 included (i) development of a regulatory framework for land-use rights and commencement of privatization of state farms;<sup>16</sup> (ii) trade policy reforms including the abolition of import quotas and quantitative export restrictions, liberalization of import tariffs, and the establishment of an agricultural commodity exchange;<sup>17</sup> (iii) agricultural market reforms including the removal of price controls on agricultural inputs in 1992, replacement in 1993 of the state order system by a state needs system that was abolished in 1995, and partial price liberalization for grains, bread, and fodder in 1994; and (iv) issuance of the water code in 1993 and the Government's decision to privatize agro-enterprises.<sup>18</sup> The reform agenda was incomplete. Agriculture was caught in the midst of the transition where former structures could no longer work and newly established systems were not yet fully functioning to take their place. The ASP took into account the continuum of sector reforms that had taken place and appropriately sequenced further reforms.

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<sup>16</sup> Land tenure reform commenced with the Land Code of 1991 (revised in 1995). Later, Presidential Decree 2717 of 1995 granted permanent (unlimited duration) and temporary (99 years) land-use rights to private farmers. These rights included rights to use, alienation, mortgage, and compensation for land repossessed by the State. Land-use rights could be bought, sold, exchanged, bequeathed, leased, and mortgaged. State farms were initially converted into production cooperatives, with state ownership passing to existing managers and farm workers with little changes to management, organizational structure, and arrangements for production and marketing.

<sup>17</sup> The Government set export quotas based on estimates of domestic needs and the volumes needed by the State to fulfill bilateral trade agreements. About 3.5 million metric tons (t) of grains were under trade agreements in 1994. Input prices were liberalized in 1992, while the adjustments to output prices lagged behind. Prices for state needs were administratively set below world market price levels. In 1993, grains for state purposes were purchased at 50-70 percent below world price levels. Consequently, farm revenues and profitability tumbled, causing a significant buildup of farm debts that led to serious financial difficulties among farms. Subsequently, the quantities for state needs were reduced to about 60 percent of the quantities of state orders in 1990. The State purchased a third of the grain production in 1993. The total state procurement for grain was reduced from 7 million t to 5 million t in 1994 and the state needs for other agricultural commodities were eliminated. The state needs system implicitly taxed producers through low producer prices, allowing government administrators to be involved in production and marketing thus perpetuating some features of the command economy. Delays in government payments for farm outputs, coupled with high inflation, quickly eroded the value of farm sales. Liberalization of output prices through the dismantling of administrative pricing and direct state involvement in marketing was urgently required. The worsening internal terms of trade for agriculture caused the sector to depend on directed credits and other subsidies to compensate for their low output prices.

<sup>18</sup> State-owned joint stock companies were established in mid-1993 to take over the functions of the former central marketing ministries that managed services, supply, and procurement. These companies maintained the characteristics of the former ministries, and retained an active role for the State in marketing and processing. The monopolistic operations of these companies hindered the development of competition in agricultural markets.

ADB collaborated closely with the Government to identify gaps and opportunities to strengthen the reform agenda. The development policy letter and its policy matrix reflected the consensus at the time, comprising fundamental actions that were necessary to bring the sector closer to a market-based and privatized system.

## **B. Policy Reform Measures**

10. The following objectives were targeted through the implementation of 42 policy measures:

- (i) Strengthen the security of tenure to encourage the growth of an agricultural land market (five measures).
- (ii) Strengthen farm workers' property rights in farm enterprises (one measure).
- (iii) Encourage the efficient use of agricultural land and provide incentives for long-term investment in land development (two measures).
- (iv) Accelerate the liberalization of international trade in agricultural commodities (two measures).
- (v) Ensure market-based farmgate prices of agricultural products through enhanced competition in domestic agricultural markets (four measures).
- (vi) Further reduce government intervention in domestic agricultural markets and improve the efficiency of market-based resource allocation (nine measures).
- (vii) Strengthen the Government's capacity for agricultural policy formulation and analysis (two measures).
- (viii) Promote the growth of voluntary farmer associations (two measures).
- (ix) Strengthen the commercial orientation of rural credit and financial services (six measures).
- (x) Strengthen social protection measures for vulnerable groups adversely affected by the transition of the agriculture sector toward a market-based system (five measures).
- (xi) Ensure sustainable management of the environment in the agriculture sector (four measures).

Their status of implementation at program completion and program evaluation, and other complementary measures that have been initiated by the Government are described in detail in Appendix 2. Other transitional milestones are highlighted in Appendix 3 as a reference point for other events of market-oriented reforms that took place during and after the ASP.

11. Seven of the policy measures, representing ongoing actions, were accomplished before Board approval of the ASP. The Government (i) privatized 300 state farms; (ii) liquidated 8 of 13 agro-industrial state holding companies; (iii) established grain procurement through auctions; (iv) eliminated direct control over trade markups for grain, bread, and fodder; (v) transferred more than T5.5 billion of nonperforming loans of the Kazakh Joint Stock Agro-Industrial Bank (Agroprombank [APB]), the main agricultural bank, to the Agriculture Support Fund (ASF);

(vi) permitted all commercial banks to operate in the agriculture sector; and (vii) expanded the Employment Fund to include agriculture. The remaining 35 measures were implemented largely as planned. Seven of the eight second-tranche conditions were fulfilled on time, including tough conditions encompassing the abolition of the grain export tax, liquidation of state monopoly holding companies, and the phasing out of agricultural input subsidies. The release of the second tranche of the loan was delayed from December 1996 to June 1997 due to late compliance with the issuance of decrees and/or regulations (measure 1.1.3) required for establishing a land registration system. This condition was complied with on 20 February 1997. Three measures (measures 5.2.1, 6.3.4, and 8.1.2), which were reported to be partially fulfilled at program completion, have been accomplished since then.

## **1. Encouraging the Growth of an Agricultural Land Market**

12. The relevant policy measures undertaken under the ASP have remained in place, although the Presidential Decree on Land (Decree 2717, dated 22 December 1995) was recently replaced by the new Land Law (Law 152, dated 24 January 2001). The ASP established (i) procedures for state repossession of agricultural land, (ii) compensation for state repossession of agricultural land, (iii) legal framework for land registration, (iv) procedures for resolution of agricultural land disputes, and (v) procedures for pledging agricultural land-use rights as collateral. The Land Law allows private ownership of land plots for household farming and gardening, and provides for temporary land-use rights (leases) for up to 5 years (previously 3 years) for short-term rights and up to 49 years (previously 99 years) for long-term rights. The shortening of the long-term leases to 49 years is a setback. The current form of the Land Law reflects the country's political economy that has not accepted private ownership of agricultural land, with the exception of house lots and gardens. There is genuine concern among the majority of the population that allowing private ownership of agricultural land under the present circumstances may irreversibly lead to permanent ownership of farmlands by a small number of people. The enactment of the Land Law by the Parliament had gone through intensive and protracted debates. Public opinion and news media coverage had also made the process politically sensitive. The current long-term lease arrangements provide the State with some degree of control on the use of lands for specified purposes, while allowing farm enterprises to have land-use tenure that can be sold, bequeathed, leased, and mortgaged.<sup>19</sup> As confirmed by farm managers interviewed by the OEM, land leases of up to 49 years still represent an attractive tenure to motivate land users to invest in farming.

13. The procedures for registering, pledging, and mortgaging land-use rights were established under the ASP. The Government introduced a system and procedures for real estate registration, adopted the procedures nationwide, and put in place the legal framework for land transactions, including pledging and mortgaging. After the ASP, the World Bank assisted the Ministry of Justice from 1997 to 2000 in implementing a real estate registration pilot project in two provinces. This project facilitated the establishment of a registration system of estate rights and transactions based on Law 2727 (1995). The Government finances ongoing initiatives to expand the pilot initiatives to other provinces. Complementary to the ASP, the Government also introduced bankruptcy procedures for agriculture. Commercial banks, however, claim that deficiencies remain. They believe (i) the existing foreclosure proceedings are complicated, time

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<sup>19</sup> Subleasing is restricted. In the case of a sublease, the secondary user (sublessee) has no right to transfer rights under the sublease to other users.

consuming, and costly; (ii) the priority system for claims favors the Government instead of other creditors; and (iii) the court system is weak.<sup>20</sup>

## **2. Strengthening Farm Workers' Property Rights in Farm Enterprises**

14. The Government initiated a program in March 1995 to issue land share certificates to individual farm workers of newly privatized state farms, although the legal rights represented by these certificates initially were not clearly defined. These rights were later clarified under Presidential Decree 2717 of 1995 and reaffirmed under the new Land Law. The land shares can be used as capital contributions for different forms of farm business entities including business partnerships, joint stock companies, and production cooperatives. In addition, land-share rights can be used as a basis for allocating land plots to certificate holders. Approximately 2.27 million land shares were originally issued, based upon the principle of equal shares for those who were entitled. By April 2001 (Appendix 4, Tables A4.1 and A4.2), about 2.16 million shares had been used by certificate holders: (i) 1.43 million land shares were used to create about 111,000 farms (joint stock companies, limited companies, partnerships, and peasant farms); and (ii) 0.73 million shares retained in 1,615 production cooperatives. To date, less than 15 percent of the original land shareholders have retained their land rights as an asset. Although this estimate may be debated, it indicates a significant shift of land tenure from the original recipients of land shares to current holders of land-use rights. Many land shareholders have given up their rights in exchange for relief of personal debts or for promises of livelihood support from investors. Others have emigrated, abandoned farming and moved, or simply have no further interest in making use of the land for farming.<sup>21</sup>

## **3. Encouraging the Efficient Use of Agricultural Land and Investment**

15. The transfer of state and collective farms into private ownership was a necessary step to encourage efficient use of agricultural land. All state farms have been privatized except for farms that have been retained as state enterprises for applied research within the agricultural research network. Currently, the State does not operate commercial farms. In 1999, peasant farms controlled about 28.4 million ha, or 28.9 percent of all agricultural lands. Large farms, especially production cooperatives, have continued to fragment. This fragmentation has occurred largely in eastern and northern parts of Kazakhstan. Bankruptcies have also fragmented large farms into smaller farms, including the creation of new peasant farms. More than 8,700 peasant farms and 1,650 farm enterprises have emerged since 1998 from 1,900 insolvent farms that have gone bankrupt (Appendix 4, Table A4.3). This trend is irreversible as farm restructuring proceeds further in the medium term, leading to more efficient use of agricultural land. Table A4.2 of Appendix 4 shows the number of farm enterprises in Kazakhstan. Family (peasant) farms accounted for 96 percent of all farms in April 2001.

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<sup>20</sup> Complementary and relevant to the ASP, Kazakhstan's initial Law on Bankruptcy was passed by Parliament in January 1997 (amended, July 1998), and specific features for applying bankruptcy procedures to agricultural organizations were put in place in December 1997. Later in 1998, the Government initiated a bankruptcy-led restructuring to remove farm debt burdens, and establish new ownership and management of farms emerging from bankruptcy. However, prebankruptcy procedures allow the establishment of a new partnership with limited liability to which assets are transferred and sheltered from the bankruptcy proceedings. While intended to shelter farms from depletion of assets, especially when most debts have arisen from previous government policies, the prebankruptcy provisions have caused asset ownership to concentrate in the hands of the new owners of the limited partnerships, leaving former shareholders as laborers without claims on the remaining assets. The continuation of this policy is seen by commercial banks as a legal loophole that allows asset protection instead of liquidation in the event of a foreclosure.

<sup>21</sup> The number of people directly involved in farming could not be expected to remain at the same level as when farms were managed and operated on a communal basis, and when employment was guaranteed.

16. The cultivated arable areas declined from 28.7 million ha in 1996 to 19.7 million ha in 1999 (Appendix 4, Table A4.4). Consistent with the ASP's initiatives that facilitate exit and entry into agriculture, marginal lands have been taken out of production, as these lands cannot be farmed profitably for sustained crop production with the discontinuation of the Government's direct support of subsidized agricultural inputs. All uses of agricultural lands declined from 161.6 million ha in 1996 to 98.3 million ha in 1999. With the exception of 1998 when the country suffered from severe drought, crop productivity has increased since 1996 (Appendix 4, Table A4.5), with significant productivity increases in 1999 on a wide range of crops. Productivity increases to date, however, have been constrained by (i) limited access to seasonal and medium-term credit, (ii) deteriorating irrigation water supply and management in many areas, (iii) incomplete structural adjustments including requirements for farm restructuring and improved management, and (iv) limited investments in farming. Major crop production and livestock outputs from 1982 to 2000 are shown in Appendix 4, Table A4.6.

#### **4. Accelerating the Liberalization of International Trade**

17. At the policy level, the agricultural economy has become remarkably open, although structural adjustments in agriculture have not been completed and many farms still face serious financial difficulties. Since the ASP, there are practically no export taxes on agricultural products, except for animal hides and unprocessed wool at 10 percent of customs value. The ASP called for the abolition of export taxes on grains and for the Government to discontinue setting minimum export prices for grains. As prescribed, there have been no price restrictions or minimum export prices for grains and for other crops. However, declines in commodity prices and the drought in 1998 caused agricultural exports to fall from 13.2 percent of all exports in 1996 to less than 9.0 percent of exports in 1998 and 1999 (Appendix 4, Tables A4.7 and A4.8). Nonetheless, Kazakhstan still enjoyed favorable balances in agricultural trade from 1996 to 1999 with imports comprising mainly processed agricultural products and foodstuffs. Although the ASP focused on measures to liberalize grain exports and did not specify measures for liberalizing imports, in parallel the Government pursued a more liberalized import policy for agriculture. There are currently no import duties within the Customs Union, which includes Belarus, Kazakhstan, Kyrgyz Republic, and Russia. All other countries are subject to import tariffs for agricultural goods that range from 5 to 30 percent, with most import tariffs below 20 percent. Agricultural imports have shifted to comprise mostly processed products, including foodstuffs. Exports of processed agricultural products declined due to the loss of traditional markets, the contraction in agroprocessing, and other constraints related to product development and competition in penetrating alternative export markets. In October 2000, temporary protective measures were introduced for specific products, among them eggs and vegetable fats, by raising import tariffs to 30 percent for 6 months. In 1999, tariffs as high as 200 percent were imposed on specific goods such as rice, margarine, and fruit juices from Uzbekistan, and dairy fats and margarine from the Kyrgyz Republic. While the trend for trade openness was evident, the cases of temporary import tariffs were unpredictable, although they could not be viewed as representing a continuing protectionist policy. Faced with import competition, domestic producers clamored for the Government to take a more protectionist stance. Currently, no temporary tariffs are in operation. The international trade regime is most likely to continue to be open. Kazakhstan submitted an application in January 1996 to join the World Trade Organization (WTO), and is pursuing WTO accession.

#### **5. Ensuring Market-Based Farmgate Prices of Agricultural Products**

18. The ASP-prescribed measures were accomplished: (i) the remaining five agro-industrial state monopolies were dismantled and liquidated, (ii) over 200 state-controlled agro-industrial monopolies at the provincial level were liquidated, and (iii) the Government divested its



shareholding in Astyk grain elevators.<sup>22</sup> The dismantling of state-controlled holding companies in 1995-1996 has been followed by an increasingly competitive agricultural trading regime involving various market intermediaries that include well-established international traders. Agricultural producers in Kazakhstan are much better informed now than five years ago about world prices, regional price variations, and market conditions. Commodity exchanges for grains and cotton in Kazakhstan are linked to international commodity exchanges. With the removal of restrictions on grain exports, and the dismantling of monopolistic marketing arrangements, farmgate prices have reached world price equivalents, representing a significant improvement from the conditions that existed before the ASP (footnote 17).

19. The remaining impediments to achieving higher farmgate market prices are transaction costs, especially where goods are transported significant distances within the country and where farms use barter trade involving delivery contracts in exchange for production inputs and working capital. The barter trade practice is prevalent among indebted farms that rely on the supply of inputs in exchange for a delivery contract. The ability of grain producers to avoid unfavorable financing agreements is likely to be enhanced by the use of a grain receipts scheme to gain access to commercial loans from banks.<sup>23</sup> Nevertheless, producers are concerned with the current one-sided determination by buyers of quality standards such as moisture in grain and fiber length in cotton. Quality control for grains will improve due to the new law on grain.<sup>24</sup>

## **6. Reducing Government Intervention in Domestic Agricultural Markets and Improving Market-Based Resource Allocations**

20. The ASP has significantly curtailed the Government's intervention in domestic agricultural markets by (i) introducing auctions for grain procurement; (ii) eliminating direct controls on trade markups; (iii) eliminating direct subsidies on meat, wool, and fertilizers; (iv) phasing out direct subsidies for agricultural inputs, and price supports on meat and wool under the ASF;<sup>25</sup> (v) developing an allocation and reporting system for the ASF; and (vi) reviewing policies on water charges for irrigation and water resources. Despite these achievements, a number of shortcomings have persisted. Although water abstraction charges were approved in 1997 and have since remained in place, currently there are no plans to increase the water abstraction charges.<sup>26</sup> Changes were made to irrigation water delivery tariffs in 1998 to reduce the cost to agriculture. Irrigation water charges are currently set at about T30.2 (\$0.65) per 1,000 cubic meters, bearing no relationship to the economic cost of water within each basin. Despite the low water prices, collection rates of irrigation charges reached only 63 percent in

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<sup>22</sup> Astyk had a monopoly in grain marketing and was one of the state holding companies. The privatization of Astyk was one of the second tranche release conditions of the World Bank Loan 3900-KZ: *Structural Adjustment Loan*, for \$180 million, approved on 8 June 1995. The ASP also included the privatization of the Astyk grain elevators as one of its 42 policy reform measures to emphasize the importance of this initiative for the agriculture sector.

<sup>23</sup> The European Bank for Reconstruction and Development provides assistance to Kazakhstan for the establishment of the grain receipts program as a financing scheme for warehouse receipts. The new grain law (Law 143, 19 January 2001) covers grain receipts, rights and transfers of ownership of grain receipts, and pledging.

<sup>24</sup> Law 143 of 19 January 2001 governs procedures for production, storage, and sale of grains in Kazakhstan. The law also covers quality control, grain certification, and warehouse receipts.

<sup>25</sup> The ASF was established in December 1994 to provide general development support to agriculture and resolve the bad debts of the main agricultural bank (APB) and agricultural enterprises. In its support for agriculture, the ASF provided subsidized credits to farm enterprises. The ASF reintroduced direct budgetary subsidies on meat, wool, and fertilizers in 1995; these subsidies were phased out under the ASP. The ASF was restructured in July 1998 and became a wholly state-owned joint stock company. It was mandated to recover debts and act as a development agent of MOA to provide financial support for state-sponsored animal breeding, seed farming, and animal/plant protection. In practice, the ASF's role has been restricted to debt recovery.

<sup>26</sup> Since 1998, water abstraction charges have been treated as general revenues for local government budgets with no earmarking for the uses of funds. Water pricing was introduced in 1994 after the issuance of the water code in 1993. Water pricing was refined in Water Pricing Resolution 1227 of 7 August 1997.

1998, 81 percent in 1999, and 72 percent in 2000 (Appendix 4, Table A4.9). Farmers have resisted increases in water charges because the quality of water delivery services is considered dysfunctional and incommensurate with the expected level of service.<sup>27</sup>

21. State grain purchases are currently funded through the State Food Corporation from MOA's budget, and reserve requirements are limited to 500,000 t, an amount less than 5 percent of grain production in 2000. The State Food Corporation procures grains from farms and makes limited use of tender facilities. Although the Government's control on price markups and price support has been eliminated, and the role of the ASF curtailed, provincial and district administrations continue to have significant influence stemming from their responsibility for the welfare of the people.<sup>28</sup> Reform implementation has been influenced by the interpretations of national edicts at the local level. The leverage that local administrations can exert on private farms currently stems from the administrations' role as conduits for MOA's support programs (Appendix 4, Table A4.10).<sup>29</sup>

## **7. Strengthening the Capacity for Agricultural Policy Formulation**

22. The ASP called for MOA to focus on database development and monitor the ASP economic effects on the agriculture sector. TA 2356-KAZ (footnote 13) assisted MOA in developing a database of mainly agricultural production, and subsequently TA 2448-KAZ (footnote 11) provided further assistance in establishing a socioeconomic database based on a nationwide survey of rural households. Market and price analyses have been strengthened within MOA since 1995. After the ASP, the Government in December 1997 decided to consolidate existing information systems into a market information system, including data from all provinces and districts. A national working committee was formed in February 1998 to analyze the financial performance of farm enterprises with the status of legal entities. MOA's continuing efforts include (i) a nationwide survey of farm enterprises in 1998 and a monthly update of their financial performance; (ii) monitoring the performance of the agriculture sector including its productivity, exports, and financial performance; and (iii) maintenance of agricultural statistics and sector profiles, drawing data from the National Statistical Agency and local agriculture departments. MOA currently monitors the performance of approximately 4,700 large farms with a view to assisting them in restructuring, and is up-to-date on major sector issues. Nevertheless, the ASP initiatives and sustained efforts were not sufficient to develop adequate capacity for policy formulation. The capacity of MOA to undertake in-depth policy and sector analyses remains constrained. Over the past five years, MOA has not been the recipient of significant long-term TA to strengthen its capacity in policy analysis and formulation. MOA currently seeks short-term assistance from the Food and Agriculture Organization (FAO) of the United Nations.

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<sup>27</sup> ADB, through TA 2946-KAZ, has provided further assistance to the Government in formulating programs for establishing water user associations, promoting cost recovery and user participation in operation and maintenance of irrigation systems, and gradually transferring the management of irrigation systems to beneficiaries (footnote 15). The TA recommendations are being considered by MOA and related agencies.

<sup>28</sup> In years of relatively poor harvests, conflicts have arisen between governors wishing to ensure food security and grain traders with export contracts to fulfill. Improvements in interregional trade and private trading have, however, ameliorated food security concerns.

<sup>29</sup> In 2001, MOA introduced almost T4 billion (\$27.4 million) interest-free working capital loans of less than six months to farms to finance cultivation and harvests due to fuel price increases. MOA described this initiative as a temporary measure to assist small farms that have faced difficulties in obtaining loans from commercial banks. MOA annual budgets from 1996 to 2001 indicate a major shift to cost-recovery modalities. In 2001, only 42 percent of the budgeted amount of T24.4 billion (\$167.3 million) comprises expenditures without provisions for cost recovery compared with 94 percent of the 1996 budget of T9.7 billion (\$143.3 million).

## **8. Promoting the Growth of Voluntary Farmer Associations**

23. The ASP appropriately identified the importance of voluntary farmer associations for the development of the sector. The development of voluntary farmer associations, such as for water use management, credit,<sup>30</sup> leasing, and marketing, has not been an easy task. The ASP laid the groundwork for establishing the basic legal framework for voluntary farmer associations. Following the ASP, the enabling environment for forming voluntary associations has significantly improved. The Law of Peasant Farms (Law 214-1 dated 31 March 1998) allows the formation of voluntary associations of family-based members, comprising close relatives, without the requirement to form a legal entity. The Law on Rural Consumer Cooperatives (July 1999) also provides the basis for a wide range of voluntary farmer organizations and enables both legal entities and individuals to form associations. Efforts have also been made to develop a law for the establishment and operation of water users associations. As of October 2001, a draft law on water users associations, submitted to Parliament in December 2000, had not been approved, mainly due to differences among major stakeholders. The improvement in the enabling environment for voluntary farmer associations has been encouraging and is likely to be sustained, given the continuing efforts by the Government to strengthen the legal framework and maintain the development of privatized agriculture.

## **9. Strengthening the Commercial Orientation of Rural Financial Services**

24. The relevant ASP initiatives were implemented by (i) transferring nonperforming loans of APB to the ASF,<sup>31</sup> (ii) undertaking an external audit of APB, (iii) divesting the Government's shareholding in APB, (iv) allowing commercial banks to operate in agriculture, and (v) developing a plan for promoting rural credit and savings services. These initiatives were focused on restructuring and privatizing APB, the major state lending institution to agriculture, and establishing equal opportunities for all banks to operate in agriculture. Despite the transfer of nonperforming loans to the ASF, APB continued to experience financial difficulties although it diversified its operations to become a universal bank. APB was unable to meet the prudential requirements that were tightened and imposed by the central bank (National Bank of Kazakhstan). APB was placed under a conservatorship, restructured, and sold in its entirety to a consortium of private investors in January 2001.

25. The banking sector underwent system and financial restructuring, and beginning in 1992 substantial reforms were undertaken progressively to avert a major financial collapse.<sup>32</sup> Based on data from the central bank (Appendix 4, Table A4.11) as of 31 December 2000, outstanding loans from commercial banks to the agriculture sector amounted to T25.8 billion (\$179 million), representing 9.3 percent of the total outstanding loans of T276 billion (\$1.91 billion). Farms have faced difficulties obtaining credit because commercial banks are generally unenthusiastic about financing small- and medium-sized farms due to their lack of collateral for asset-based lending and inherent risks. Commercial loans to farms are often limited to a maximum of 12 months at interest rates ranging from 16 to 20 percent in dollar terms. Farms are facing limited access to

<sup>30</sup> The legal framework for credit partnerships (Resolution 106 of the National Bank of Kazakhstan, dated 12 April 1997, as amended in 1997, 1999, and 2000) provides the basis for the formation of nonbank credit partnerships by voluntary mergers of individuals and/or legal entities. MOA currently promotes the development of credit unions to help farms obtain commercial loans for investments and working capital.

<sup>31</sup> The ASF's performance on debt recovery has been marginal. ASP intervention was targeted at restructuring APB rather than on debt recovery, as farm debts were caused mostly by past interventionist government policies. The ASF did not have the capacity to restructure a large number of insolvent farms, and was unable to foreclose these farms for debt recovery. In addition, farms have been sheltered from losing their assets by the existing prebankruptcy procedures (footnote 20).

<sup>32</sup> IMF. 1998. Banking System Restructuring in Kazakhstan. Working Paper WP/98/96. Initial reforms addressed the immediate crises in the banking system by tightening prudential regulations and bank licensing, and dealing with large nonperforming loans. This was followed by regulatory and institutional structural reform.

medium-term funds of five to seven years for the purchase of equipment. The Government recognizes the nature of the credit crunch and has taken steps to provide options for rural finance. As an alternative to the banking system, the Government is pursuing the development of nonbank financial institutions to provide rural financial services.<sup>33</sup> MOA in the meantime operates subsidized, short-term credit schemes (footnote 29) to finance cultivation and harvest. These schemes may hinder the development of commercial lending to agriculture.

## **10. Strengthening Social Protection Measures for Vulnerable Groups**

26. Although the ASP measures related to social protection were implemented, their accomplishments were partial and mixed. The Employment Fund was increased to T6.7 billion in the 1996 budget and to T9.3 billion in the 1997 budget, exceeding the ASP targets. The Employment Fund, however, was subsequently constrained by revenue shortfalls. As payment arrears escalated and became unsustainable, the Employment Fund was abolished on 1 January 1999, and a targeted social assistance program was introduced to replace it beginning 1 April 1999. Targeted unemployment benefits are now administered by local administrations with the discretion to determine the funding level. The transfer of funding responsibilities to local governments increases regional disparities in benefit coverage due to varying availability of resources. Emphasis is currently placed on providing people with the skills to enter the workforce and enabling them to contribute to their own pension fund.<sup>34</sup> The ASP also stipulated that in the 1996 budget, the Government include targeted cash compensation to meet the essential needs of vulnerable groups in an amount not less than the 1995 budget allocation of T2.6 billion. The Government increased the budget allocation for targeted cash compensation to vulnerable groups to T4.24 billion in the 1996 budget and to T5.24 billion in the 1997 budget. In 1997 and 1998, retraining of the unemployed was financed by the Employment Fund, but the resources made available for retraining could accommodate only 3 percent of the number of applicants. The ASP design did not anticipate the overwhelming demand for retraining and failed to provide resources for an effective monitoring system. The effects of retrenchment in agriculture, and the social protection measures targeted for mitigating these effects among the unemployed and displaced workers, were not adequately monitored by the Ministry of Labor and Social Protection.

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<sup>33</sup> The need for a nonbank mechanism was described in TA 2449-KAZ (footnote 12), but it has taken over five years to reach a starting point for the development of nonbank financial institutions. Initially, credit partnerships are likely to be limited to the provision of working capital loans. The provision of medium-term loans may take several years to evolve given the risk-averse environment and other factors associated with lenders' confidence, creditworthiness of borrowers, and the capacity of new credit organizations to appraise, lend, and manage loan portfolios. The legislative framework allows three categories of credit unions based on the size of their capital: (i) rural credit partnerships with a minimum capital of T1 million, (ii) credit partnerships with a minimum capital of T10 million, and (iii) credit-deposit partnerships with a minimum capital of T100 million. Only the largest category is allowed to take deposits. A state-owned Agrarian Credit Corporation was established on 25 January 2001 (with a start-up capital of \$1 million) to facilitate the development of 18 pilot rural credit unions in 9 provinces.

<sup>34</sup> ADB provided Loan 1589-KAZ: *Pension Reform Program*, for \$100 million, approved on 16 December 1997, to support the transition of the pension system from a pay-as-you-go system toward a fully funded, defined contribution system that is financially sustainable. In the past, employees made no contribution and employers contributed at 25.5 percent of the wage bill. The new pension is based on three pillars: (i) a residual pay-as-you-go system funded by a 15 percent payroll tax paid by employers, (ii) mandatory employees' contribution of 10 percent of wages, and (iii) a private voluntary scheme for individuals to augment their pension benefits.

## **11. Ensuring Sustainable Management of the Environment in Agriculture**

27. The ASP environmental protection initiatives were completed and sustained.<sup>35</sup> Local administrations have regularly updated inventories of old stocks of pesticides. Guidelines for the disposal of old stocks of banned pesticides were issued, and regulations on pesticides were amended to conform with FAO recommendations. In 1996, Kazakhstan became a member of FAO and committed itself to meet FAO reporting requirements on pesticides under the 1985 International Code of Conduct on the Distribution and Use of Pesticides. MOA used FAO guidelines in amending the previous soviet-era regulations. To conform to FAO requirements, the guiding documents controlling the registration, import, sale, safe use, residue monitoring, and disposal of pesticides were reviewed and amended. In 1998, Kazakhstan adopted a National Environment Action Plan designed to improve a number of environmental indicators in the medium term, particularly soil and water qualities. MOA is currently preparing a draft law on plant protection to include FAO recommendations on the use of pesticides.

### **C. Program Management**

#### **1. Disbursement and Procurement**

28. The first tranche of the loan, amounting to \$50 million, was released on 26 December 1995, four days after loan effectiveness. The second tranche of \$50 million was disbursed on 26 June 1997 after the Government had complied with the eight conditions for the second tranche release.<sup>36</sup> The second tranche release was within six months after its target date. The loan proceeds were fully liquidated by 26 June 1997 and the loan account was closed three months ahead of the target closing date. No audit report was required in that no imprest account was used. Disbursement was based on reimbursements for goods already imported while complying with the negative list (ineligible items). There were no procurement packages or any single item that cost more than \$5 million.

#### **2. Performance of ADB and the Executing Agency**

29. ADB's performance in designing and facilitating the ASP implementation was satisfactory. The ASP preparation took nine months, with close collaboration between ADB staff and government counterpart staff. During the ASP implementation, ADB sent five review missions to Kazakhstan, including an inception mission in December 1995. These missions worked closely with counterparts, facilitated the establishment of the ASP reporting system, and addressed implementation issues at the time. Nevertheless, ADB missions and TA consultants overlooked important issues concerning the Government's initiatives to develop commercial lending to small- and medium-sized agroprocessing and farm enterprises (paras. 42 and 43). The country's political conditions provided the impetus for the rapid implementation of reforms.

<sup>35</sup> Complementary to the ASP, the Law on Environment Protection was issued on 14 July 1997, with amendments (24 December 1998; 381-1 dated 11 May 1999; and 488-1 dated 29 November 1999). The Government, with assistance from the World Bank, recently prepared a pilot dryland management project with a view to determining appropriate sustainable, replicable management systems to develop alternative land use and rehabilitate the ecosystems.

<sup>36</sup> IN.101-97: *Loan 1406-KAZ: Agriculture Sector Program Progress Report*, 10 June. The conditions for the release of the second tranche included (i) issuing regulations to establish procedures for registration of rights to agricultural land, (ii) issuing regulations to confirm the legal status of land share certificates issued to employees working in privatized farm enterprises, (iii) abolishing export tax on grains, (iv) liquidating five agro-industrial state holding companies, (v) phasing out direct subsidies on agricultural inputs, (vi) increasing the budget allocation for the Employment Fund, (vii) providing targeted cash compensation for vulnerable groups, and (viii) reviewing and amending regulations on pesticides to conform with FAO recommendations.

That in turn allowed MOF to secure close cooperation from related implementing agencies and to perform satisfactorily without experiencing major opposition to the reform measures. The ASP tackled fundamental requisites for a market-oriented agriculture; the Government's resolve consistently supported this objective.

### **3. Effectiveness of Technical Assistance**

30. ADB provided three complementary TA grants (footnotes 11, 12, and 13) to assist the Government in implementing the ASP. The implementation of key second tranche conditions depended on the analyses carried out under these TAs.

#### **a. TA 2448-KAZ: Study on Market Reform in the Agriculture Sector**

31. The TA objective was to (i) obtain comprehensive understanding of agriculture sector constraints and recommend further reform measures; (ii) monitor the ASP impacts; and (iii) strengthen the Government's capacity for policy analysis, formulation, implementation, and monitoring. The terms of reference were relevant and comprehensive. The TA succeeded in clarifying major policy areas and providing critical analyses concerning the second tranche release, particularly those related to legal reforms. The TA analyzed (i) wheat production, marketing, and pricing; (ii) operations of the ASF; (iii) legal and institutional reforms, including farm privatization, land reform, and farmers' associations; (iv) water pricing policy; (v) strategies for rangelands and livestock development; (vi) pesticide management and regulations; (vii) the development of a statistical system for the sector; (viii) wool production and marketing; and (ix) rural socioeconomic conditions. Some communication difficulties were experienced with counterparts because language translation was not adequately budgeted. ADB benefited from the TA in understanding the reform processes. The OEM has rated the TA as successful.

#### **b. TA 2449-KAZ: Study on Rural Credit and Savings**

32. The TA objective was to assist the Government in reforming the rural credit and savings services. The TA reviewed policy issues on rural credit and savings, including secured lending and rights of creditors, savings mobilization, credit intermediaries, and microfinance. Key constraints were related to supply and demand. Farms mostly became production cooperatives and peasant farms. Most of them remained structurally unstable and lacked creditworthiness. On the other hand, commercial banks were weak and unfamiliar with lending to farms. The financing gap required strengthening and diversifying agricultural credit institutions and creating profitable farms. The TA provided policy recommendations to reform the rural credit and savings services. The recommendations included a five-year plan to strengthen and reorient rural financial services with a two-pronged approach of (i) strengthening existing commercial banks, and (ii) establishing voluntary credit unions to serve the needs of small rural savers and borrowers. The terms of reference were relevant. The TA proposed the development of lending facilities, secondary level banking, and credit unions, but the adoption of these recommendations has been slow. Proposals such as the use of warehouse receipts, and the development of credit unions and microfinance have just begun to materialize. The slow uptake reflects the dynamics of reforms, time needed for awareness and capacity building, and the requirements for developing alternative institutions. The TA was relevant and supported by counterparts from the National Bank of Kazakhstan. The OEM has rated the TA as successful.

**c. TA 2356-KAZ: Strengthening the Implementation of Agriculture Sector Reforms**

33. The TA objective was to strengthen the Government's capacity to manage its agriculture sector reforms. The TA's scope included a review of the implementation of policy reforms, strengthening MOA's capacity in program implementation, and establishing a monitoring system for the implementation of reforms. The TA scope was broad and the available resources were limited. The TA consultants appropriately focused on analyzing issues concerning land reform, farm privatization, enterprise restructuring, input supplies and services, agricultural marketing, distribution systems, institutional roles and functions of MOA, and information requirements for monitoring agriculture sector reforms. They collaborated with MOA staff to examine options for reorienting MOA's institutional roles and functions to support the development of the sector. The TA's training activities were, however, limited and many trainees did not remain in MOA. The TA was most useful in preparing MOA for the implementation of the ASP, particularly on management of sector reforms and development of an information system for policy analyses. MOA fully appreciated the advisory role of the TA and found the TA highly relevant. The OEM has rated the TA as successful.

### **III. PROGRAM RESULTS**

#### **A. Performance Indicators**

34. The ASP performance indicators to capture the ASP impacts were broadly specified, but not quantified at appraisal. The indicators included emergence of a land market, increased productivity, resource efficiency, increased farmgate prices, increased farm incomes, increased credit supply, and pricing that reflects the true scarcity value of irrigation water. Indicators for legal and institutional development were not specified. The transition involved a shift from a command-based system (footnote 8) that had no reference to comparative advantages, to a new market-based equilibrium. The precise outcomes of such a shift were impossible to predict, considering the dynamics of policy, institutional, and social reforms in all sectors of the economy. The ASP appropriately indicated the anticipated trends.

35. Exogenous factors have influenced the pace of transformation of the sector, including external shocks that affected the entire economy. The ASP effects cannot be isolated from the effects of exogenous factors and other reinforcing reforms within and outside the sector. The sharp fall of the Russian ruble in 1998 destabilized the competitiveness of Kazakhstan's commodity exports. The financial crisis in Asian countries and its lingering effects dampened overall investments and output demands. In 1998-1999, low international prices for petroleum, the country's main export, negatively affected the country's balance of payments. That in turn caused the tightening of budget expenditures, including those for agriculture and social protection. The sector's recovery was constrained by poor harvests in 1998 due to the severe drought, and depressed commodity prices in 1998 and 1999. Wheat production fell to 4.7 million t in 1998 compared with the 1991-1995 average of 10.5 million t, and the 1996-2000 average of 8.3 million t. Grain exports fell from \$512 million in 1997 to \$295 million in 1998. Without the ASP, agriculture performance would have been much worse. Restrictive arrangements for grain exports and monopolistic marketing arrangements would have made Kazakhstan unable to find alternative and competitive marketing channels and intermediaries. Wheat production increased to 11.2 million t in 1999 and reached 9.1 million t in 2000. In 1999, farmgate prices of wheat in Kazakhstan fell below \$60/t. Farmgate prices have since recovered, and ranged from \$95 to \$100/t in May 2001, while export prices at the grain elevators ranged from \$110 to \$120/t.

#### **B. Impact of Policies**

36. The development of an agricultural land market (paras. 12 and 13) has been slow. Commercial banks have accepted land leases as collateral, although at discounted values ranging from \$3 to \$15/ha of rainfed land, and only when these leases are pledged in a package that includes other properties and realizable farm assets. The value and marketability of agricultural land unavoidably depends on its potential use, productivity, and availability. With a population of 14.9 million in 1999, or 5.5 persons per square kilometer, Kazakhstan is one of the most sparsely populated regions in the world. The contraction in agriculture in the transition period has left large areas of land idle and dampened the demand for agricultural land, although the demand for irrigated land has remained strong. Limiting factors for agricultural land market development include the use of administrative land values for land leases by local administrations, restrictions on ownership, the relatively small number of profitable farms, and practical constraints to land registration and its transaction costs. While property rights of workers in farm enterprises have been strengthened, there has been a major shift in the control of farm assets as many of the initial land shareholders have given up their rights (para. 14).



37. The transition to private farming has caused adjustments in the use of production factors. Cultivated arable areas and the use of agricultural lands declined as unprofitable marginal lands were taken out of production (Appendix 4, Table A4.4). Crop productivity (Appendix 4, Table A4.5) improved since 1996, with marked productivity increases in 1999. Production data show that grain production increased modestly from 1995 to 2000, with the exception of 1998. In recent years, well-managed farms started to use elite seeds and reintroduced the use of fertilizers. Productivity has increased mainly due to abandonment of marginal lands, improved operation timeliness, and reduced crop losses. The contribution of family (peasant) farms to grain production increased from 9 percent in 1996 to 37 percent in 2000, while the combined share of cooperatives, joint stock companies, and partnerships declined from 91 to 63 percent. Major livestock populations have stabilized since 1997. Although the available data are not comprehensive, they show that, with the exception of the drought year of 1998, agricultural crop production has experienced no further contraction since 1995 and has embarked on a recovery path.

38. Farmgate prices have reached world price levels, after adjustments are made for transport, insurance, and intermediary costs. Liberalized trade policies opened the agricultural economy to international competition. The reduction in government intervention has brought agriculture closer to a market-oriented operation. MOA budgets for direct and noncredit expenditures on the sector declined in nominal terms from T9.1 billion (\$134 million) in 1996 to T3.5 billion (\$31 million) in 1999, before rising to T5.7 billion (\$39 million) in 2000 and T10.3 billion (\$70 million) in 2001 as the country's fiscal conditions improved. Due to external shocks and budget constraints in 1998-1999, the Government tightened its budgets and reduced expenditures on agriculture. Unexpectedly, the development of the water pricing policy has not led to irrigation water pricing that allows self-financing of operation and maintenance of irrigation facilities (para. 20). While the reform measures on rural finance are appropriate, lending to agriculture has remained constrained by (i) lack of farm assets acceptable to banks as collateral (para. 36), (ii) a relatively small number of profitable farms, and (iii) the inherent risks of the sector. The adoption of the recommendations to develop alternative lending facilities has been slow (para. 32). The sector's responses to the ASP will require several more years to materialize fully, while continuing adjustments are required for farms to restructure and improve their management, productivity, and profitability. Existing bankruptcy procedures for agriculture, however, can hinder structural adjustments as asset protection could prevent liquidation of insolvent farms to safeguard creditors' interests (footnote 20).

### **C. Institutional Development**

39. The reform process generally followed a top-down approach that was inevitable in the early stages of transition when fundamental decisions had to be made rapidly in a crisis situation. In practice, the implementation of the reforms had a time lag, and there were time gaps between the adoption of new laws and policies, and effective implementation of the new policies at local levels. Changes in organizational behavior could not be expected to occur immediately as proposed changes required officials to abandon their interventionist roles. The role of the State shifted from commanding production and marketing to policy making and regulatory functions. Although TA consultants conducted useful sector analyses, the TA did not play a direct role in redefining and strengthening the functions of the agencies that had to implement the reforms. The diminishing direct state involvement in agriculture had forced the downsizing of MOA and related agencies since early 1990s. By 1999, core MOA staff comprised less than 200 persons, when during the FSU era it employed over 20,000 personnel for veterinary services alone. Reorganizations, staff changes, relocations, and retrenchment were common events. The transition and downsizing period was, however, not conducive to simultaneous capacity building. The PCR emphasized that policy implementation and legal enforcement require follow-up investments in institutional development, especially in the context

of the newly defined roles and functions of the reformed institutions based on the new laws and policies.

#### **D. Social Protection**

40. The ASP provided incremental social assistance to cushion the impacts of reforms on farm workers affected by the transition. The Ministry of Labor and Social Protection, however, did not specifically monitor the impacts of the increased social protection on farmers and agricultural workers, as social protection was provided universally to all eligible recipients. The extent to which retrenched farm workers and affected farmers have benefited from the ASP's social protection and retraining initiatives is unknown. Retraining initiatives were limited and the available resources could only meet a fraction of the demand. Although the ASP budget targets for social protection were met (para. 26), the assistance was insignificant compared to the large-scale retrenchment. As indicated in Appendix 1, employment in agriculture fell from 1.08 million persons in 1995 to 0.32 million persons in 1999.<sup>37</sup>

#### **E. Environmental Protection**

41. The ASP measures focused on (i) establishing an inventory of old stocks of pesticides, (ii) disposal of banned pesticides, (iii) amending existing regulations to conform with FAO recommendations, and (iv) preparing policy recommendations for sustainable use of rangeland. The Government complied with the ASP measures concerning pesticides and had strengthened the legislation for environmental protection beyond the ASP (footnote 35). Although TA 2448-KAZ (footnote 7) provided policy recommendations for the use of rangeland, follow-up actions were not immediately undertaken as priorities were placed elsewhere. The contraction of the sector from the FSU era had caused severe declines in the use of fertilizers and agrochemicals, curtailing the pervasive negative environmental impacts common during that era.

#### **F. Counterpart Funds**

42. According to the report and recommendation of the President, the counterpart funds generated from the loan were to be used to support the transition of the agriculture sector to a market-based system. The intent was to compensate the Government for part of the reform adjustment costs of \$400 million in 1996 present value terms and pay for fiscal measures to strengthen social protection.<sup>38</sup> While money is a fungible resource, MOF indicated that the Government had used the counterpart funds to provide loans to agriculture and agroprocessing enterprises. According to MOF, the first tranche of \$50 million was lent to three commercial banks and the second tranche of \$50 million was lent by MOF to the Small Business

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<sup>37</sup> With the fragmentation of farms into peasant farms, family owners and workers may not be fully captured in the employment statistics. The reduction in agricultural employment does not automatically translate into a corresponding increase in unemployment. Many farm workers left the country, moved to urban areas for alternative employment, or joined the ranks of retirees.

<sup>38</sup> The abolition of the grain export tax was estimated to cost \$40 million annually. Higher grain prices were expected to increase the State's outlay for grain procurement by \$40 million a year in the medium term. The issuance of land share certificates was estimated at \$90 million and the increased social protection at \$8 million a year.

Development Fund that in turn relented to 12 commercial banks.<sup>39</sup> The use of the counterpart funds was not earmarked in the ASP and not monitored by ADB. Tracking of the specific use of counterpart funds was deemed meaningless due to the fungibility of budgetary resources. However, ADB monitored the budgets within the sector, ensuring that the ASP provisions were met.

43. The injection of \$100 million into the commercial banking system was large, amounting to about 32 percent of commercial loans to industries and agriculture as of the end of 1997. Regardless of the origin of the funds, such an intervention should not have been unnoticed in the context of the ASP measures to strengthen the commercial orientation of the rural financial services. The ADB review missions for the ASP, the three complementary TAs, and the PCR failed to analyze these credit schemes in the context of the ASP. The credit schemes were part of the Government's strategy to commercialize lending to support agriculture, albeit with terms that restricted banks from freely incorporating lending risks into their interest rates. The interest rates to final borrowers were below market rates and credit risks were discounted at the cost of the banks. ADB did not provide assistance to the banks for appraising investments and credit risks. Although subsidized interest rates could be justified in the context of the transitional circumstances at the time, they should now be discontinued. These credit schemes can undermine further development of commercial lending to agriculture, in that banks cannot fully incorporate credit risks into the interest rate structure.

## **G. Sustainability**

44. The ASP measures have mostly remained in place (Appendix 2). While accomplishments in several areas have been partial, the Government, with its demonstrated political will, has undertaken other reform measures beyond the ASP. There are no significant threats of reversal to the reform direction, although the sector has not yet completed structural adjustments to function more efficiently. Farms continue to face less efficient management and operations, difficulties with access to credit, and inadequate information and support services. Continuing improvements in the quality of legal enforcement and the implementation of new policies are still required.

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<sup>39</sup> The decision to support the credit program under the first tranche was decreed by the Government on 22 January 1996. Altogether, 73 investment projects (\$44.3 million) were financed, mainly for agroprocessing equipment. MOF provided loans to the commercial banks for four years (later extended to seven years) in dollar terms at 7 percent per annum. The commercial banks relented to subborrowers with a stipulated maximum margin of 2 percent per annum and faced the full relending risks. The loans to subborrowers were set in dollar terms. The unused balance of \$5.7 million was later lent to the Small Business Development Fund. The decision to lend to the Fund under the second tranche was decreed by the Government on 17 March 1997. MOF lent to the Fund in dollar equivalent for a period of five years at an interest rate of 7 percent per annum. The Fund added a margin of 0.5 percent per annum and commercial banks were allowed to add a maximum margin of 3.5 percent per annum. The interest rates to final borrowers were capped at a maximum of 11 percent per annum in dollar terms. By January 2001, 52 investment projects (\$31.7 million) had been financed by the Fund.

## **IV. KEY ISSUES FOR THE FUTURE**

### **A. Farm Management**

45. Many farms were caught with low inputs, low productivity, and low incomes. Farm privatization alone has not led to farm restructuring and many farms have retained management styles unsuited to a market-based environment. There is an emerging category of farms that focus on operation timeliness to optimize productivity, adjust cropping patterns to suit market demands, and rationalize operating costs. Restructuring to form a stable farm structure and improve farm management will remain the dominating issue for some time to come. Closing the information gaps is required to address these issues. Agriculture services for input supplies and marketing of outputs have progressively emerged. The full reorientation of farming into a market-based system will undoubtedly depend on multifaceted development aspects of agriculture, including the requisites for agribusiness development.

### **B. Working Capital, Investments, and Access to Credit**

46. The total sown areas amounted to about 16 million ha in 2000, requiring working capital of at least \$800 million annually. The outstanding commercial bank lending to agriculture and agroprocessing including investments amounted to about \$179 million as of 31 December 2000 (Appendix 4, Table A4.11). The commercial banks' confidence in and ability to service agriculture are still limited. Alternative financing modalities need to be established. Initiatives that have been considered and require continuing attention include (i) establishing credit unions, (ii) providing warehouse receipts for secured working capital loans, (iii) leasing, (iv) improving legislation for secured lending to protect creditors, and (v) attracting foreign investments.

### **C. Business Environment**

47. Local administrations continue to significantly influence farm operations, especially through their role as a conduit of government support. Farms have encountered obstacles due to arbitrary interpretations of national edicts at the local level. Awareness building and publicity campaigns to increase farmers' understanding of their rights in the context of the changing legal and institutional framework require the Government's attention and support. Strengthening legal enforcement and the rule of law is required for improving the transparency and accountability of policy and legal implementation.

## V. CONCLUSIONS

### A. Overall Assessment

48. **Relevance.** The overall goal of the ASP was to strengthen the reform process by establishing a competitive and market-based agriculture sector. The ASP measures were relevant and consistent with the priorities of the Government and ADB, establishing a strong foundation for a market-led development of privatized agriculture. The ASP has also served as a catalyst for further related reforms to strengthen policy implementation. The ASP is assessed as highly relevant.

49. **Efficacy.** The ASP has removed the state control on pricing and marketing, and privatized the State's holdings in commercial agriculture. Trade liberalization measures and reduction of the Government's intervention in agriculture have placed the sector in a market economy. However, structural adjustments have not yet been completed in the sector to fully utilize its potential. Agriculture continues to suffer from inadequate financing of its working capital and investment requirements. Nonetheless, the sector has experienced no further contraction after 1995 and, despite external shocks, has shown signs of recovery. Although the ASP provided mitigating measures for social protection, the impacts of such measures, in the context of the desired achievements, were not adequately monitored. The ASP is assessed as efficacious.

50. **Efficiency.** The ASP has contributed to the positive achievements in sector performance. The ASP measures were supported and reinforced by other major market reforms that had previously been implemented or were undertaken concurrently in agriculture and other sectors. Stabilization measures and structural reforms were also put in place. The transformation from a command to a market economy required a massive and simultaneous overhaul of the legal framework, institutions, and systems. Reforms were undertaken across all sectors. The recovery of the agriculture sector would not have been possible without the improvement in the macroeconomic conditions of the country, including the requisite policy measures to maintain macroeconomic stability. Such exogenous factors have an increasing role as the economy has become much more open and increasingly integrated with the global economy. Given the implementation of major reforms addressing critical areas in a relatively short period, the ASP is assessed as efficient.

51. **Sustainability.** The ASP measures have largely been accomplished and the direction of reform maintained. The Government has undertaken other reforms and development initiatives that have augmented and strengthened the enabling environment for creating markets and competition for privatized agriculture. Despite shortcomings in several instances, there is no evidence of a lasting reversal or retreat in the implementation of the ASP. The ASP is likely to be sustained.

52. **Institutional Development.** An impressive set of legislation, decrees, and resolutions reduced the Government's intervention in agriculture. The ASP assumed a high degree of judiciary and institutional capacity to implement the reforms. The TA initiatives were focused largely on sector analyses and providing recommendations on the ASP implementation. However, the ASP had limited direct impact on redefining the roles and functions of reorganized institutions and increasing their capacities. Although the ASP measures were necessary, follow-up investments in institutional development were required to support the reorganized institutions. These investments were not immediately forthcoming. Capacity building, in the midst of retrenchment and downsizing across all sectors, was difficult to achieve with frequent staff changes, relocations, and rapid changes in functions. The implications of the ASP were far

reaching in the context of the need to strengthen national and local institutional capacities to implement new policies, and refine and enforce new laws. The existing institutions experienced difficulties in coping with the terms demanded by the changes in policy stance. The ASP's institutional development impact is rated to be minor.

53. Based on the above achievements and shortcomings, the ASP is overall rated as successful.

## **B. Key Lessons Learned**

54. The success of the ASP stems from the strong commitment of the Government to the reforms and the country's consistent political resolve to accelerate the economic transition. The policy dialogue during the ASP fostered the Government's ownership of the reforms. Considering the rapidly changing policy environment and the urgency with which the country faced a crisis situation due to the FSU breakup, ADB appropriately relied on in-house expertise in preparing the ASP. The policy dialogue between ADB and the Government, and consultations with other development agencies including the World Bank, IMF, United Nations Development Programme, United States Agency for International Development, and European Union Technical Assistance for the Confederation of Independent States, led to the development of consistent policy measures.

55. The ASP focused on the enactment of legislation and changes in institutional arrangements, to effect outputs that included new laws and regulations, and the divestment of the State's involvement in commercial agriculture. The ASP's immediate output was the creation of a legal framework and an enabling policy environment. While these achievements are impressive, the sector performance has been mixed and affected by exogenous factors (para. 35). Sustained recovery of the sector requires continuing efforts to strengthen institutional capacity in the new economic environment; developing systems, including law enforcement, to implement policy changes effectively; and completing structural adjustments.

56. The ASP reforms have far reaching impacts on the society. The earlier top-down approach to accelerate policy decisions had bypassed consultative processes that would be pursued under normal circumstances. The PCR confirmed that the dynamics of policy reforms in the transitional context makes it difficult to design reforms with a long time horizon and a blueprint approach. Further refinements will be required as the society and its constituencies adjust to the new realities, as was the case when Presidential Decree on Land was revised into a new Land Law (para. 12).

57. Adequate resources to undertake program monitoring must be provided. The difficulty of measuring the impacts of the social protection measures would not have arisen if the monitoring system and its required resources had been established from the outset. Reliance on the implementing agency to monitor the social protection assistance without clear guidance was a weak feature of the ASP. The scale of the retrenchment in agriculture was not fully understood during the ASP preparation and the social protection measures for mitigating the effects on the unemployed were inadequate. With hindsight, the ASP should have been complemented by initiatives to increase nonagricultural rural employment to mitigate the effects of the retrenchment in agriculture.

## **C. Follow-Up Actions**

58. Farmers need to be informed of the implications of the provisions of the new Land Law on their existing rights (such as leases, subleases, and land-share rights), including exclusions and requirements for reregistration and revalidation. Article 124 outlines the alteration of rights and obligations. The Ministry of Justice and MOA should, over the next 24 months, conduct publicity campaigns and consultations at local levels, describing the necessary actions required of farmers, land shareholders, and local administrations within the specified deadlines.

59. The existing prebankruptcy procedures for agriculture require further refinement to remove disincentives for banks to lend to agriculture (footnote 20). Although the protection of assets may be legitimate for debts largely owed to the Government because of its past interventionist policies, future commercial lending, including rural financial services, require bankruptcy procedures that protect the interests of creditors. The Ministry of Justice and MOA should review the current practice and recommend appropriate amendments over the next 18 months.

60. The Government should maintain trade openness and avoid the reintroduction of temporary tariffs. Antidumping rules should be applied instead of using punitive tariffs without clear grounds.

61. MOA and MOF should end the subsidized lending program of MOA that provides farms with working capital (footnote 29). Such interest-free loans to farms run against commercial banking principles and undermine the development of rural financial services.<sup>40</sup> MOF should discontinue the recycling of repayment funds for relending at capped interest rates that prevent banks from fully incorporating risk allowances (footnote 39). Such practice of limiting the lending rates to final borrowers undermines the banks' commercial practices.

62. In connection with the retrenchment in agriculture, the Government should develop complementary initiatives to create nonagricultural employment opportunities in rural areas.

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<sup>40</sup> This recommendation should be viewed in the context of the Government's Resolution 1131 of 2 September 2001, requiring that interest charges for government loans from the national budget be based on the interest rates of government securities in the secondary markets.

## APPENDIXES

Number	Title	Page	Cited on (page, para.)
1	Selected Economic and Social Indicators	23	1, 1
2	Policy Measures and the Status of Implementation at Program Completion and at Program Performance Evaluation	25	5, 10
3	Other Transitional Milestones	37	5, 10
4	Statistical Tables	41	7, 14



## SELECTED ECONOMIC AND SOCIAL INDICATORS

**Table A1.1: Selected Economic Indicators**

Item	Unit	1994	1995	1996	1997	1998	1999	2000
GDP, nominal	T billion	423.5	1,014.1	1,415.7	1,672.1	1,733.2	2,016.5	2,596.0
Agriculture	T billion	63.3	125.1	172.1	190.7	148.5	199.4	224.3
Industry	T billion	123.3	238.7	299.9	357.4	422.5	569.1	828.1
Construction	T billion	40.6	65.5	62.3	70.7	85.6	95.7	137.2
Trade	T billion	51.4	174.6	244.4	261.6	262.7	273.9	325.8
Transport and communications	T billion	47.3	108.2	159.7	195.6	239.4	243.2	311.1
Others	T billion	97.6	302.0	477.3	596.1	574.5	635.2	769.5
Custom Exports	\$ million	3,230.8	5,250.2	5,911.0	6,497.0	5,435.8	5,592.2	9,139.5
Custom Exports, % of GDP	%	27.8	31.6	28.3	29.4	24.7	31.3	50.1
Custom Imports	\$ million	3,561.2	3,806.7	4,241.1	4,300.8	4,349.6	3,682.7	5,052.1
Custom Imports, % of GDP	%	30.6	22.9	20.3	19.4	19.7	20.6	27.7
Agriculture share of GDP	%	14.9	12.3	12.2	11.4	8.6	9.9	8.6
Industry share of GDP	%	29.1	23.5	21.2	21.4	24.4	28.2	31.9
Real GDP growth rate	%	(12.6)	(8.2)	0.5	1.7	(1.9)	2.7	9.6
Real agriculture GDP growth rate	%	(21.0)	(24.4)	(5.0)	(0.8)	(18.9)	21.6	(3.3)
Inflation rate, annual average	%	1,892.0	176.3	39.1	17.4	7.1	8.3	13.2
Inflation rate, end of year	%	1,160.0	60.4	28.6	11.3	1.9	17.8	9.8
National Bank refinancing rate, end year	%	230.0	52.5	35.0	18.5	25.0	18.0	14.0
Treasury bill rate, 3-month maturity	%	354.8	59.7	32.2	15.1	25.6	16.6	7.2
Short-term commercial lending rates, end year	%		91.1	46.0	22.8	18.4	21.4	17.7
Exchange rate, annual average, \$1.00	T	36.4	61.1	67.8	75.6	78.6	113.0	142.3
Exchange rate, end of year, \$1.00	T	54.3	64.0	73.8	75.9	84.0	138.2	144.5
Gross international reserves	\$ million	1,203.0	1,660.0	1,980.0	2,244.0	1,900.0	2,003.0	2,096.0
Direction of exports								
Exports to CIS countries	%	58.0	54.9	53.8	45.9	39.9	26.1	26.2
Exports to EU countries	%	15.4	21.3	18.5	26.3	31.1	22.9	22.6
Exports to other countries	%	26.6	23.8	27.7	27.8	29.0	50.9	51.2
Total	%	100.0	100.0	100.0	100.0	100.0	99.9	100.0
Imports by origin								
Imports from CIS countries	%	61.1	69.7	69.5	54.1	47.4	43.3	54.6
Imports from EU countries	%	16.5	12.9	13.0	21.6	24.0	25.3	20.1
Imports from other countries	%	22.4	17.4	17.5	24.3	28.6	31.4	25.3
Total	%	100.0	100.0	100.0	100.0	100.0	100.0	100.0

CIS = Commonwealth of Independent States, EU = European Union, GDP = gross domestic product.

Sources: National Statistical Agency, National Bank of Kazakhstan, and Kazakhstan Economic Trends (various issues).

**Table A1.2: Selected Social Indicators**

Item	Unit	1995	1996	1997	1998	1999
Population, beginning of year	million	16.0	15.7	15.5	15.2	14.9
Male	%	48.0	48.0	48.0	48.0	48.1
Female	%	52.0	52.0	52.0	52.0	51.9
Kazakhs	%	47.9	49.4	50.6	52.0	53.4
Russian	%	33.8	32.9	32.2	31.4	30.0
Other ethnic groups	%	18.3	17.7	17.2	16.6	16.6
Rural population	%	44.0	44.0	44.0	44.0	44.0
Urban population	%	56.0	56.0	56.0	56.0	56.0
Life expectancy	years	63.5	63.6	64.0	64.5	65.7
Adult literacy	%	98.7	98.9	99.1	99.3	99.5
Labor force	million	7.36	7.49	7.44	7.05	7.06
Employed, official	million	5.21	4.61	3.86	3.36	2.74
Employed in agriculture and forestry	million	1.08	0.89	0.67	0.49	0.32
Employment in agriculture	%	20.73	19.31	17.36	14.58	11.68
Unemployment rate, registered unemployed only	%	2.10	4.20	3.80	3.70	3.90
Average monthly wages	T	4,786.0	6,841.0	8,541.0	9,683.0	10,984.0
Average monthly wages, agriculture sector <sup>a</sup>	T				3,896.0	4,180.0
Monthly official minimum wages, at end-of-year basis	T	300.0	2,000.0	2,340.0	2,440.0	2,680.0

<sup>a</sup> Comparable numbers are not available for the period before 1998 due to reclassification of data.

Sources: United Nations Development Programme. *Human Development Report 2000, Kazakhstan*;  
 International Monetary Fund. 2001. *Country Report 01/20*; and  
 Asian Development Bank. 2000. *Key Indicators of Developing Asian and Pacific Countries*. Manila.

# POLICY MEASURES AND THE STATUS OF IMPLEMENTATION AT PROGRAM COMPLETION AND AT PROGRAM PERFORMANCE EVALUATION

Policy Measures Under the Program	Target Date	Status at Completion <sup>a</sup>	Status at Evaluation <sup>b</sup>
<b>I. Creating Markets</b>			
<b>Regulatory Framework for Land-Use Rights</b>			
1.1.1 Government to issue decrees and/or regulations establishing transparent procedures for State repossession of agricultural land	Jun 1996	<b>Accomplished.</b> Presidential Decree on Land, No. 2717, dated 22 December 1995, and Government Resolution No. 403, Procedures for Reservation and Purchase of Land Parcels for State Needs, dated 8 April 1996, establish principles and procedures for State repossession of agricultural land and for payment of full compensation in such cases.	<b>Remains in place.</b> Presidential Decree on Land, No. 2717, dated 22 December 1995, has been replaced by the Land Law (Law No. 152, dated 24 January 2001). The temporary land-use rights for peasant farm holdings and enterprises are now for up to 5 years (previously 3 years) for short-term rights and up to 49 years (previously 99 years) for long-term rights. Article 81 of the Land Law allows private ownership of land plots for household farming and gardening. The Land Law has retained the procedures for State repossession of land. Articles 66, 67, 68, 69, and 70 have reaffirmed the principles for the repossession of land parcels for State needs, including full compensation and court settlement in the event of a dispute. The Ministry of Justice (MOJ) confirms that Government Resolution No. 403, dated 8 April 1996, has remained in place.
1.1.2 Government to issue decrees and/or regulations establishing transparent procedures for compensation and resettlement in cases of State repossession of agricultural land	Sep 1996	<b>Accomplished.</b> See 1.1.1.	<b>Reaffirmed</b> in the Land Law. See 1.1.1.
1.1.3 Government to issue decrees and/or regulations establishing transparent procedures consistent with the Land Code and the Decree Concerning the Registration of Immovable Property Rights and Related Transactions for registration of rights to agricultural land	Jun 1996 <b>(second tranche conditionality)</b>	<b>Accomplished.</b> Government Resolution No. 236 was adopted on 20 February 1997, providing for the establishment of a land registration system at the province and district levels under the jurisdiction of MOJ. Together with this Resolution, a package of transparent procedures and regulations was adopted, including most prominently the Interim Resolution on the Order of the State Registration of Real Estate Rights and Transactions, which constitute the implementing instructions for Law No. 2727, dated 25 December 1995, on the registration of real estate rights and transactions.	<b>Remains in place.</b> The legal framework referred to at program completion remains in place. With World Bank support, MOJ implemented a real estate registration pilot project in two provinces from 1997 to 2000 to establish a national registration system of estate rights and transactions based on Law No. 2727. MOJ has introduced the registration system nationwide and adopted a self-financing approach. MOJ indicated that the full scale implementation of the pilot initiatives nationwide would require sustained efforts aimed at human resources development, and organizational and management improvements.

<sup>a</sup> Data from program completion report: KAZ 28449: *Agriculture Sector Program*, August 1999; and IN.101-97: Loan 1406-KAZ: *Agriculture Sector Program Progress Report*, 10 June. The program completion report does not include policy measures 1.1.5, 2.1.1, and 6.3.1; the implementation status of these measures were reported in the progress report.

<sup>b</sup> As updated by the Operations Evaluation Mission (May 2001).

Policy Measures Under the Program		Target Date	Status at Completion <sup>a</sup>	Status at Evaluation <sup>b</sup>
1.1.4	Government to issue decrees and/or regulations establishing transparent procedures for the resolution of disputes concerning rights to agricultural land	Dec 1996	<b>Accomplished.</b> Article 119 of the Presidential Decree on Land, No. 2717, dated 22 December 1995, establishes the rule that all land disputes are to be settled in court. The Decree on Land and associated articles of the Civil Code establish transparent procedures for resolving disputes related to agricultural land.	<b>Remains in place.</b> Reaffirmed in Article 121 of the Land Law that all land disputes are to be settled in court.
1.1.5	Government to issue decrees and/or regulations establishing transparent procedures for pledging agricultural land-use rights as collateral	Dec 1996	<b>Accomplished</b> by Presidential Decree on the Mortgage of Real Estate, No. 2723, dated 23 December 1995, and Government Decree No. 711, Procedure for Mortgaging Land Parcels or Land-Use Rights in the Provision of Mortgage Credit, dated 6 June 1996. This legislation establishes detailed judicial and nonjudicial procedures both for mortgaging agricultural land and for foreclosure in the event of default.	<b>Remains in place.</b> The principle for pledging agricultural land is firmly established but the application is limited. Commercial banks only accept land as collateral if it is part of a package that includes more readily marketable or realizable assets. Complementary to the procedures for mortgaging land-use rights, in June 1998 Parliament passed the Law on Registration of Pledges of Movable Property, which provides for the creation of a system for registering pledges of movable property. In February 1999, MOJ issued the order concerning Implementation of the System for Registering Pledges of Movable Property. Kazakhstan's initial Law on Bankruptcy was passed by the Parliament on 21 January 1997. In December 1997, Regulation No. 1816, Adoption of Provisions on Specific Features of Application of Bankruptcy Procedures to Agricultural Organizations was adopted. An amended Law on Bankruptcy was approved by Parliament in July 1998.
<b>Land Share in Farming Enterprises</b>				
2.1.1	Government to issue decrees and/or regulations confirming the legal status of land share certificates issued to employees working in privatized farming enterprises, consistent with the Land Code, the Civil Code, and the Law on Registration of Rights in Immovable Property Rights and Related Transactions	Sep 1996 ( <b>second tranche conditionality</b> )	<b>Accomplished.</b> Presidential Decree on Land, No. 2717, dated 22 December 1995, and legislation related to the farm privatization process have clarified the legal status of land share certificates. Article 1 of the Decree provides a legal definition of the term <i>land share</i> . Article 19 establishes the concept of common land ownership and common land-use rights. Articles 20, 21, and 22 describe the procedures for determining shares and for dividing land plots held under common ownership or use rights. The rights of persons wishing to separate from State farms and other State-owned agricultural entities are described in Articles 77 and 79.	<b>Remains in place.</b> See 1.1.1. The legal provisions have been reaffirmed in the Land Law. Article 19 of the Presidential Decree was replaced by Article 38 of the Land Law. Articles 20, 21, and 22 of the Presidential Decree were replaced by Articles 39, 40, 41, and 42 of the Land Law. Article 77 of the Presidential Decree was replaced by Article 80 of the Land Law. Article 79 of the Presidential Decree was replaced by Article 82 of the Land Law.
<b>Transfer of State Farms</b>				
3.1.1	Government to transfer to private entities 300 additional State farms	Jun 1995	<b>Accomplished</b> before Program approval.	<b>Accomplished</b> before Program approval.

Policy Measures Under the Program		Target Date	Status at Completion <sup>a</sup>	Status at Evaluation <sup>b</sup>
3.1.2	Government to transfer to private entities the remaining State farms, except for 100 to be retained for public purposes such as applied research	Dec 1996	<b>Accomplished.</b> All State farms have been transferred to private entities except for 61, which have been retained as State enterprises for applied research.	<b>Accomplished.</b> The State does not operate commercial farms. The remaining State farms are those which have been retained for research as part of the agricultural research network.
<b>II. Promoting Market Competitiveness</b>				
<b>Trade Policy Reforms</b>				
4.2.1	Government to abolish the export tax on grains	Sep 1996 <b>(second tranche conditionality)</b>	<b>Accomplished.</b> Export tax for wheat was abolished on 1 August 1996 in accordance with Government Resolution No. 299, dated 12 March 1996. No export tax exists for other grains.	<b>Remains in place.</b> There are no export taxes on agricultural products, except for animal hides of sheep, cattle, horses, and others at 10 percent of customs value, and unprocessed wool also at 10 percent of customs value (Government Resolution No. 841, dated 5 June 2000).
4.2.2	Government to discontinue the practice of setting minimum export price for grain	Sep 1997	<b>Accomplished.</b> The Republican Price Committee, which was charged with establishing minimum export prices for wheat, was dissolved by Government Resolution No. 1492, Simplifications to Commodity Exports from the Republic of Kazakhstan and Additions to Relevant Decisions of the Government of the Republic of Kazakhstan, issued 5 December 1996. No minimum export prices for other crops exist.	<b>Remains in place.</b> Currently there are no price restrictions or minimum export prices for grains. There are also no export price restrictions for other crops.
<b>Dismantling Monopoly Holding Companies</b>				
5.1.1	Government to issue decrees or resolutions to liquidate 8 of the 13 agro-industrial monopoly State holding companies	Jun 1995	<b>Accomplished</b> before Program approval.	<b>Accomplished</b> before Program approval.
5.1.2	Government to issue decrees and/or regulations to liquidate the remaining five agro-industrial monopoly State holding companies	Sep 1996 <b>(second tranche conditionality)</b>	<b>Accomplished.</b> Five additional national monopoly companies had been liquidated as of 1 June 1996.	<b>Accomplished.</b> The liquidation of all remaining agro-industrial monopoly State holding companies was completed as scheduled.
5.1.3	Government to prepare a program concerning liquidation of the State-controlled agro-industrial monopoly holding companies at the provincial level	Dec 1996	<b>Accomplished.</b> The Government's program was developed and under implementation. The program involves the sale of all capital assets at prices determined primarily by the age, condition, and portability of the equipment or facilities. As of 1 January 1997, the Ministry of Agriculture (MOA) reported that the assets of all 200 province-level agro-industrial monopoly holding companies had been liquidated.	<b>Accomplished.</b> State-controlled agro-industrial monopoly holding companies at the provincial level were all liquidated as planned.

Policy Measures Under the Program		Target Date	Status at Completion <sup>a</sup>	Status at Evaluation <sup>b</sup>
5.2.1	Government to divest itself of its remaining shares in joint stock company Astyk grain elevators within the National Privatization Program	Dec 1996	<b>Substantially accomplished.</b> Government's shareholding of 319 out of Astyk's 372 grain elevators had been sold through auction at the provincial level as of 31 December 1997, and management of 19 other elevators had been transferred to the private sector on a profit-sharing basis. Sale of the remaining 34 elevators has been difficult due to a lack of buyers, largely because of their remote locations and the deteriorating value of the remaining assets.	<b>Accomplished.</b> Due to financial difficulties the 19 profit-sharing elevators were taken over by their creditors and subsequently sold. All remaining elevators were liquidated.
<b>State Procurement and Price Policy Reforms</b>				
6.1.1	Government to establish a market-based system of grain procurement through auctions administered by the Kazakh International Agro-Industrial Exchange	Apr 1995	<b>Accomplished</b> before Program approval.	<b>Partially accomplished.</b> Currently, state procurement of grain is undertaken by the State Food Corporation to maintain a reserve of approximately 500,000 metric tons. The procurement and storage expenses are provided in the MOA budget. However, the State Food Corporation procures grain directly from farms and makes limited use of tender or auction procedures.
6.2.1	Government to eliminate direct controls over trade markups for grain, bread, and fodder	Apr 1995	<b>Accomplished</b> before Program approval.	<b>Partially accomplished.</b> Direct controls over trade margins have been eliminated. However, there remain opportunities for public agencies and officials to influence marketing decisions of private farm enterprises through their roles as conduits of state support to agriculture.
6.3.1	Government to keep meat, wool, and fertilizer free of direct budgetary subsidies except for those through the Agriculture Support Fund (ASF)	During Program implementation	<b>Being implemented.</b> Measures continue in effect, as reflected in the 1996 and 1997 national budgets.	<b>Implemented.</b> Since program completion, there have been no direct subsidies for meat, wool, and fertilizers. In addition, direct input subsidies under the ASF have been phased out. For 2001, MOA proposes to introduce a temporary fertilizer subsidy of about \$2 million. The mechanism of payment for this subsidy has not been worked out, but proposals include the use of the subsidy for domestic fertilizer producers to improve their facilities.
6.3.2	Government to make all allocations and expenditures under the ASF fully transparent, beginning with the national budget for 1996, and to develop an expenditure reporting system for the ASF acceptable to the Asian Development Bank (ADB)	Mar 1996	<b>Accomplished.</b> The Payment Procedure of Financial Support from the ASF was approved on 25 March 1996 and has been implemented since then. Monthly reports on ASF expenditures by item, province, and for the major remaining state farms have been prepared since January 1996. The reporting system is acceptable to ADB.	<b>Accomplished.</b> The ASF became a 100 percent state-owned joint stock company on 9 July 1998, with an organizational mandate that includes debt recovery and acting as a development agent of MOA for providing financial support for State-sponsored animal breeding, seed farming, and animal/plant protection. However, the role of the ASF has been effectively restricted to debt recovery. Only T116 million was budgeted in 1999 for animal breeding and seed development. The ASF does not provide direct subsidies to agricultural producers. The ASF continues to pursue uncollected debts, consisting of the

Policy Measures Under the Program	Target Date	Status at Completion <sup>a</sup>	Status at Evaluation <sup>b</sup>
			remaining old debts of about T6 billion (more than 5 years old) acquired primarily from the restructuring of the Kazakh Joint Stock Agro-Industrial Bank (Agroprombank [APB]), see 9.1.1. The ASF was then ascribed T10 billion debt for recovery. By 1 January 2001, debts of 1,950 farm enterprises amounting to T4.3 billion (arising from the former centralized and directed credit operations) had been written off.
6.3.3 Government to phase out direct subsidies on agricultural inputs under the ASF	Sep 1996 <b>(second tranche conditionality)</b>	<b>Accomplished.</b> Government Resolution No. 1029, issued on 20 August 1996, introduced major amendments to the ASF. The resolution specifically excludes ASF funds from being directed to production subsidies beginning in January 1997. This policy has been implemented since then.	<b>Accomplished.</b> See 6.3.2. The ASF was converted into a joint stock company in July 1998. There are no direct subsidies for agricultural inputs under ASF activities. However, for 2001, MOA provides indirect subsidies through the local administrations of about T4 billion (\$27 million) of short-term and interest-free working capital loans to farms for cultivation and harvest operations. The Agriculture Sector Program did not specify problems related to indirect interest-rate subsidies.
6.3.4 Government to phase out price support on meat and wool under the ASF	Sep 1997	<b>Partially accomplished.</b> Government price support for meat and low-quality wool is eliminated, but retained for fine wool. In conjunction with support for the introduction of a new sheep variety from Australia, the price support aims to encourage the shift of sheep production from low-quality wool to high-quality wool.	<b>Accomplished.</b> See 6.3.2. There is no price support for these commodities.
6.3.5 Government to review, with technical assistance (TA), the effectiveness of expenditures under the ASF and to restructure the ASF if necessary	Sep 1996	<b>Accomplished.</b> Studies of ASF use and effectiveness were completed in late 1996 under TA 2448-KAZ: Study on Market Reform in the Agriculture Sector <sup>c</sup> and TA 2449-KAZ: Study on Rural Credit and Savings. <sup>d</sup> Although both TAs concluded that the ASF's lending function should be transferred to better qualified financial institutions, MOA personnel expect that the ASF will continue to provide loans for agriculture during the transitional period until (i) the process of farm restructuring is complete; (ii) land markets emerge and provide a stronger collateral basis for rural lending; and, therefore, (iii) commercial banks are willing to recommence lending to farms. MOA has, in principle, accepted other recommendations of TA 2448-KAZ in regard to additional training of ASF staff, simplification of ASF procedures, and ASF information campaigns. ASF guidelines and payment procedures have been revised in	<b>Accomplished.</b> See 6.3.2. ASF was restructured in July 1998.

<sup>c</sup> TA 2448-KAZ: *Study on Market Reform in the Agriculture Sector*, for \$1,044,000, approved on 23 November 1995.

<sup>d</sup> TA 2449-KAZ: *Study on Rural Credit and Savings*, for \$470,000, approved on 23 November 1995.

Policy Measures Under the Program	Target Date	Status at Completion <sup>a</sup>	Status at Evaluation <sup>b</sup>
6.4.1 Government to review, with TA, its pricing policies for irrigation and water resources and to determine appropriate charges for use of alternative irrigation systems	Dec 1996	<p>accordance with Resolution No. 1029 to ensure no direct input subsidies under the ASF (see also 6.3.3). On 9 July 1998, the Government adopted Resolution No. 650 to transfer the ASF to a joint stock partnership. While currently the State owns 100 percent of ASF shares, the intention is to gradually privatize the ASF.</p> <p><b>Accomplished.</b> The State Committee on Water Resources drafted a water pricing law for Kazakhstan in September 1996. The draft law set river basin-specific water prices and made further provisions for tariffs specific to agriculture, industry, and other uses. A review of the draft under TA 2448-KAZ<sup>c</sup> led to a number of critical suggestions to improve the clarity and flexibility of the draft law. In part as a result of these suggestions, the envisaged law was replaced on 7 August 1997 by a simpler and more flexible Water Pricing Resolution, No. 1227, that can be amended, as appropriate, annually or seasonally. It is planned that irrigation tariffs will be set initially at modest levels in view of the present depressed economic conditions on most farms, but these levels will be raised over time to ensure long-run marginal cost recovery as agriculture recovers.</p>	<p><b>Partially accomplished.</b> The Water Pricing Resolution, No. 1227, dated 7 August 1997, has been effective since 1 January 1998. Water abstraction charges approved under the resolution have remained in place. Changes were made to water delivery tariffs in 1998 to reduce the cost to agriculture. These tariffs are low at about T30.2 per 1,000 cubic meters and do not reflect the economic cost of water delivery. The collection rate was 63 percent in 1998, 81 percent in 1999, and 72 percent in 2000. There are no plans to increase the water abstraction charges. With the exception of water delivery charges, and in accordance with the Law on the Budget System, since 1998 water abstraction revenues have been treated as general revenues for local governments with no earmarking for the use of funds.</p>
6.4.2 Government to establish procedures for setting and collecting irrigation user charges	Mar 1997	<p><b>Accomplished.</b> The draft water pricing law prepared in September 1996 outlined the general roles and responsibilities of national and regional water resources and tax agencies, as well as payment procedures. These roles and procedures have been further refined and clarified in the Water Pricing Resolution, No. 1227, dated 7 August 1997.</p>	<p><b>Remains in place.</b> The procedures for collecting and setting the rates for irrigation water charges are determined at the local level. At the district level, the Department of Water System Management (UVS) is responsible for administering water delivery charges that are based on actual cost of operation. These costs are subject to approval by the Anti-Monopoly Commission. The Commission generally takes the view that UVS should only recover what it actually spends plus an allowance for depreciation. Since actual expenditures on operation and maintenance are negligible, given the current practice of minimal maintenance, UVS would need to develop options for delivery fees that reflect a more sustainable level of maintenance.</p>
<b>Capacity for Policy Analysis</b>			
7.1.1 MOA to develop, with TA, an information system to collect and analyze market and socioeconomic data to strengthen the information basis necessary for policy formulation and analysis	Sep 1996	<p><b>Accomplished.</b> An information database for agriculture was established under TA 2356-KAZ: Strengthening the Implementation of Agriculture Sector Reforms<sup>e</sup> (completed in September 1996). This database contains mainly production data.</p>	<p><b>Accomplished.</b> Efforts for the development of an information system to support policy formulation and analysis have been sustained by MOA. A Republican Working Committee was formed in February 1998, in close cooperation with provincial administrations, to</p>

<sup>e</sup> TA 2356-KAZ: *Strengthening the Implementation of Agriculture Sector Reforms*, for \$600,000, approved on 4 July 1995.



Policy Measures Under the Program	Target Date	Status at Completion <sup>a</sup>	Status at Evaluation <sup>b</sup>
		Furthermore, a 3,000-household survey was conducted under TA 2448-KAZ, <sup>c</sup> covering 15 provinces and 90 districts. The survey results provided a large volume of information on the socioeconomic status of the rural population. The information system has since been strengthened to include market and socioeconomic data. On 22 December 1997, the Government adopted Resolution No. 1815 to consolidate all existing information systems into a nationwide uniform market information system, including data from all provinces and all districts.	analyze the financial performance of farm enterprises having the status of legal entities. A nationwide survey of these farm enterprises was initiated and completed in 1998, and is being updated monthly. MOA makes use of a wide range of data compiled by the National Statistical Agency, and data obtained directly from district and provincial departments of agriculture. Although the National Statistical Agency has branches at provincial and district levels, resources available for data collection are limited; systematic data sampling of agricultural enterprises has not been practiced. MOA is up-to-date on a wide range of sector issues. Nonetheless, the capacity of MOA to undertake detailed and in-depth policy analyses remains constrained.
7.1.2 MOA to monitor and analyze the economic effects of the Program's reform measures	During Program Implementation	<b>Accomplished.</b> MOA and the Government have been closely monitoring the policy reforms in the agriculture sector. Monthly meetings are held in the Government and discussions on sector issues are conducted in MOA at 10-day intervals. Examples of the sector analysis prepared by MOA have been submitted to ADB.	<b>Accomplished.</b> In accordance with its mandate, MOA continues to monitor the performance of the agriculture sector, including productivity, export performance, and the financial performance of private farm enterprises. MOA regularly monitors the performance of approximately 4,700 large farms with a view to assisting them in restructuring. The farms were categorized into three groups: (i) profitable, (ii) with manageable debt, and (iii) insolvent. Since 1998 approximately 2,230 farms have been liquidated of which about 1,500 have undergone formal bankruptcy procedures. The rest have reached out-of-court settlements.
<b>Reform of Grassroots Institutions</b>			
8.1.1 MOA and other concerned ministries to review, with TA, the existing legal and regulatory framework for agricultural cooperatives and other associations, to prepare a model charter for voluntary farmer associations, and to prepare decrees and/or regulations to facilitate the formation of voluntary farmer associations	Dec 1996	<b>Accomplished.</b> Under TA 2448-KAZ, <sup>c</sup> review of the legal and institutional reforms in the agriculture sector was completed. The study examined farm privatization and restructuring, land reform, and the establishment of water users associations. Two Government working groups, one headed by MOA and the other by the State Committee for Land Relations and Land Use (Goskomzem), were formed to develop recommendations and legislation relating to these policy issues. As part of TA 2448-KAZ, a draft model charter for voluntary farmer associations was prepared.	<b>Accomplished.</b> Several drafts of a water users association law had been prepared, and in December 2000 a final draft was submitted to Parliament. This draft law is still being considered. The Law on Rural Consumer Cooperatives was passed in July 1999. This Law provides the basis for a wide range of voluntary farmer organizations and enables both legal entities and individuals to form associations. See 8.1.2.
8.1.2 Government to issue decrees and/or regulations to facilitate the formation of voluntary farmer associations, especially for purposes of marketing, obtaining credit, and using farm capital equipment	Mar 1997	<b>Substantially accomplished.</b> Various drafts of the law on agricultural cooperatives were developed in 1996 and 1997, but have not been adopted. After critical reviews of the drafts, it is believed that the existing legal framework for agricultural cooperatives is probably adequate, and that an additional law on agricultural cooperatives is likely to be more restrictive than desirable.	<b>Accomplished.</b> Based on Article 108 of the Civil Code (as amended on 2 March 1998), the Rural Consumer Cooperatives Law, No. 450-1, dated 21 July 1999, allows citizens and farmers and legal entities (farm enterprises) to form associations for satisfying the needs of their members (Article 2). The Law of Peasant Farms, No. 214-1, dated 31 March 1998, allows close relatives to form voluntary associations without having to establish themselves as a legal

Policy Measures Under the Program	Target Date	Status at Completion <sup>a</sup>	Status at Evaluation <sup>b</sup>
<b>Reform of Rural Credit and Savings Services</b>			entity. The legal framework for credit partnerships, National Bank of Kazakhstan (NBK) Resolution No. 106, dated 12 April 1997 (amended: No. 408 of 4 December 1997, No. 136 of 21 June 1999, No. 302 of 20 July 2000, and No. 393 of 13 October 2000), provides the basis for the formation of nonbank credit partnerships by voluntary mergers of individuals and/or legal entities.
9.1.1 Government to transfer at least T5.5 billion of APB's nonperforming debt to the ASF	Jul 1995	<b>Accomplished</b> before Program approval.	<b>Accomplished</b> before Program approval.
9.1.2 External audit of APB's 1994 accounts to be completed in accordance with international auditing practice	Mar 1996	<b>Accomplished.</b> As APB was being restructured in 1994 under NBK supervision, it was deemed inappropriate to proceed with the audit of 1994 accounts. Instead, an acceptable audit of APB's 1995 accounts was conducted on-site by an NBK team in May 1996, thus satisfying the conditionality.	<b>Accomplished.</b> See 9.1.4.
9.1.3 Government to determine the value of its remaining shares in APB	Jun 1996	<b>Accomplished.</b> The value of the Government's shareholding was determined at 28.2 percent and T22.5 million in March 1996. As of September 1996, all remaining Government shares in APB had been sold in accordance with Government Resolution No. 1171, Exchange of the State Shareholding in the Kazakh Joint Stock Agro-Industrial Bank (APB), dated 25 September 1996.	<b>Accomplished.</b> See 9.1.4.
9.1.4 Ministry of Finance to prepare a time-bound plan for the Government to substantially divest itself of remaining shares in APB	Sep 1996	<b>Accomplished.</b> As all Government shares in APB were sold via Resolution No. 1171, Exchange of the State Shareholding in the Kazakh Joint Stock Agro-Industrial Bank dated 25 September 1996 (see 9.1.3), APB is now a private entity.	<b>Accomplished.</b> In 2000, APB experienced financial difficulties and was unable to meet the prudential requirements imposed by NBK. APB was placed under NBK's supervision (Resolution No. 448, dated 28 November 2000). APB was later sold in January 2001 to a consortium of private investors and renamed Nauryz Bank. The State has no shareholding in the restructured bank.
9.2.1 NBK to permit banks (other than APB) that meet NBK's prudential requirements to operate in the agriculture sector	Apr 1995	<b>Accomplished</b> before Program approval.	<b>Remains in place.</b> Commercial banks would like to lend more to the agriculture sector, but consider the majority of farms not creditworthy. NBK data indicate that as of 1 March 2001, outstanding loans from commercial banks to the agriculture sector amount to T26.4 billion (\$181 million), representing 8.4 percent of the total outstanding loans of T313 billion (\$2.14 billion).

Policy Measures Under the Program	Target Date	Status at Completion <sup>a</sup>	Status at Evaluation <sup>b</sup>
9.2.2 NBK to prepare, with TA, a time-bound plan to restructure rural credit and savings services	Sep 1996	<b>Accomplished.</b> Detailed recommendations for a five-year plan to strengthen and reorient rural financial services were prepared under TA 2449-KAZ. <sup>d</sup> These recommendations involved a two-pronged approach based on (i) strengthening existing commercial banks, and (ii) establishing voluntary credit unions to serve the needs of small rural savers and borrowers. On 12 April 1997, NBK approved Credit Partnership Resolution No. 106, which allows credit unions to take deposits from their members with a view to encouraging the development of nonbanking financial institutions based on savings mobilization.	<b>Accomplished.</b> The TA made specific recommendations. However, these recommendations to a large extent have not been implemented. NBK has issued regulations on credit partnerships that provide the basis for the formation of nonbank credit partnerships by voluntary mergers of individuals and/or legal entities (see 8.1.2). There are currently three categories of credit unions based on their capitalization: (i) rural credit partnerships with a minimum capital of T1 million, (ii) credit partnerships with a minimum capital of T10 million, and (iii) credit-deposit partnerships with a minimum capital of T100 million. Only the largest category is allowed to take deposits. A state-owned Agrarian Credit Corporation was established on 25 January 2001 (start-up capital of \$1 million) to facilitate the development of rural credit unions, with a plan to establish 18 pilot credit unions in 9 provinces.
<b>III. Addressing Social and Environmental Concerns</b>			
<b>Social Protection</b>			
10.1.1 Government to extend the Employment Fund to include the agriculture sector	Jul 1995	<b>Accomplished</b> before Program approval.	<b>Discontinued and replaced.</b> The Employment Fund was abolished as of 1 January 1999. A targeted social assistance program replaced the Employment Fund beginning 1 April 1999. Based on the Law on Employment, No. 149-11 3PK, dated 23 January 2001, the unemployed would receive targeted social assistance, instead of unemployment benefits. Government Resolution No. 1036, dated 22 July 2000, provides temporary rules for social assistance, limiting assistance to a maximum of 6 months within a 12-month period.
10.1.2 Government to increase the 1995 budget of the Employment Fund from T3.0 billion to T3.5 billion and maintain the level of T3.5 billion in the 1996 budget	Mar 1996 <b>(second tranche conditionality)</b>	<b>Accomplished.</b> The Employment Fund was increased to T6.7 billion in the 1996 budget and to T9.3 billion in the 1997 budget.	<b>Accomplished.</b> See 10.1.1. In 1996, actual revenues for the Employment Fund amounted to T4.3 billion, against expenditures of T4.7 billion. Collections from enterprises and organizations amounted to T3.1 billion, less than half of the targeted collections. About 60 percent of the expenditures were for unemployment benefits, and 19.4 percent on training. In 1997, actual revenues amounted to T5.2 billion, against expenditures of T5.8 billion that included unemployment benefits of T4.6 billion, and retraining and entrepreneurial development of T0.5 billion. Premium collections amounted to T5.1 billion (59 percent of the target). By 1997, arrears in premium collections amounted to T3.5 billion. In 1998, against a budget of T9.6 billion, revenues reached T5.3 billion, including collections of T5.1 billion. Expenditures amounted to

Policy Measures Under the Program	Target Date	Status at Completion <sup>a</sup>	Status at Evaluation <sup>b</sup>
10.1.3 Ministry of Labor to develop appropriate education and training programs for unemployed agricultural workers, especially women	Jun 1996	<b>Accomplished.</b> Training centers were established at both provincial and district levels. As of January 1997, 20,963 unemployed persons had received training and retraining, 11,401 of whom had received jobs after training, and 491 of whom had started their own businesses. Of those who received training, 10,499 were women, 4,463 of whom received jobs after training, and 284 of whom started their own businesses. Training has been continued with Employment Fund.	T6.8 billion, comprising T4.9 billion in unemployment benefits (including unpaid benefits of T1.5 billion), and T0.8 billion for retraining and entrepreneurial development.
10.1.4 MOA to monitor and evaluate, through the information and analysis system established under the TA, the socioeconomic impact of the Program's reform measures, with particular emphasis on vulnerable groups in rural areas	During Program implementation	<b>Implemented.</b> MOA and the agricultural departments at the provincial and district levels have been monitoring policy reforms in the agriculture sector and its social impacts. See also 7.1.2.	<b>Partially accomplished.</b> See 7.1.2. Specific monitoring of the effects of retrenchment in the agriculture sector and the measures targeted for mitigating these effects were, however, not adequately monitored by the Ministry of Labor and Social Protection. The effects on agriculture could not be segregated. Universal principles of eligibility were applied for social protection.
10.2.1 Government to include the provision of targeted cash compensation to meet essential needs of vulnerable groups in the 1996 budget in an amount not less than the 1995 budget allocation of T2.6 billion	Mar 1996 <b>(second tranche conditionality)</b>	<b>Accomplished.</b> The budget allocation for targeted cash compensation to vulnerable groups increased to T4.24 billion in the 1996 budget and to T5.24 billion in the 1997 budget.	<b>Accomplished.</b> Social assistance to vulnerable groups has been provided by local administrations, and payments amounted to T4.7 billion in 1997, T4.9 billion in 1998, T5.6 billion in 1999, and T5.2 billion in 2000.
<b>Environmental Protection</b>			
11.1.1 Government to compile an inventory of the old stocks of pesticides banned under existing Government regulations (or not recommended for use by the Food and Agriculture Organization [FAO])	Dec 1995	<b>Accomplished.</b> Government Resolution No. 439, Prohibition of Use of Environmentally Hazardous Pesticides and Burial Disposal Procedures, dated 14 April 1996, requires provincial administrations to conduct an annual inventory of old stocks of pesticides. The 1996 inventory was submitted to ADB in August 1996, and shows 971 metric tons of obsolete pesticides spread over 16 provinces, and 53,000 pesticide containers that cannot be recycled.	<b>Remains in place.</b> Local administrations have conducted annual inventories of old stocks of pesticides. For 2001, inventory data show that throughout 14 provinces there remain 14,486 pesticide containers with about 274,000 liters of obsolete pesticides.

Policy Measures Under the Program	Target Date	Status at Completion <sup>a</sup>	Status at Evaluation <sup>b</sup>
11.1.2 Government to issue directives and/or guidelines for disposal of old stocks of banned pesticides or not recommended by FAO	Mar 1996	<b>Accomplished.</b> On 14 August 1996, Ministry of Health, Ministry of Ecology and Biological Resources, and MOA jointly issued an Instruction on Burial Disposal Procedure on Destruction of Banned or Obsolete Pesticides and Pesticide Containers.	<b>Remains in place.</b> The Law on Environment Protection, No. 160-1, was issued on 14 July 1997. It has since been amended (24 December 1998, 11 May 1999, and 29 November 1999).
11.1.3 Government to review, and amend as necessary, its existing pesticide regulations to ensure conformity with recommendations of FAO	Sep 1996 ( <b>second tranche conditionality</b> )	<b>Accomplished.</b> In 1996, Kazakhstan became a member of FAO, and has committed to meet all FAO reporting requirements on pesticides under the 1985 International Code of Conduct on the Distribution and Use of Pesticides. MOA has used the Russian translations of the FAO guidelines to assist in amending the previous soviet-era regulations. To conform to FAO requirements, the main guiding documents controlling the registration, import, sale, safe use, residue monitoring, and disposal of pesticides have been reviewed and amended including (i) Resolution No. 439 on Prohibition of Use of Environmentally Hazardous Pesticides and Burial Disposal Procedures, dated 14 April 1996; (ii) Instruction on Burial Disposal Procedure for Destruction of Banned or Obsolete Pesticides and Pesticide Containers, dated 13 August 1996; (iii) Government Regulation on Registration Procedures for Pesticides, dated 5 July 1996; (iv) Instruction No. 9 of State Sanitary Doctor on Public Health Measures on Chemical Means of Control in Agriculture; (v) Revised Customs List on Prohibited Pesticides for Import into Kazakhstan, dated 14 June 1996 (containing 159 banned pesticides); (vi) Minister's Order No. 13, dated 26 January 1996, to establish an expert committee to check commercial offers and contracts for State-financed imports of pesticides to ensure that the pesticides are permitted, effective, and environmentally and economically sound; and (vii) Government Resolution No. 399 on the status of the Republican Commission for Testing and Registration of Chemicals, Biological Means of Protection, and Pheromones and Growth Regulators, dated 8 April 1996. Information on pesticide testing and imports is exchanged with other Commonwealth of Independent States members under the Prior Informed Consent Procedures of the FAO/United Nations Environmental Protection.	<b>Remains in place.</b> MOA is currently preparing a draft law on plant protection to include FAO recommendations on the use of pesticides. The Republican Commission for Testing and Registration of Chemical Biological Means of Plant Protection was liquidated in April 1999, and its functions taken over by MOA.

Policy Measures Under the Program	Target Date	Status at Completion <sup>a</sup>	Status at Evaluation <sup>b</sup>
11.1.4 Government to prepare, with TA, policy recommendations for sustainable use of rangeland	Sep 1996	<b>Accomplished.</b> A study of the status, problems, and prospects for rangeland in Kazakhstan was prepared in October 1996 under TA 2448-KAZ. <sup>c</sup> The study developed a general proposal for a national rangeland strategy that would encompass, inter alia, policies to (i) create appropriate land tenure incentives; (ii) strengthen planning, research, management, and monitoring capacities; (iii) clarify the respective roles and responsibilities of the public and private sectors; and (iv) sustain rangeland soil and water resources, and biodiversity. On 19 December 1996, the Government issued Resolution No. 27 to adopt recommendations on balanced use of rangeland in Kazakhstan.	Although the TA had provided recommendations, they were not followed up. Recently, the World Bank provided assistance to the country for the preparation of a pilot dryland management project in Karaganda province with a view to determining appropriate sustainable, replicable management systems. Project objectives are to develop alternative land uses and rehabilitate ecosystems for conservation of plant and animal biodiversity.

## OTHER TRANSITIONAL MILESTONES

### A. 1995

- (i) The agreement on a Customs Union including Belarus, Kazakhstan, and Russia, and came into effect. Under this agreement, custom checks at the Russian-Kazakhstan border were rationalized.
- (ii) A law on the foreign exchange market was introduced in August. On the basis of this law the central bank (National Bank of Kazakhstan [NBK]), abolished the requirement for the compulsory sale to the central bank a portion of foreign exchange from export earnings. This measure boosted incentives for exports. The compulsory sale of foreign exchange to the central bank had been introduced in January.
- (iii) A two-tier banking system was established, comprising NBK and commercial banks. The principles for the operation of NBK and its legal status were established in a decree of 30 March 1995. These reforms confirmed the independence of the central bank.
- (iv) Kazakhstan applied to join the Convention on Foreign Trade Arbitration of 1961.
- (v) The Ministry of Finance first issued treasury bills (3-months) in 1994. Six-month bills were introduced in July 1995.

### B. 1996

- (i) In January, Kazakhstan submitted an application to join the World Trade Organization.<sup>1</sup>
- (ii) Kazakhstan entered the international private capital markets, and received credit ratings from Standard and Poor's and from Moody's. This rating allowed the Government to have its first issue of three-year Eurobonds in the amount of \$200 million.
- (iii) The law on privatization introduced substantial changes: (a) ending preferential treatment of workers in the privatization process, and (b) limiting privatization methods to direct sales to investors and auctions.
- (iv) A national accounting commission was established as a separate body from the Ministry of Finance, with main tasks to develop accounting principles, determine financial auditing rules, and move closer to the international accounting standards.
- (v) The law on the budget systems was passed by Parliament. This law regulates the financial relationships of budgets at different levels, including the national and local budgets.

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<sup>1</sup> Kazakhstan's Working Party for the World Trade Organization accession was established on 6 February 1996. Bilateral market-access negotiations in goods and services commenced in October 1997, and are continuing. Topics under discussion in the Working Party include agriculture, the customs system, customs union arrangements, import licensing, industrial subsidies, transparency of the legal system, and legislative reform.

**C. 1997**

- (i) A new bankruptcy law was introduced in January. In December, specific features for applying bankruptcy procedures to agricultural organizations were adopted.
- (ii) Quality certification for grain was introduced; grain export procedures were simplified.
- (iii) The law on the securities market was passed by Parliament in February. This law regulates the issuance and circulation of securities, regulates market operators, and provides for supervision of the securities market.
- (iv) In March, the Government outlined the main features for the transition of the pension system from a state pension system to a privately organized system. Legislation for the pension reform was subsequently enacted in June. A national pension agency was established in July at the Ministry of Labor and Social Protection. In 1999, this agency was renamed the Committee for the Regulation of Pension Funds. In December 1997, the Asian Development Bank approved an assistance program to the country through the Pension Reform Program<sup>2</sup> aimed at supporting the transition of the existing pension system toward a fully funded, defined contribution system.
- (v) The law on state statistics was passed by Parliament in May, with provisions that regulate the role and functions of the National Statistical Agency. Principles for the collection, storage, analysis, aggregation, and publication of social and economic data are also defined.
- (vi) The Kazakhstan Stock Exchange became functional in September, as it emerged from the restructuring of the former Agro Industrial and Currency exchanges.
- (vii) The Government introduced a simplified tax procedure for peasant farms.

**D. 1998**

- (i) In February, the Government commenced a nationwide program of tax administration and tax policy reforms in cooperation with the United States Agency for International Development.
- (ii) In April, a new law on agricultural enterprises was introduced to define the legal, organizational, and economic status of these enterprises.
- (iii) The agency for the support of small business was established in April. A presidential decree was also issued guaranteeing to citizens and legal entities freedom for business activities.
- (iv) The Government announced the implementation of the *blue-chip* program planned to result in initial public offerings of large state-owned enterprises at the stock exchange.

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<sup>2</sup> Loan 1589-KAZ: *Pension Reform Program*, for \$100 million, approved on 16 December 1997.



- (v) The law on unfair competition was enacted, defining the offense and establishing measures to prevent unfair competition between legal entities and government organizations.
- (vi) The law on natural monopolies was passed by Parliament in July. It defines the rights and responsibilities of natural monopolies, including pricing principles.
- (vii) The law on joint stock companies was enacted in July, replacing the outdated law on economic partnership. The new law defines procedures for the creation, capitalization, reorganization, and liquidation of joint stock companies, provides for the protection of the rights and interests of the shareholders, and delineates the responsibilities of the companies. The law provides considerable protections for minority shareholders.
- (viii) An amended law on bankruptcy was approved by Parliament in July.
- (ix) The law on audit was passed by Parliament in October, authorizing the activities of a nonprofit, financially, and legally independent chamber of auditors. This chamber has aimed to develop financial auditing standards consistent with international practice.
- (x) The law on registration of pledges of movable property was enacted, providing the basis for establishing a system for the registration of such pledges.

**E. 1999**

- (i) The law on employment was enacted, regulating the Government's approach to labor market policies including social security measures for the unemployed.
- (ii) The law on the budgetary systems was revised, clarifying the preparation, approval, implementation, and supervision of the national and local budgets.
- (iii) In April, the managed floating exchange rate regime of the local currency was replaced by a floating exchange rate system. This measure was adopted in response to the growing trade balance deficit and declining foreign exchange reserves.
- (iv) The law on rural consumer cooperatives was enacted, defining the foundation, reorganization, and liquidation of these cooperatives as well as the rights and duties of shareholders. The law regulates the relationship between shareholders, cooperatives, and their associations.
- (v) A targeted social assistance program was introduced. The state measures for social protection were enacted into a law that was aimed at securing access to social protection for those citizens in need of support.
- (vi) Antidumping measures were enacted, regulating measures for antidumping investigations and introducing measures aimed at protecting domestic producers from unfair competition from imports at dumping prices.

**F. 2000**

- (i) The law on banking privacy was enacted, limiting access to bank accounts by state authorities.
- (ii) In October, Kazakhstan celebrated its 10th year of independence.
- (iii) In November, the Government announced a program to initiate reforms in the customs services.
- (iv) In November, the European Union awarded Kazakhstan market economy status during negotiations on antidumping procedures. This status would be taken into account in case of antidumping investigations against enterprises of Kazakhstan.

## STATISTICAL TABLES

**Table A4.1: Status of Transactions of Land-Share Rights**  
(as of 1 April 2001)

<b>Administrative Province</b>	<b>Certificates of Land-Share Rights Initially Issued</b>	<b>Land-Share Rights Used by Certificate Holders</b>	<b>Land Shares with Peasant Farms</b>	<b>Contribution to Statutory Fund</b>	<b>Land Shares Remaining with Production Cooperatives</b>
Akmola	215,037	214,110	35,521	69,775	108,814
Aktyubinsk	168,660	158,057	32,947	98,059	27,051
Almaty	229,700	229,700	128,806	77,472	23,422
Atyrau	35,125	21,637	10,275	11,107	255
Karaganda	99,200	90,482	30,200	32,730	27,552
Kazakhstan					
East	173,570	173,520	66,800	8,852	97,868
North	318,879	288,173	129,463	9,759	148,951
South	191,207	180,638	68,839	106,017	5,782
West	240,500	235,800	72,600	140,700	22,500
Kostanai	166,309	164,482	21,594	40,708	102,180
Kzylorda	121,800	107,746	28,425	74,666	4,655
Mangistau	21,200	21,199	2,800	18,396	3
Pavlodar	215,800	210,267	62,280	38,634	109,353
Zhambyl	71,600	64,540	16,914	0	47,626
<b>Total</b>	<b>2,268,587</b>	<b>2,160,351</b>	<b>707,464</b>	<b>726,875</b>	<b>726,012</b>

**Table A4.2: Number of Agricultural Production Enterprises**  
(as of 1 April 2001)

Administrative Province	Total Farming Entities	Peasant Farms	Production Cooperatives	Legal Entities				State Enterprises <sup>a</sup>
				JSC	Limited Liability Companies	Limited Partnerships	Unlimited Partnerships	
Akmola	4,321	3,857	92	25	330	13		4
Aktyubinsk	3,223	2,897	119	6	200			1
Almaty	27,885	27,450	283	21	105	8	2	16
Atyrau	1,168	1,142	11	7	8			
Karaganda	5,030	4,896	21	42	67		3	1
Kazakhstan								
East	6,623	6,474	39	14	91		1	4
North	4,985	4,580	19	18	357	5	1	5
South	35,108	33,893	875	11	275		40	14
West	3,764	3,558	17	5	184			
Kostanai	7,237	6,618	28	15	572			4
Kzylorda	1,840	1,678	13	21	116	1	9	2
Mangistau	520	504	4	5	7			
Pavlodar	3,191	3,046	6	3	134			2
Zhambyl	8,002	7,745	88	14	153			2
<b>Total</b>	<b>112,897</b>	<b>108,338</b>	<b>1,615</b>	<b>207</b>	<b>2,599</b>	<b>27</b>	<b>56</b>	<b>55</b>

JSC = joint stock company.

<sup>a</sup> Includes farms for research as part of the agricultural research network.

Source: Ministry of Agriculture, Republic of Kazakhstan.

**Table A4.3: Farm Bankruptcy from 1998 to 2001**  
(as of 1 April 2001)

Administrative Province	Number of Insolvent Farms for Bankruptcy Since 1998	Number of Farms Subjected to Prebankruptcy Procedures	Number of Farms Liquidated			Newly Established Farms <sup>a</sup>	
			Through the Court	Out of Court Settlement	Total	Legal Entities	Peasant Farms
Akmola	287	247	118	19	137	202	569
Aktyubinsk	270	210	222	29	251	153	275
Almaty	65	47	28	6	34	6	348
Atyrau	29	29	3	24	27	12	4
Karaganda	107	107	82	2	84	80	277
Kazakhstan							
East	168	168	139	8	147	26	711
North	258	253	228	5	233	224	2,860
South	169	169	132	27	159	127	
West	201	201	176	25	201	151	389
Kostanai	354	258	258	71	329	337	1,197
Kzylorda	111	106	20	70	90	80	3
Mangistau							995
Pavlodar	113	80	10	103	113	136	152
Zhambyl	99	88	84	11	95	120	999
<b>Total</b>	<b>2,231</b>	<b>1,963</b>	<b>1,500</b>	<b>400</b>	<b>1,900</b>	<b>1,654</b>	<b>8,779</b>

<sup>a</sup> As a result of the bankruptcy procedures.

Source: Ministry of Agriculture, Republic of Kazakhstan.

**Table A4.4: Agricultural Lands by Types of Land Users**  
(ha '000)

Item	1996		1997		1998		1999	
	Land Area	%	Land Area	%	Land Area	%	Land Area	%
<b>All agricultural lands</b>	161,560	100.0	137,589	100.0	120,093	100.0	98,347	100.0
Enterprises and organizations	141,684	87.7	110,321	80.2	91,655	76.3	69,556	70.7
Peasant farms/private individual	19,485	12.1	26,903	19.6	28,073	23.4	28,444	28.9
Households	391	0.2	365	0.3	365	0.3	347	0.4
<b>Arable land</b>	28,731	100.0	25,889	100.0	22,769	100.0	19,693	100.0
Enterprises and organizations	26,224	91.3	21,722	83.9	17,801	78.2	14,394	73.1
Peasant farms/private individual	2,237	7.8	3,904	15.1	4,706	20.7	5,051	25.6
Households	270	0.9	264	1.0	261	1.1	248	1.3
<b>Grassland and pastures</b>	129,191	100.0	107,118	100.0	92,405	100.0	73,479	100.0
Enterprises and organizations	112,425	87.0	85,225	79.6	70,463	76.3	51,836	70.5
Peasant farms/private individual	16,713	12.9	21,860	20.4	21,906	23.7	21,609	29.4
Households	53	0.0	33	0.0	35	0.0	34	0.0

ha = hectare.

Note: Figures in % columns may not add up due to rounding.

Source: National Statistical Agency. *Statistical Yearbook 2000*. Republic of Kazakhstan.

**Table A4.5: Major Crop Areas and Production Nationwide**

<b>Item</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
<b>Planted Areas ('000 ha)</b>					
Total sown area, all crops	25,644	21,844	18,610	15,285	16,195
All grains	17,188	15,651	13,527	11,393	12,438
Enterprises	15,742	13,086	10,482	8,252	8,619
Peasant farms	1,430	2,476	2,981	3,086	3,722
Households	16	89	64	55	97
Wheat	12,280	11,512	10,668	9,037	10,113
Barley	3,640	3,166	2,222	1,796	1,711
Oats	452	387	215	146	193
Maize	85	69	66	67	79
Rice	88	85	77	72	78
Cotton	106	104	118	141	152
Sugar Beets	32	14	18	19	23
Sunflower	335	224	225	263	314
Potatoes	189	176	170	156	160
Vegetables	79	87	97	96	103
Forage crops	7,526	5,446	4,294	3,051	2,824
<b>Production ('000 t)</b>					
All grains	11,237	12,378	6,406	14,264	11,565
Enterprises	10,257	10,327	4,526	10,182	7,153
Peasant farms	952	1,961	1,790	3,973	4,280
Households	28	90	90	109	132
Wheat	7,678	8,955	4,746	11,242	9,074
Barley	2,696	2,583	1,093	2,265	1,664
Oats	358	286	73	194	182
Maize	122	111	167	198	249
Rice	226	255	236	199	214
Raw Cotton (seed cotton)	182	198	162	250	287
Sugar Beets	341	128	225	294	273
Sunflower	64	55	83	104	105
Potatoes	1,656	1,472	1,263	1,695	1,693
Vegetables	778	880	1,079	1,287	1,544

ha = hectare, t = metric ton.

Source: National Statistical Agency (various publications), Republic of Kazakhstan.

**Table A4.5: Major Crop Areas and Production Nationwide (Continuation)**

Item	1996	1997	1998	1999	2000
<b>Crop Productivity (t/ha)</b>					
All grains	0.7	0.8	0.5	1.3	0.9
Enterprises	0.7	0.8	0.4	1.2	0.8
Peasant farms	0.7	0.8	0.6	1.3	1.1
Households	1.8	1.0	1.4	2.0	1.4
Wheat	0.6	0.8	0.4	1.2	0.9
Barley	0.7	0.8	0.5	1.3	1.0
Oats	0.8	0.7	0.3	1.3	0.9
Maize	1.4	1.6	2.5	2.9	3.2
Rice	2.6	3.0	3.1	2.8	2.7
Raw Cotton (seed cotton)	1.7	1.9	1.4	1.8	1.9
Sugar Beets	10.7	9.4	12.8	15.5	11.9
Sunflower	0.2	0.2	0.4	0.4	0.3
Potatoes	8.8	8.3	7.4	10.9	10.6
Vegetables	9.8	10.1	11.2	13.4	15.0
<b>Livestock Population by Type of Farm ('000 head)</b>					
Cattle	5,425	4,307	3,958	3,998	4,107
Enterprises	1,894	922	502	354	344
Peasant farms	227	244	242	230	210
Households	3,304	3,141	3,214	3,414	3,553
Sheep and goats	13,679	10,384	9,527	9,656	9,981
Enterprises	5,800	2,698	1,484	1,114	950
Peasant farms	949	870	861	867	840
Households	6,930	6,816	7,182	7,675	8,191
Pigs	1,036	879	892	984	1,076
Enterprises	298	175	130	117	103
Peasant farms	20	29	28	28	32
Households	718	675	734	839	941
Horses	1,310	1,083	986	970	976
Enterprises	438	236	128	87	73
Peasant farms	94	97	99	89	79
Households	778	750	759	794	824



**Table A4.6: Major Agricultural Production**  
(1982-1990)

Item	Year									Average
	1982	1983	1984	1985	1986	1987	1988	1989	1990	
Crops ('000 t)										
Wheat	11,566	13,051	8,537	14,191	16,743	16,108	12,162	10,784	16,197	13,260
Barley	4,539	6,460	4,187	5,955	7,095	6,929	5,851	5,309	8,500	6,092
Oats	431	400	270	539	616	459	345	251	611	436
Maize	460	513	476	598	505	477	561	479	442	501
Rice	579	42,254	630	620	586	606	626	555	578	5,226
Cotton	283	280	296	305	333	312	325	315	324	308
Potatoes	1,895	1,908	2,078	2,197	2,137	2,066	2,260	1,783	2,324	2,072
Sugar Beets	1,046	1,629	1,697	1,750	1,587	1,662	1,214	1,094	1,044	1,414
Sunflower	79	94	109	93	83	117	139	105	141	107
Vegetables	1,128	1,169	1,210	1,085	1,211	1,190	1,354	1,254	1,136	1,193
Livestock population ('000 head)										
Cattle	9,033	9,086	9,028	9,165	9,529	9,672	9,752	9,818	9,757	9,427
of which, cows	3,112	3,147	3,148	3,087	3,161	3,207	3,273	3,327	3,368	3,203
Sheep and goats	35,670	36,613	36,057	35,485	36,408	36,388	36,498	36,223	35,661	36,111
Pigs	2,869	2,790	2,666	2,968	3,221	3,237	3,188	3,262	3,224	3,047
Horses	1,390	1,437	1,449	1,455	1,533	1,540	1,581	1,619	1,626	1,514
Subtotal	48,962	49,926	49,200	49,073	50,691	50,837	51,019	50,922	50,268	50,100
Poultry	48,710	50,903	52,316	55,436	57,542	57,667	58,436	59,286	59,899	55,577
Animal husbandry products										
Meat (carcass weight) ('000 t)	—	—	—	—	—	—	—	—	—	—
Milk ('000 t)	4,511	4,582	4,635	4,763	5,040	5,185	5,321	5,563	5,642	5,027
Eggs (million pieces)	3,484	3,586	3,726	3,803	4,097	4,189	4,202	4,253	4,185	3,947

— = no data available, t = metric ton.

Source: National Statistical Agency, Republic of Kazakhstan.

**Table A4.6: Major Agricultural Production (Continuation)**  
(1991-2000)

Item	Year					Average	Year					Average
	1991	1992	1993	1994	1995		1996	1997	1998	1999	2000	
Crops ('000 t)												
Wheat	6,889	18,285	11,585	9,052	6,490	10,460	7,678	8,955	4,746	11,242	9,074	8,339
Barley	3,085	8,511	7,149	5,497	2,208	5,290	2,696	2,583	1,093	2,265	1,664	2,060
Oats	231	727	802	822	250	566	358	286	73	194	182	219
Maize	330	368	353	234	136	284	122	111	167	198	249	169
Rice	521	466	403	283	184	371	226	255	236	199	214	226
Cotton	291	252	200	208	223	235	106	104	118	141	152	124
Potatoes	2,143	2,570	2,296	2,040	1,720	2,154	1,656	1,472	1,263	1,695	1,693	1,556
Sugar Beets	674	1,160	843	433	371	696	341	128	225	294	273	252
Sunflower	108	122	86	97	99	102	64	55	83	104	105	82
Vegetables	955	985	808	781	780	862	778	880	1,079	1,287	1,544	1,114
Livestock population ('000 head)												
Cattle	9,592	9,576	9,347	8,550	6,860	8,785	5,425	4,307	3,958	3,998	4,107	4,359
of which, cows	3,490	3,623	3,687	3,525	3,045	3,474	2,547	2,110	1,953	1,962	2,015	2,117
Sheep and goats	34,556	34,420	34,208	29,759	19,584	30,505	13,679	10,384	9,527	9,656	9,981	10,645
Pigs	2,976	2,591	2,445	2,147	1,623	2,356	1,036	879	892	984	1,076	973
Horses	1,666	1,704	1,777	1,649	1,557	1,671	1,310	1,083	986	970	976	1,065
Subtotal	48,790	48,291	47,777	42,105	29,624	43,317	21,450	16,653	15,363	15,608	16,140	17,043
Poultry	59,932	52,733	52,600	45,121	20,810	46,239	15,378	15,982	16,985	18,022	19,706	17,215
Animal husbandry products												
Meat (carcass weight) ('000 t)	—	—	—	—	—	1,257	837	717	636	635	623	690
Milk ('000 t)	5,555	5,265	5,548	5,296	4,619	5,257	3,627	3,335	3,364	3,535	3,730	3,518
Eggs (million pieces)	4,075	3,565	3,376	2,629	1,841	3,097	1,262	1,266	1,388	1,512	1,692	1,424

**Table A4.7: Composition of Customs Exports and Imports**  
(\$ million, unless otherwise indicated)

Item	1996	%	1997	%	1998	%	1999	%
<b>Total exports</b>	<b>5,911.0</b>	<b>100.0</b>	<b>6,497.0</b>	<b>100.0</b>	<b>5,435.8</b>	<b>100.0</b>	<b>5,592.2</b>	<b>100.0</b>
<b>Agriculture and food</b>	<b>780.6</b>	<b>13.2</b>	<b>869.7</b>	<b>13.4</b>	<b>474.3</b>	<b>8.7</b>	<b>457.3</b>	<b>8.2</b>
Livestock and animal products	72.8	1.2	80.6	1.2	31.7	0.6	21.9	0.4
Agricultural crops	526.7	8.9	610.8	9.4	372.3	6.8	382.1	6.8
Grains	428.6	7.3	511.6	7.9	295.4	5.4	313.6	5.6
Cotton fiber	96.7	1.6	77.5	1.2	51.9	1.0	49.5	0.9
Edible fats and oil	1.7	0.0	2.2	0.0	0.7	0.0	1.1	0.0
Food, beverages, and processed products	116.9	2.0	112.1	1.7	38.9	0.7	23.2	0.4
Raw hides, leather, and related items	62.5	1.1	64.0	1.0	30.7	0.6	29.0	0.5
Oil, gas, and coal	1,907.8	32.3	2,185.4	33.6	2,048.8	37.7	2,273.7	40.7
Oil and gas condensate	1,257.4	21.3	1,670.9	25.7	1,650.5	30.4	2,040.2	36.5
Coal	381.4	6.5	365.4	5.6	323.2	5.9	152.0	2.7
Oil refining products	238.4	4.0	128.4	2.0	52.5	1.0	56.6	1.0
Natural gas	30.6	0.5	20.7	0.3	22.6	0.4	24.9	0.4
Metal, ores, and associated products	1,752.1	29.6	2,141.1	33.0	1,805.9	33.2	1,743.6	31.2
Alumina	156.7	2.7	148.7	2.3	144.7	2.7	136.4	2.4
Refined copper	569.0	9.6	604.7	9.3	507.9	9.3	525.6	9.4
Unrefined zinc	143.1	2.4	219.2	3.4	181.6	3.3	163.0	2.9
Unrefined lead	47.3	0.8	49.5	0.8	40.8	0.8	48.4	0.9
Chromium ores and concentrates	16.2	0.3	15.7	0.2	13.5	0.2	19.2	0.3
Iron ores and concentrates	85.5	1.4	193.8	3.0	177.7	3.3	38.2	0.7
Ferroalloys	194.6	3.3	205.0	3.2	224.0	4.1	212.9	3.8
Rolled ferrous metals	539.7	9.1	704.5	10.8	515.7	9.5	599.9	10.7
Others	1,470.5	24.9	1,300.8	20.0	1,106.8	20.4	1,117.6	20.0
<b>Total imports</b>	<b>4,241.1</b>	<b>100.0</b>	<b>4,300.8</b>	<b>100.0</b>	<b>4,349.6</b>	<b>100.0</b>	<b>3,682.7</b>	<b>100.0</b>
<b>Agriculture and food</b>	<b>567.8</b>	<b>13.4</b>	<b>604.1</b>	<b>14.0</b>	<b>467.2</b>	<b>10.7</b>	<b>383.3</b>	<b>10.4</b>
Livestock and animal products	61.7	1.5	86.1	2.0	68.5	1.6	45.0	1.2
Agricultural crops and vegetables	53.6	1.3	40.9	1.0	48.2	1.1	54.4	1.5
Edible fats and oil	34.5	0.8	36.6	0.9	41.9	1.0	38.1	1.0
Food, beverages, and processed products	412.2	9.7	437.8	10.2	305.7	7.0	243.2	6.6
Leather and related items	5.8	0.1	2.7	0.1	2.9	0.1	2.6	0.1
Oil, gas, and energy	710.9	16.8	568.1	13.2	565.4	13.0	292.4	7.9
Oil and gas condensate	29.6	0.7	166.2	3.9	146.9	3.4	21.3	0.6
Oil refining products	202.4	4.8	163.1	3.8	194.3	4.5	87.9	2.4
Electricity	241.2	5.7	119.9	2.8	81.6	1.9	63.2	1.7
Natural gas	205.8	4.9	92.2	2.1	112.6	2.6	100.6	2.7
Coal	31.9	0.8	26.7	0.6	30.0	0.7	19.4	0.5
Rolled ferrous metals	24.3	0.6	24.7	0.6	16.4	0.4	12.9	0.4
Electrical and mechanical equipment	994.8	23.5	1,154.3	26.8	1,199.9	27.6	969.3	26.3
Vehicles	360.0	8.5	367.7	8.5	434.0	10.0	629.9	17.1
Others	1,583.3	37.3	1,581.9	36.8	1,666.7	38.3	1,394.9	37.9
<b>Trade balance (agriculture and food)</b>	<b>212.8</b>		<b>265.6</b>		<b>7.1</b>		<b>74.0</b>	

Source: National Statistical Agency. *Statistical Yearbook 2000*. Republic of Kazakhstan; and International Monetary Fund. January 2001. *Country Report 01/20*.

**Table A4.8: Exports and Imports of Agricultural Crops**  
('000 metric ton)

Item	1998	1999	2000
<b>Exports</b>			
Wheat	2,505.1	3,103.6	4,989.6
Wheat flour	233.3	249.9	293.7
Rice	25.8	43.9	7.0
Corn	8.6	6.5	13.4
Sunflower seeds	0.6	4.7	0.6
Potatoes	0.7	3.5	1.2
Wool	38.2	17.8	18.3
Milk	0.02	1.9	0.04
Poultry	0.3	0.6	0.1
Pork	1.1	2.9	0.5
Mutton	107.6	77.9	9.8
Beef	9.9	8.8	0.3
<b>Imports</b>			
Wheat	4.4	6.1	1.5
Wheat flour	5.1	8.8	1.9
Rice	0.6	2.7	2.6
Corn	0.1	0.1	2.5
Sunflower seeds	0.9	0.4	31.9
Potatoes	10.8	22.5	37.0
Wool	0.3	0.3	0.7
Milk	17.1	3.1	5.8
Poultry	30.2	13.8	11.9
Pork	1.1	0.1	0.2
Mutton	189.2	300.6	192.8
Beef	1.3	1.5	1.5

Source: Ministry of Agriculture, Republic of Kazakhstan.

**Table A4.9: Collection of Irrigation Water Charges, 1998-2000**  
(T'000)

Administrative Province	1998			1999			2000		
	Plan	Actual	%	Plan	Actual	%	Plan	Actual	%
Akmola	14,154	6,280	44.4	5,694	3,219	56.5	10,260	8,530	83.1
Aktubinsk	4,800	1,529	31.9	1,570	1,655	105.4	4,800	1,122	23.4
Almaty	75,020	35,183	46.9	40,000	39,517	98.8	105,461	48,450	45.9
Atyrau	16,981	3,223	19.0	10,393	4,338	41.7	16,981	7,972	46.9
Karaganda	128,851	105,207	81.7	53,910	24,905	46.2	128,851	105,207	81.7
Kazakhstan									
East	84,585	79,868	94.4	74,770	68,379	91.5	73,000	72,500	99.3
North	7,900	5,036	63.7	2,210	2,387	108.0	2,550	1,564	61.3
South	44,853	29,223	65.2	40,623	34,409	84.7	62,307	27,903	44.8
West	2,260	1,569	69.4	3,671	1,557	42.4	2,260	1,569	69.4
Kostanai	8,179	2,913	35.6	3,771	2,579	68.4	4,330	2,780	64.2
Kzylorda	109,150	32,778	30.0	83,610	57,564	68.8	67,718	39,293	58.0
Mangistau	1,867	1,535	82.2	326	464	142.3	1,867	1,535	82.2
Pavlodar	125,229	119,671	95.6	88,688	94,746	106.8	129,000	129,000	100.0
Zhambyl	74,044	12,761	17.2	29,163	19,917	68.3	30,220	12,460	41.2
<b>Total</b>	<b>697,873</b>	<b>436,776</b>	<b>62.6</b>	<b>438,399</b>	<b>355,636</b>	<b>81.1</b>	<b>639,605</b>	<b>459,885</b>	<b>71.9</b>

Source: Committee of Water Resources Management, Republic of Kazakhstan.

**Table A4.10: Annual National Budgets of the Ministry of Agriculture, 1996-2001**  
(T'000, nominal terms)

Item	1996	1997	1998	1999	2000	2001
Administrative expenditures	313,499	1,073,404	967,152	1,078,567	915,500	1,447,455
Veterinary services	749,219	689,562	1,022,131	224,214	459,217	1,403,285
Plant protection	684,847	590,946	535,129	675,717	2,218,336	3,108,134
Quality testing of crops, seeds, and irrigated lands	143,307	173,714	22,541	48,704	103,573	112,664
Grain storage by State Food Corporation					740,000	798,100
Farm support for the procurement of fuel and lubricants						428,000 <sup>a</sup>
Farm support for procurement of fertilizers						305,000
Livestock breeding and elite seeds development					200,000	800,000
Seed stations and technical inspection stations	143,593	49,451	2,327,900			
Direct subsidies to agricultural producers	3,580,000	4,637,867	1,086,470	116,000		
Investment projects	3,500,000	247,417	1,062,741	1,337,776	1,018,278	1,874,792
<b>Subtotal, including investments</b>	<b>9,114,465</b>	<b>7,462,361</b>	<b>7,024,064</b>	<b>3,480,978</b>	<b>5,654,904</b>	<b>10,277,430</b>
<b>Recoverable expenditures on the basis of loan financing</b>		<b>280</b>		<b>1,565,685</b>	<b>1,548,370</b>	<b>8,284,357</b>
Farm restructuring						89,191
Irrigation and drainage improvement		280		1,100,176	1,091,451	1,872,566
Water resources management and land improvement				78,779	109,900	629,580
Spring field works and harvesting						3,572,000 <sup>a</sup>
Leasing of agricultural equipment						1,000,000
Agricultural postprivatization assistance				161,695	314,000	479,680
Loans to Agrarian Credit Corporation						641,340
Other items				225,035	33,019	
<b>Other expenses, comprising</b>	<b>600,000</b>	<b>800,000</b>	<b>6,670,184</b>	<b>3,587,200</b>	<b>2,194,350</b>	<b>5,888,400</b>
Leasing	600,000	800,000	529,104			
Interest payments on leasing of equipment						70,000
Interest payments on spring field works and harvesting						195,000
Establishment of the Agrarian Credit Corporation						150,000
Purchases of grain for state purposes			6,141,080	3,587,200	2,194,350	5,413,400
Development of guarantee procedures for warehouse receipts						60,000
<b>Total annual budget</b>	<b>9,714,465</b>	<b>8,262,641</b>	<b>13,694,248</b>	<b>8,633,863</b>	<b>9,397,624</b>	<b>24,450,187</b>

<sup>a</sup> Interest-free working capital loans of less than six months to farms to finance cultivation and harvests.

Source: Ministry of Agriculture, Republic of Kazakhstan.

**Table A4.11: Outstanding Commercial Bank Loans by Sector**  
(T million)

Sector	1997		1998		1999		2000	
	T million	%	T million	%	T million	%	T million	%
Industry	20,030	34.5	21,850	25.4	32,320	23.2	84,301	30.5
Agriculture	3,291	5.7	9,254	10.8	11,756	8.5	25,813	9.3
Construction	2,236	3.9	1,966	2.3	5,724	4.1	11,958	4.3
Transport	958	1.7	4,712	5.5	4,680	3.4	16,509	6.0
Communications	1,616	2.8	1,389	1.6	2,898	2.1	5,895	2.1
Trade	9,913	17.1	22,192	25.8	41,393	29.8	91,842	33.3
Other	19,947	34.4	24,629	28.6	40,299	29.0	39,864	14.4
<b>Total</b>	<b>57,991</b>	<b>100.0</b>	<b>85,992</b>	<b>100.0</b>	<b>139,070</b>	<b>100.0</b>	<b>276,182</b>	<b>100.0</b>

Note: Figures in % columns may not add up due to rounding.

Source: National Bank of Kazakhstan.