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### III. OIL WEALTH AND DEVELOPMENT: WHAT DOES THIS MEAN FOR KAZAKHSTAN?<sup>1</sup>

*Kazakhstan's oil sector plays a significant role in the economy and will continue to be a main driver of growth. A key challenge is ensuring that the benefits from the oil wealth are shared by the population as a whole. This would require that a higher proportion of the oil sector value added is used to for medium-term development of non-oil activities. This objective critically depends on a well designed strategy that encourages economic diversification based on Kazakhstan's comparative advantages, and on improved prospects for long-term foreign investment. Advancement in these directions requires a multi-faceted reform agenda that includes upgrading the investment and business climates. The framework would also benefit from flexible rules governing the transfer of oil revenues to the budget.*

#### A. Introduction

1. **Efficient management of the oil wealth is crucial in supporting medium-term growth and development in Kazakhstan.** This chapter looks at the impact of oil on the economy, lays out a development framework for economies rich in mineral resources, and describes the key institutional arrangements to manage oil resources. Drawing lessons from the literature and empirical findings from other countries' experiences, the analysis aims at identifying 1) improvements to the current framework to manage oil resources, 2) potential areas of comparative advantage that could support economic diversification, a key medium-term priority for the authorities, and 3) enhancements in the business environment.

#### B. Oil and the Kazakhstani Economy

2. **Kazakhstan has a large and significant extractive industries sector, with oil playing a major role.**<sup>2</sup> With nearly 40 billion barrels in reserves and 2 percent of global production, Kazakhstan has the world's ninth largest proven reserves (3 percent of global reserves), and is among the 20 largest oil producers.<sup>3</sup> Oil sector value added accounted for 11½ percent of GDP in 2010, while oil exports represented nearly 57 percent of total exports of goods and services. The bulk of foreign direct investment (FDI) in recent years has flowed to the extractive industries sector (75¼ percent in 2010), with oil taking the largest share. Crucially, the government depends on oil for the largest part of its revenues—in 2010, about 46½ percent came from extraction and exports of oil. With significant new discoveries in

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<sup>1</sup> Prepared by N. Raman (SPR).

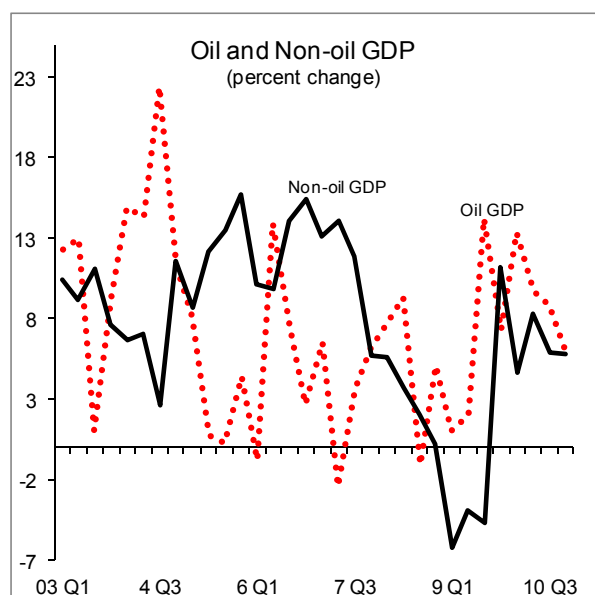
<sup>2</sup> SM/10/158, 6/28/2010. In particular, see Box 3.

<sup>3</sup> BP Statistical Review of World Energy June 2010 (<http://www.bp.com/statisticalreview>).

recent years, most notably the development of the Kashagan oil field, the key role of oil in the economy is likely to persist over the medium and long term.<sup>4</sup>

**3. Oil and oil-related investment flows support domestic economic development in diverse ways.** Kazakhstan has attracted the highest levels of FDI in the CIS in per capita terms (Bayulgen, 2010), and given the sector's bright potential, it is likely to continue attracting significant new investments and reinvestments. These investments generate substantial export and fiscal proceeds that can be deployed to support non-oil activities, catalyze activity in oil-related services such as transportation, and provide some employment and income opportunities for the Kazakhstani population. Moreover, oil activity results in important inflows to the economy both to the private sector (intermediated through the financial system) and the public sector, and can thus be a valuable spur for growth. Finally, Kazakhstani oil companies—most notably the national oil and gas company KazMunaiGaz (KMG)—participate directly in the oil sector. In particular, KMG is involved in all aspects of exploration and extraction through profit sharing arrangements and equity partnerships with foreign investors.<sup>5</sup>

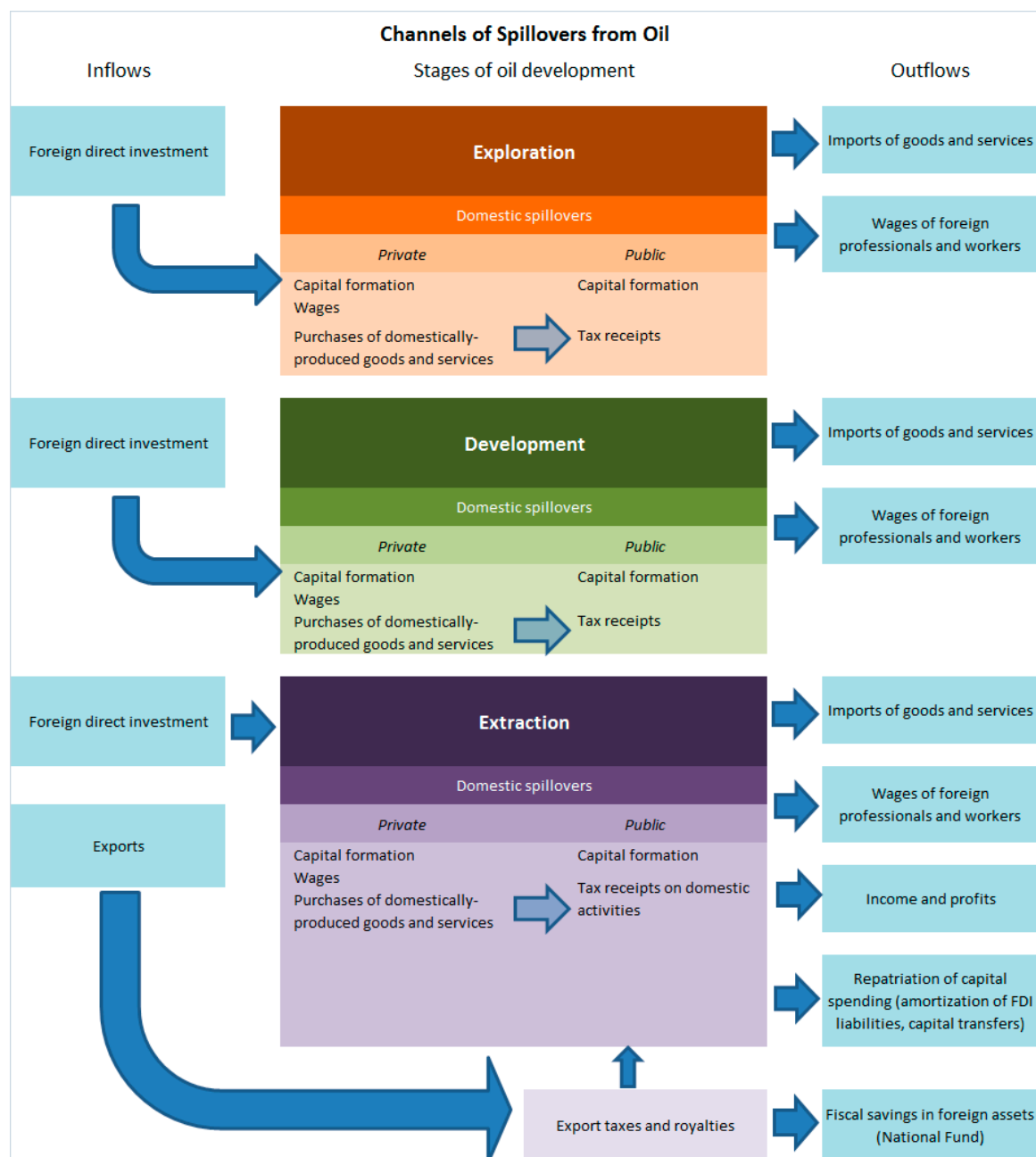
**4. Nevertheless, the direct impact of the oil sector activity on non-oil growth is rather limited.** While the link between the oil and non-oil sectors appears to have strengthened since 2009 (Figure 2), the direct benefits of stronger oil activity are only shared by a few related sectors, such as transportation and communications. Other key domestic drivers of growth—including manufacturing, construction, real-estate, and various other services—do not appear to benefit directly from oil sector activity. In particular, given the pattern of financing in the oil sector, where companies generally bring their own funds into the country for investment, there is a limited role for the domestic financial system.



<sup>4</sup> This point has been acknowledged by the authorities. For instance, it was noted in a 2010 essay by current Minister of Economy and the former head of Samruk Kazyna. ([http://www.samruk-kazyna.kz/page.php?page\\_id=2869&lang=3&article\\_id=3327](http://www.samruk-kazyna.kz/page.php?page_id=2869&lang=3&article_id=3327)).

<sup>5</sup> Participation of a state-owned oil and gas company in developing the oil resources of a country is not unusual in many developing countries; indeed many countries explicitly use some version of the model pioneered by Statoil in Norway.

## How oil influences the Kazakhstani economy



5. **Moreover, oil-related outflows through the balance of payments are significant.** These include imports of capital equipment needed to develop oil fields, income repatriated to foreign investors, amortization of FDI liabilities, and outflows arising from the overseas investments of the National Fund of the Republic of Kazakhstan (NFRK). Notwithstanding the data limitations, there are indications that the total repatriation of investment income in 2010 amounted to nearly 30 percent of oil exports. To some extent, these outflows are the

natural consequence of the heavy participation of foreign investors in the oil sector, which in turn enhance the levels of Kazakhstan's capital stock and potential growth. In addition, investment of the NFRK abroad accounted for 34 percent of gross outflows in the financial account of the balance of payments. The marginal outflow<sup>6</sup> is even more significant, with the increase in NFRK outflows accounting for about 70 percent of the increase in gross outflows, and 84 percent of the increase in oil exports.

**6. The dependence on oil poses challenges to macroeconomic and structural policies.** As in other commodity exporters, the oil sector is not a main source of employment opportunity in Kazakhstan as it is a more capital than labor intensive industry, and as such even a significant expansion is unlikely to lead to a similar increase in job creation. On the other hand, volatility of oil prices presents macroeconomic challenges as global price changes are unlikely to be fully addressed by domestic policies. For example, when prices fall, counter-cyclical fiscal action may be constrained by the lack of other sources of revenue, although Kazakhstan's prudent policy of saving the bulk of the oil proceeds somewhat mitigates this risk. Oil price changes also cause exchange rate volatility, which could encourage undue short-term capital flows; and actions to limit this volatility could result in a pro-cyclical monetary policy stance. More generally, the effectiveness of macroeconomic policy is hampered by the limited ability of the small non-oil sector to counteract swings in oil prices in response to policy actions.

**7. The unique features of the oil industry in Kazakhstan amplify these risks.** The nature of Kazakhstan's oil resources may lead to greater sensitivity of the sector to oil price changes. In particular, price declines could hinder exploration and development activities in new wells. Key oil reserves are located offshore in the Caspian Sea, where the weather is subject to considerable seasonal variation due to its desert environment. Moreover, the geological conditions can affect both the accessibility to exploration and the quality of production, due to the existence of a significant layer of sediment covering the oil deposits, highly pressurized wells, and the potential for salt and other impurities to be mixed in with the deposits. Planned activity in the new Kashagan oilfield—where the bulk of Kazakhstan's proven oil reserves is located—could be particularly affected by price variations.

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<sup>6</sup> This is defined as the change in the investment abroad by the NFRK as a percentage of the change in the increase in foreign assets in the financial account in 2010.

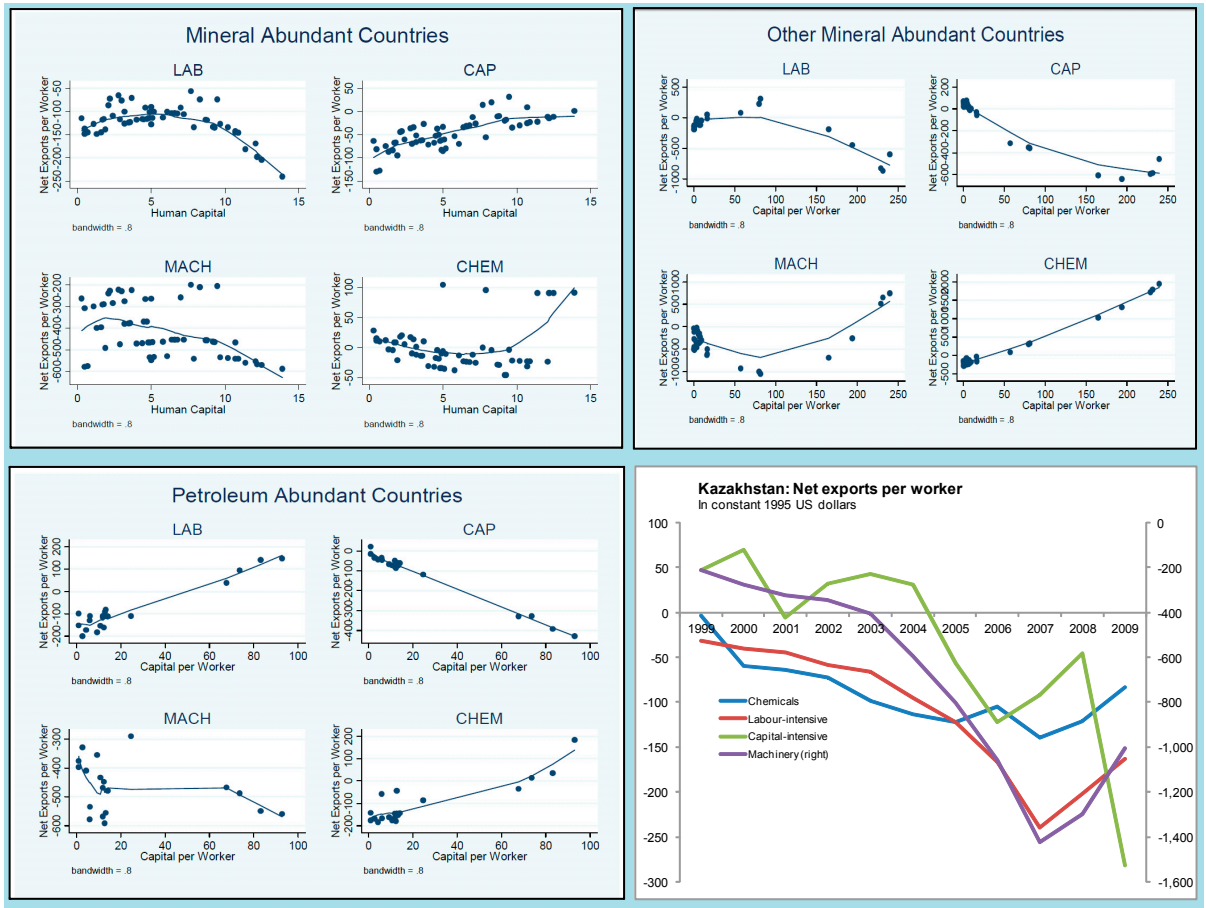
### C. Lessons from Commodity Exporters

8. **The literature finds that the presence (or absence) of natural endowments influences the likely development path for a country.** Leamer (1987) notes that in a standard two factor model of production (i.e., with capital and labor), countries will follow development paths that first specialize in labor intensive industries, followed by a period of capital accumulation, and finally graduate to a state where production of capital goods takes root in the economy. However, when a third factor—natural resource endowments—is added to the framework, the prediction changes substantially. In such a world, countries do not need to follow the described development path. Álvarez and Fuentes (2006) extend Leamer’s framework to show that the presence of different types of natural endowments (agriculture, forestry and extractive industries) influence development paths in different ways according to the nature of such endowments. In particular, the existence of mineral resources seems to limit industrialization.

9. **Natural endowment can affect a country’s development through a combination of factors.** Álvarez and Fuentes posit that two factors may explain why mineral wealth limits industrialization. First, a mineral-rich country experiences an appreciation of the real exchange rate that prevents it from reducing its net imports and moving up the industrial ladder (a Dutch disease argument). Second, because mineral extraction is a capital-intensive process, a country without a deep industrial base will find its (initially) scarce physical capital diverted to mining, and hence will lack the necessary resources to deepen capital levels in the industrial sector. Klein (2010) also suggests that countries with a lower “oil intensity”—defined as the share of oil in GDP (Table 1)—have incentives to build better fiscal institutions, and thus enjoy the positive spillovers from superior governance.

10. **Experience suggests that mineral exporters can develop a comparative advantage in other fields.** For example, the positive impact of mineral endowments on the development of a chemicals industry is related to the availability of natural resources, though other factors (e.g., the existence of relatively few transport connections that impede trade) may also play a role. Nevertheless, this channel is weaker for oil exporting countries than other mineral producers.

## Predicted Development Paths and Experience in Kazakhstan<sup>1/</sup>



Sources: Álvarez and Fuentes (2006), *UNCTAD*, authorities' data, *WEO* and *IMF* staff calculations.

<sup>1/</sup> The categories of goods examined here ("labor intensive manufactured goods", "capital intensive manufactured goods", "machinery" and "chemicals") are based on Leamer's classification scheme (see Leamer, 1984). The three charts that show net exports and capital intensity are taken from Álvarez and Fuentes (2006) and trace the development paths taken by countries with mineral resource endowments as domestic capital stock deepens (proxied here by net exports). The stronger net export performance in 2008-09 seen for Kazakhstan for labor-intensive manufactured goods and machinery (bottom right panel) should be interpreted with some caution. This was mainly due to a sharp decline in these imports due to the banking crisis-induced downturn. In other respects, Kazakhstan's experience seems to mirror Álvarez and Fuentes' prediction.

Table III.1: Selected Oil Exporters -- Oil Intensity (1985–2009)

		Average	Min	Max	2009
High	Libya	0.62	0.52	0.71	0.52
	Qatar	0.50	0.40	0.58	0.50
	Kuwait	0.48	0.28	0.64	0.36
	Equatorial Guinea	0.46	0.00	0.84	0.58
	Oman	0.45	0.33	0.52	0.34
	Nigeria	0.45	0.34	0.57	0.34
	Angola	0.44	0.15	0.57	0.40
	Congo, Rep. of	0.34	0.28	0.47	0.31
	Azerbaijan	0.33	0.20	0.49	0.49
Medium	Saudi Arabia	0.33	0.23	0.39	0.28
	Algeria	0.32	0.27	0.36	0.27
	United Arab Emirates	0.31	0.18	0.52	0.18
Low	Gabon	0.30	0.22	0.37	0.22
	Syria	0.26	0.12	0.36	0.12
	Venezuela	0.23	0.17	0.33	0.22
	Turkmenistan	0.22	0.11	0.30	0.11
	Bahrain	0.20	0.12	0.25	0.12
	Iran	0.13	0.09	0.17	0.09
	Yemen	0.13	0.08	0.16	0.08
	Cameroon	0.11	0.05	0.17	0.05
	Indonesia	0.11	0.07	0.14	0.07
	Kazakhstan	0.10	0.08	0.11	0.11
	Chad	0.07	0.00	0.32	0.21

Source: WEO, IMF staff calculations.

This table updates Table 1 in Klein (2010). Oil intensity is defined as real oil GDP/real GDP. As in Klein, the countries are sorted according to their average level of oil intensity, and some of the average values are based on a different sample lengths, depending on data availability. Countries defined as having high oil intensity have an oil share in GDP that exceeds the median for this sample (about 0.31), while those having a low intensity fall below the median. Countries with a medium oil intensity have an oil share in GDP close to the median.

11. **While the existence of mineral wealth can lead to identifiable comparative advantages, the surpluses generated by the sector can also inhibit the industrialization process.** The key question is whether surpluses from the mineral sector can be distributed to other sectors, both through public sector investment and financial intermediation. If mechanisms to support capital formation and productivity are available, and assuming that excessive real exchange rate volatility can be avoided, mineral export proceeds could support industrialization. Conversely, if mineral wealth is used to raise consumption, or if the real exchange rate is excessively volatile, then industrialization efforts may be limited. As Klein (2010) and many others show, the empirical evidence in many emerging markets and developing countries is that oil wealth has not been used effectively to catalyze development.



## D. Fiscal Institutions and Oil Wealth in Kazakhstan

12. **The NFRK is the cornerstone to managing oil wealth.** Oil revenue, in the form of taxes and royalties (Box III.1), is managed in the context of a number of institutional structures dedicated to preserving the oil wealth. The NFRK is the repository of the bulk of the fiscal revenues arising from oil, and is managed by the central bank. The transfers to the NFRK are in both domestic and foreign currency, but the proceeds are then invested in foreign assets, primarily in liquid instruments such as G3 sovereign debt securities. The government budget is allocated a fixed transfer from the fund of \$8 billion annually, with the caveat that the NFRK is not allowed to fall below 20 percent of GDP. The authorities have shown discipline in adhering to the set targets for transfers from the NFRK. As a result of these efforts, and benefitting from high oil prices, the NFRK has increased from US\$22 billion at the end of March 2009 to over US\$36 billion in April 2011.

### Box III.1. Taxation Regime for the Oil Sector in Kazakhstan<sup>1/</sup>

The tax regime for the oil sector in Kazakhstan consists of a number of taxes, the most important of which are the corporate income tax, rent tax on exports, and volume-based royalties. In addition, mining companies are expected to pay bonuses when commercial discoveries are made.

- Corporate income tax: Applicable to all companies operating Kazakhstan, and currently set at 20 percent of eligible income. This is expected to be lowered gradually to 15 percent by 2014.
- Rent tax on exports: A tax on the value of exports that comes into effect when global oil prices exceed \$40 a barrel. The tax rate varies between 7-32 percent depending on the export proceeds.
- Mineral extraction taxes: A volume-based royalty tax applicable to the extraction of oil, condensates, and natural gas. The tax rate escalates as volumes rise, and varies depending on the nature of what is extracted, and whether it is exported or sold domestically.
- Excess profit tax: Essentially a “super tax” that is applicable on income after paying the corporate income tax and is based on the excess profits over allowed deductible expenses. The rates depend on the levels at which this income exceeds allowable expenses.
- Crude oil export duty: Since the beginning of 2010, a crude oil export duty of \$20 per ton of crude oil has been levied, which was raised to \$40 in 2011. This rate remains well below that in neighboring Russia (US\$453.70 per metric ton in May 2011), though there have been some discussions on whether the rates should be harmonized under the terms of the customs union between the two countries.

Stability of the tax regime. While the taxes described above apply in general to all companies operating in the oil sector, a number of production sharing agreements signed before January 1, 2009 are exempt from changes. These agreements, which are termed to have been “stabilized”, must have undergone a “tax expert evaluation” to ensure that the terms of the agreements did not violate tax laws at the time they came into effect. The excess profit tax, however, cannot be stabilized, and stabilized contracts can be changed by mutual agreement between the parties.

1/ Source: Ernst & Young 2010 Kazakhstan Oil and Gas Tax Guide.

**13. The framework on which the NFRK operates aims at balancing the needs to facilitate capital formation, preserve macroeconomic stability, and save for future generations.<sup>7</sup>**

- ***Facilitating Capital Formation.*** Public sector investment is supported by the oil wealth in Kazakhstan. However, limits in the absorptive capacity of the economy prevent further use of oil resources on investment for development. Indeed, the current limit placed on transfers from the NFRK to the federal budget indirectly results in ceilings on the level of public investment in health and education, and also in infrastructure to further support oil and non-oil activities. Kazakhstan's investment in health and education lags behind that in many emerging markets<sup>8</sup>, suggesting the need for additional public resources to be devoted to these sectors.
- ***Ensuring Macroeconomic Stability.*** The NFRK helps to insulate the economy from swings in capital inflows generated by global oil price fluctuations. In the current circumstances, savings in the NBRK help contain real exchange rate appreciation arising from oil-related inflows. Investment of the fund in foreign assets reflects the economy's current lack of absorptive capacity to accommodate the investment needs and limits spillovers to the domestic economy and financial system. The lack of inward investment by the NFRK may also explain why public and quasi-public enterprises have played a prominent role in providing credit to the non-oil sector.
- ***Safeguarding Future Generations.*** While Kazakhstan is expected to generate substantial oil revenues for approximately the next 40 years<sup>9</sup>, it is crucial that oil wealth continue to support capital investment for future generations. Continued saving of oil fund revenues will ensure that the oil wealth is equitably shared inter-generationally.

## **E. Implications for Kazakhstan**

### **Enhancing the Role of Oil and the Oil Fund**

**14. The rules governing the NFRK have provided a clear basis for managing oil wealth, though in the context of a rigid framework.** While useful in preserving oil revenue, this mechanism provides relatively little flexibility over the size of the transfer of these funds to the budget, particularly when oil revenues turn out to be much larger or lower than anticipated. Furthermore, the basis for setting the annual transfers at \$8 billion does not

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<sup>7</sup> For more details on the operation of the NFRK, see Box II.2 of Chapter II of the 2010 Selected Issues Paper for Kazakhstan (SM/10/161, 6/29/2010).

<sup>8</sup> The 2011 World Competitiveness Yearbook, compiled by IMD, ranks Kazakhstan 55<sup>th</sup> out of 59 economies on health and environment, and 41<sup>st</sup> on education.

<sup>9</sup> See Lucke (2010).

seem to reflect the calculation of optimal savings or to be linked to any intermediate targets for reducing the non-oil deficit.<sup>10</sup> The authorities have continued to borrow to fund fiscal expenditures, in spite of the fiscal balance returning to surplus in 2010.<sup>11</sup>

**15. Flexibility in the size of the transfers would be important to support domestic capital formation and maintain macroeconomic stability within the context of a medium-term fiscal framework.** Previous analytical work conducted by staff suggests that a rule based on intermediate targets for the non-oil deficit over the medium term may provide greater fiscal flexibility.<sup>12</sup> Clearly, any changes in transfer rules should be assessed carefully, given the uncertainties over the long time horizons. However, taken alongside efforts to attract long-term FDI, there appears to be scope for an increase in well-targeted public expenditure in high priority areas—including health, education, and infrastructure—beyond that detailed in the Development Plan 2020.

### **Attracting Foreign Investment**

**16. Measures to catalyze private investment, both in the oil and non-oil economy, should be pursued to encourage a sustainable investment outlook.** It is clear that the public sector on its own cannot completely fund the economy's full capital formation needs.<sup>13</sup> Therefore, Kazakhstan needs to continue to ensure sustained private investment. This encompasses multi-faceted reforms that include preserving macroeconomic stability, improving access to financing, and upgrading the investment and business climate. Recent work also suggests that addressing trade and other distortions has an especially significant effect on sustaining high rates of growth (Duttagupta and Mlachila, 2008).

### **Ensuring Clarity in the Operating Environment of the Extractive Sector**

**17. Clear rules and stability, rather than the political framework, are crucial to ensuring continued investments.** The authorities have recently tried to rebalance the benefits accruing from the oil wealth.<sup>14</sup> Steps taken include renegotiations of profit sharing

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<sup>10</sup> The authorities' long-term aim is to reduce the non-oil deficit to 3 percent of GDP by 2020, but no intermediate targets have been determined.

<sup>11</sup> Except for the US\$8 billion that is transferred to the budget from the NFRK, the authorities exclude revenues from oil in their calculation of fiscal revenues. As such, by the authorities' definition, they continue to record fiscal deficits that need to be financed by borrowing.

<sup>12</sup> See Chapter II of SM/10/161 (6/29/2010).

<sup>13</sup> For instance, KMG estimates that up to \$136 billion is needed to fully develop the first phase of the Kashagan oil field. See <http://www.kmg.kz/en/manufacturing/upstream/kashagan/>

<sup>14</sup> Bayulgen (2010) notes that this assertiveness is a common feature in oil-producing countries. As the public sector develops expertise, national governments revise what could be considered unbalanced agreements.

contracts, higher taxes, changes to laws that privilege the public and quasi-public entities,<sup>15</sup> and stronger enforcement of local content regulations in all spheres. In general, the repeated revisions of the rules have raised some concerns as the large scale of investments and the long time horizon on which they are implemented lead investors to place a considerable premium on certainty.

18. **Therefore, reforms to the investment regime should be predictable and well communicated, allowing companies the time to comply with new requirements.** While so far the changes in the rules do not appear to have had a meaningful adverse impact on the willingness of foreign investors to continue to invest in Kazakhstan, there is a need for more predictability and transparency in the operating environment to improve investors' capacity to plan.

### **Enhancing the Investment Climate and Economic Diversification**

19. **Kazakhstan has made significant progress in improving the investment environment.** In the 2011 Doing Business rankings compiled by the World Bank, its position improved by an impressive 15 places, the fastest improvement in the region (Table 2). In particular, Kazakhstan scores well in terms of registering property (28th) and has significantly improved on the ease of starting a business (from 85th in 2010 to 47th in 2011). Other surveys point to strengths in public finance, infrastructure and labor market flexibility.

20. **However, a number of areas for improvement stand out (Table 3).** First, Kazakhstan fares poorly in trading across borders. It falls well into the bottom half of the countries in the sample, with the World Bank's Doing Business index ranking it close to the bottom 1 percent. Second, the World Bank notes that in terms of access to credit, Kazakhstan slipped by 3 places in its latest survey. In part, this weaker performance reflects the financial sector problems it continues to face. Third, in spite of its relatively high per capita income, Kazakhstan lags on health and education indicators, reflecting, as mentioned above, its relatively low spending in these areas. Finally, in some aspects of public administration, including efficiency of the bureaucracy, there is room for improvement. The surveys indicate aspects of public administration that hinder the capacity of business to invest and expand.

21. **Improvements in the business environment are key to support the authorities' diversification strategy.** Investments in non-oil activities need to achieve a level of productivity that would allow them to compete successfully. The chemical industry could be an area of competitive advantage in Kazakhstan as shown by experiences in other oil producing countries. In general, the international experience suggests that, in addition to

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<sup>15</sup> The most recent example being the new Law on Subsoil and Subsoil Use enacted in 2010. This law strengthens the public sector's rights over hydrocarbon and other mineral resources.

macroeconomic stability, mechanisms to support capital formation—including a healthy business environment—are needed to promote any industrialization strategy.

Table III. 2. Ease of Doing Business Rankings

Ease of doing business				Ease of doing business			
	Rank in 2010	Rank in 2011	Change in rank		Rank in 2010	Rank in 2011	Change in rank
<i>Caucasus and Central Asia 1/</i>				<i>Selected emerging markets</i>			
Armenia	44	48	-4	Thailand	16	19	-3
Azerbaijan	55	54	1	Malaysia	23	21	2
Georgia	13	12	1	Taiwan	34	33	1
Kazakhstan	74	59	15	South Africa	32	34	-2
Kyrgyz Republic	47	44	3	Mexico	41	35	6
Tajikistan	149	139	10	Peru	46	36	10
Uzbekistan	150	150	0	Colombia	38	39	-1
<i>Other former Soviet Republics</i>				Chile	53	43	10
Belarus	64	68	-4	Botswana	50	52	-2
Estonia	17	17	0	Kazakhstan	74	59	15
Latvia	27	24	3	Czech Republic	82	63	19
Lithuania	26	23	3	Poland	73	70	3
Moldova	87	90	-3	China	78	79	-1
Russian Federation	116	123	-7	Indonesia	115	121	-6
Ukraine	147	145	2	Brazil	124	127	-3
				India	135	134	1

Source: World Bank

1/Turkmenistan was not ranked in the survey

Table III.3. Key Areas for Reform in Kazakhstan  
(Identified by major competitiveness indicators)

	Rank 1/	Percentile 1/
<i>World Competitiveness Yearbook (2011)</i>		
Finance	51	13.6
Health and environment	55	6.8
Education	41	30.5
International trade	39	33.9
Bureaucracy	39	33.9
<i>Doing Business Survey 2011</i>		
Finance: availability of credit	72	60.7
Trade: Trading across borders	181	1.1
Dealing with construction permits	147	19.7
<i>Global Competitiveness Index 2010-11</i>		
Finance: Financial market development	117	15.8
Finance: Soundness of banks	131	5.8
Health	100	28.1
Education: Primary	77	44.6
Education: Higher education and training	65	53.2
Trade: Prevalance of trade barriers	116	16.5
Public institutions	91	34.5

Sources: World Bank, IMD, World Economic Forum

1/ A higher rank score (and percentile score) is better.

## F. Conclusion

22. **Kazakhstan's oil sector will continue to play a significant role in the economy and it will be important to ensure that oil wealth benefits are widely shared.** Kazakhstan's oil wealth has been prudently managed and has brought significant improvements in economic development and the wellbeing of the population. Nonetheless, there is a need to ensure that the oil sector contributes to achieving medium-term development objectives. In doing so, a strategy that focuses on improving the investment climate to facilitate private sector activity would spur development, especially in areas of comparative advantage, such as the chemicals sector. This will also result in enhanced absorptive capacity for further public investment. Progress in these directions will require structural reform efforts to reduce trade distortions, and ensure a predictable operating and tax setting in the extractive sector. These efforts should be set against finding the optimal balance between the use of commodity revenues and their accumulation in the NFRK within a consistent medium-term fiscal framework.