

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: AB973

Project Name	Agricultural Competitiveness Project
Region	EUROPE AND CENTRAL ASIA
Sector	Agricultural extension and research (60 %);Agricultural marketing and trade (40%)
Project ID	P049721
Borrower(s)	GOVT. OF KAZAKSTAN
Implementing Agency	Ministry of Agriculture of Kazakhstan
Environment Category	<input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input checked="" type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
Safeguard Classification	<input type="checkbox"/> S ₁ <input type="checkbox"/> S ₂ <input type="checkbox"/> S ₃ <input checked="" type="checkbox"/> S _F <input type="checkbox"/> TBD (to be determined)
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1. Country and Sector Background

1. Agriculture contributes to 8 percent of Kazakhstan's GDP and employs 22 percent of the economically active population. Although it was one of the hardest hit sectors during the transition, since 1998 the sector has been recuperating. During 1998-2003 agricultural production increased with an annual average growth of 20 percent. During this period crop output increased faster than livestock, comparing an average annual growth of 33 percent against 3 percent. However the relative weight of agriculture has been diminishing because of other sectors' strong growth – particularly in the extractive petroleum industry. The Government is carrying out a comprehensive effort to diversify the country's economy from the high dependence on oil, whose price volatility is notorious. Agricultural development is an important pillar of this effort.

2. Kazakhstan, a country five times the size of France, covers several different agro-ecological systems. The north is suitable for rainfed agriculture, where most cereals are produced. The center-south is desert and semi-desert, except in the foothills of the mountains in the south of the country, where agriculture is mostly dependent on irrigation (1.2 million hectares). Nationally, crops represent 58 percent of output, with wheat taking the largest share. Livestock products represent 42 percent of output, with meat and poultry (23 percent) and milk (14 percent) being the most important commodities.

3. Agriculture has a significant potential for development. Both crop yields and livestock productivity have room for significant increase. Average cereal yield is 1 ton/ha against 2.7 in Canada, with a similar climate, and 1.8 in Australia, with a similar extensive crop system. Milk yields currently stand between 1,800-2,000 Kg/cow/year, or one third of the average in New Zealand. Available pasture, although not of excellent quality, can sustainably maintain a much larger number of livestock than it currently does. In fact, Kazakhstan has the highest amount of permanent pasture per animal in the world. However, to unleash this potential the sector has to

tackle a number of problems, among which are appropriate access to markets, know-how and technology, and the right scale of credit.

4. Agricultural sector competitiveness is not clear-cut. As summarized in the following table, both positive and negative factors are important.

Table 1 - Factors Affecting Competitiveness of the Agricultural Sector in Kazakhstan

Positive	Negative
<ul style="list-style-type: none"> • Abundant natural resources (agricultural land) • Qualified labor force • Stable macro-economic environment • Low cost of energy • Increasing public support to the sector • High liquidity of commercial banks 	<ul style="list-style-type: none"> • Harsh and uneven climate • Difficult access to markets, know-how, and technology • Limited access to the right scale of financial services • Risk of currency overvaluation due to increasing oil revenue (Dutch disease) • Relatively high cost of labor • Less than favorable business environment

5. The growth of the last 6 years seems to show a comparative advantage in land-intensive products – such as wheat – rather than labor intensive products – such as fruits and vegetables. Cotton is an exception, with average annual export growth of 16 percent during the past 5 years. However, land-intensive products have limited added value and generate limited benefit for the country both in terms of diversification from extractive industry and rural poverty reduction. To offset the high costs of transport, long term competitiveness requires more added value agricultural products, and a consequent diversification from the current dependency on wheat and cotton, which together account for around 90 percent of agricultural exports.

6. *Limited access to markets.* Finding new markets is one of Kazakhstan’s agricultural sector key challenges. Domestic demand is almost fulfilled, except for specific niches such as high quality products, regional supply/demand imbalances (over-supply in rural areas, and under-supply in urban areas), and seasonality of supply. Therefore access to export markets is essential for growth. Russia is the major traditional export market for Kazakhstan. However Russia is achieving wheat self-sufficiency, and it may soon become a competitor of Kazakhstan: in 2002 for the first time, Kazakhstan exported more grain to Iran and Azerbaijan than to Russia.

7. International trade requires certified safe and quality products, including high standards of animal and plant health. Kazakhstan also needs to comply with the Sanitary and Phytosanitary (SPS) agreement to be able to access the World Trade Organization (WTO). Currently Kazakhstan has difficulty in meeting these requirements due to insufficient harmonization of standards and insufficient testing capacity. In the agricultural sector, only 3 out of 37 *agricultural* State (GOST) Standards and 14 out of 115 *food* GOST standards are internationally harmonized.

8. The private sector also has some difficulties in gaining access to the necessary skills to implement private standards to meet client demand (ISO, HACCP, GAP, GMP, etc.). For

instance, only 3 companies in the sector have introduced ISO standards. In addition, wheat classification in the CIS is based on gluten content, while international classification is based on protein content. Although the ratio between gluten and protein is usually 2/1, this is not a fixed ratio, and it can cause either unfair quality assessment or lead to litigation. Consequently, lack of harmonization limits the efficiency of wheat trade.

9. Price differentiation for product quality is also limited. For instance, most farmers do not receive different prices for class 2 and 3 of wheat. This creates a disincentive to produce higher quality products, which reduces the efficiency of the value chain. While competition among processors is reducing such inefficiencies, such as in the case of milk, where quality is becoming an important factor in pricing raw milk, the Government could also play a constructive role. This includes (i) to provide price differentials in the existing Market Information System, and (ii) to require that state owned companies apply price differentials when procuring agricultural products.

10. *Limited access to knowledge.* The number of farms has doubled from around 60,000 in 1998 to 120,000 in 2003. Many of these new farms are managed by farmers with limited experience in agriculture and limited access to modern technology for sustainable production. During the Soviet period there was a strong emphasis on research and technological development, which provided recommendations through the central planning system to large collective farms. The current agricultural knowledge system has to adapt to the increasing number of small farms and to the dismantled planning system. Therefore both investment in and understanding of technology adoption and extension is not sufficient to meet increased demand.

11. Agricultural research is currently carried out by 10 centers employing some 1,200 scientists. The public research system is undergoing a re-organization, though many shortcomings still remain. The system is under-funded, with an annual public investment of around \$6 million, or 0.3 percent of Agricultural GDP, (compared to a global average of over 1 percent). Even more importantly, there is no system of technology transfer to disseminate the findings of agricultural research and to facilitate adoption of technology by the final users (farmers and agro-processors).

12. Most agricultural research centers are involved in various types of commercial activities to counteract limited budget allocations. Much of these activities relate to non-research products and services which substitute for, rather than complement, research activities. The private sector is taking an increasing, albeit limited role in agricultural research. According to the Scientific Technical Information Institute, the private sector finances 10 percent of total investment in agricultural research.

2. Objectives

13. The project objective is to increase the competitiveness of the agricultural sector in Kazakhstan by facilitating access to markets and knowledge. To achieve this objective, the project would:

- (i) facilitate access to markets by improving the quality and safety of agricultural products, facilitating access to information, and improving market efficiency; and

- (ii) increase the quality, quantity, and relevance of public and private investments in applied agricultural research and knowledge transfer.

14. The key impact indicators proposed for the Project are:

- (i) increased profitability of farms, particularly small and medium-sized farms; and
- (ii) increased access to markets – including foreign markets – for selected commodities.

15. Key outcome indicators:

- (i) increased capacity to certify quality and safety of agricultural products measured through improved quality of testing, increased access, and cost reduction;
- (ii) increased value of agricultural exports, including livestock products;
- (iii) increased efficiency of agricultural applied research and technology transfer measured by an increased number of adopters; and
- (iv) increased participation of the private sector in agricultural policy development, applied research, and technology transfer.

16. Key output indicators:

- (i) harmonization of 7 technical regulations, each consisting of a number of individual standards;
- (ii) international accreditation of 60 laboratories;
- (iii) increased collaboration – including co-financing – between public and private sectors in supervising food safety and certifying quality of agricultural products;
- (iv) 120 market-oriented subprojects implemented;
- (v) 800 applied research and extension subprojects implemented;
- (vi) increased number of qualified young scientists employed and/or retained in the public research system; and
- (vii) establishment of Governing Board, Coordination Center, and Peer Reviewing Panel.

3. Rationale for Bank Involvement

17. Given the high level of priority that the Government is attaching to agriculture and rural development, this project represents an excellent opportunity to collaborate with Kazakhstan. The World Bank has extensive experience in ECA and Latin America in the design and implementation of extension projects, comprising competitive funding schemes for agricultural research and extension. Some of the most notable examples are Chile, Colombia, Brazil, Bolivia, Ecuador, Croatia, Azerbaijan, Romania, Albania, Georgia, and others. This experience is particularly valuable in the separation of roles between public and private actors. The World Bank involvement can act as a catalyst to increase collaboration between public and private actors by improving the perception of objectivity regarding decisions of both sides.

18. The Bank is a major financier for strengthening agricultural research and extension systems worldwide and has strong commitment to this important instrument to stimulate economic growth and alleviate rural poverty. The recent experience with the Country Innovation Day in Central Asia as also been helpful to test a similar competitive scheme.

19. The World Bank experience in quality and safety management of agricultural products is more recent, with some good examples in EU accession countries (i.e. Romania). The World Bank can be a catalyst for involvement of several international organizations, such as the FAO and Codex Alimentarius, which are playing an important role in these activities. This is indeed what happened during the implementation of the project preparation grant, where the partnership with FAO played an important role in strengthening links with the Codex Alimentarius Commission.

4. Description

20. The Project will consist of the following four components: (a) quality and safety management of agricultural products (b) agricultural marketing, (c) applied agricultural research and extension; and (d) institutional development and agricultural policy.

21. Component 1. Quality and Safety Management of Agricultural Products. The component will enhance the management of food safety control and quality certification along the value chain. It will comprise the following two sub-components:

22. *Subcomponent 1.1. Harmonization and Development of Standards.* The subcomponent will strengthen the ongoing effort of standards harmonization, including the safety (public) standards required by the *Codex Alimentarius* and the Sanitary and Phytosanitary (SPS) Agreement of the WTO and a set of quality (private) standards including organic production.

23. *Subcomponent 1.2. Quality and Safety Monitoring* The subcomponent will improve the capacity of the public and private sectors to monitor food quality and certify standards of agricultural products through an internationally recognized system for testing and monitoring of quality and safety.

24. Component 2. Agricultural Marketing. The component will improve agricultural producers' and processors' understanding of markets, ensure equal access to information, and promote the country's image to facilitate exports. It will develop the Market Information Systems of the Ministry of Agriculture and support development of marketing-oriented infrastructure along value chains. The component will comprise the following three subcomponents.

25. *Subcomponent 2.1. Strengthening the Market Information System.* The subcomponent will strengthen the existing system in the following aspects: (i) adding quality classifications and price differentials to the existing price lists; (ii) increasing the frequency of price provided, providing at least a daily frequency for perishable agricultural products, (iii) complementing price information with traded quantities; (iv) complementing the existing web page with means of easier access to farmers and traders, such as mass media (newspapers, radios, TVs) and cellular phones; (v) strengthening the monitoring of information use, and (vi) enhancing analytical capacity.

26. *Subcomponent 2.2. Development of Market-Oriented Infrastructure.* The subcomponent will provide financial incentives to the private sector to increase its investment in marketing-oriented infrastructure.

27. *Subcomponent 2.3. Enhancing the image of Kazakhstani agriculture.* The subcomponent's activities will promote the image of Kazakhstan's agriculture and its produce in foreign markets and will include (i) holding well-targeted public relations campaigns; (ii) participation in fairs and international events to promote the country's agricultural products; and (iii) providing competitive grants to companies for promotion of products and agricultural activities with a public sectoral benefit.

28. Component 3. Applied Agricultural Research and Extension. The component will comprise the following two subcomponents.

29. *Subcomponent 3.1. Applied Research.* The subcomponent will (i) provide technical assistance to complete the design of, implement, and monitor the draft plan to reorganize the existing agricultural research; (ii) finance advance education for 60 young scientists; and (iii) utilize a Competitive Grant Scheme (CGS) to finance applied research proposals.

30. *Subcomponent 3.2. Agricultural Extension.* The subcomponent will (i) establish a public network of extension; (ii) provide a system of support to the extension agents, including selection, training and output oriented monitoring of extension agents; (iii) train and certify 400 private extension agents; and (iv) utilize a Competitive Grant Scheme to finance extension and training proposals.

31. Component 4. Institutional Development and Agricultural Policy. The component will comprise the following two subcomponents.

- 32. *Subcomponent 4.1. Institutional Structure.* According to international experience, three bodies would be set up for the competitive grant system: (i) Governing Board, (ii) Secretariat, and (iii) Reviewing Panel.

33. *Subcomponent 4.2. Project Evaluation.* The subcomponent will finance technical assistance to carry out project evaluation which will be presented directly to the Governing Board.

34. *Subcomponent 4.3. Agricultural Policy Development.* The subcomponent will strengthen the capacity of public sector to analyze, monitor and develop agricultural policies. This subcomponent will also finance training to selected staff of the Ministry of Agriculture, comprising a limited number of study tours.

35. Total components cost - **90.3**

5. Financing

Source:	(\$m.)
BORROWER	50.6
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	35.8
Total	90.3

6. Implementation

36. Partnership arrangements. The project is co-financed by the Government of Kazakhstan, the International Bank for Reconstruction and Development (IBRD), and beneficiaries comprised of private and public sector institutions. Project preparation was carried out in partnership with several governmental agencies (such as Ministry of Agriculture, Standardization Commission of the Ministry of Industry, Ministry of Health), private sector (Seimar, Raimbek Group, KazAgroMarketing State Owned Expertise, Food Contract Corporation State Owned Expertise, etc.), and civil society (Farmers' Union, Forum of Entrepreneurs, etc.). Ample representation in the project Governing Board and the matching-grant approach will allow such partnership to continue during project implementation.

37. In the standard harmonization component the project will closely work with the Codex Alimentarius (FAO) and other standard setting organizations.

38. The project will also expand activities started by the TACIS/EuropeAid Support to Agricultural Producers to Establish a Vertical Market Integration Project.

39. Institutional and implementation arrangements. The Ministry of Agriculture will be responsible for project implementation. The institutional development component will create an institutional structure for project implementation, composed by a Governing Board, a Coordination Center (Secretariat), and a Peer Reviewing Panel.

40. One third of project expenditures will be managed according to the Competitive Grant Scheme (CGS) model. The CGS is a demand-driven financing scheme which separates funding from delivery. Taking into account the present institutional situation and the medium term forecasts, the **funding** of some project activities is a public responsibility, while the **delivery**, can be carried out by either public, private, or civil society organizations. This approach allows for a gradual move towards higher levels of engagement by the private sector and agricultural organizations and can contribute to improve efficiency. The proposed competitive funding system will complement but not substitute the core funding of the agricultural knowledge system.

41. Significant international experience exists on using the CGS approach for adaptive research and extension. Private sector concrete involvement can contribute to increase adoption and transfer of technologies.

7. Sustainability

42. Sustainability will depend on the capacity of the project to demonstrate that the proposed approach will produce evident improvements. On the condition that the Government will clearly perceive the benefits generated, it is expected that it will have enough available resources to continue funding many project activities (even though with natural evolution and variation of the approach), provided that oil revenues will not drop too sharply. The legal base of the institutional structure is expected to make the foundation for permanent institutions within the Ministry of Agriculture.

43. In addition, the proposed approach creates strong incentives for the private sector to gradually take over other project actions. It is therefore expected that the private sector will take an increasing role in both quality management and agricultural research and extension.

8. Lessons Learned from Past Operations in the Country/Sector

44. The findings of two studies on livestock and fisheries in Kazakhstan were incorporated into the project. The **livestock** study highlights the importance of lowering marketing costs, promoting food quality and standards, raising efficiency at the farm level, and making government spending more effective to stimulate the sub-sector. All of the identifies priority areas will be addressed by the proposed project. The **fishery** study proves the relevance of fish and fish products for in both social and economic terms. It highlights the importance of improving institutional framework, enhancing marketing, and increasing investments in technology. Lessons learned from these studies include: (i) the importance of adopting a gradual approach in strengthening quality and standards requirement to increase food security and facilitate access to markets without damaging the weakest segment of production, (ii) the relevance of extension and demonstrations to show how improving current feeding practices can lead to increased profitability; and (iii) the necessity of improving the legal framework for fisheries.

45. Bank experience, as documented by OED evaluations, indicates that the following elements are important for success of agricultural research and extension projects:

- (i) **Both public and private sector services** should be considered in extension system design and both traditional mass media and new communications technologies may be appropriate in extension programs.
- (ii) **Needs-based extension staff training** should focus on training extension workers to encourage farmer organization participation in extension in addition to providing technical information.
- (iii) **Considering technology generation and transfer as elements of a single system** promotes synergies between scientists, educators, extension agents, farmers, and industry stakeholders.
- (iv) **Effective institutional linkages with research system clients** require farmer involvement in determining research agendas and consideration of gender effects in research planning and execution.

9. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment (OP/BP/GP 4.01)	[X]	[]
Natural Habitats (OP/BP 4.04)	[]	[X]
Pest Management (OP 4.09)	[X]	[]
Cultural Property (OPN 11.03 , being revised as OP 4.11)	[]	[X]
Involuntary Resettlement (OP/BP 4.12)	[]	[X]
Indigenous Peoples (OD 4.20 , being revised as OP 4.10)	[]	[X]
Forests (OP/BP 4.36)	[]	[X]

Safety of Dams (OP/BP 4.37)	[]	[X]
Projects in Disputed Areas (OP/BP/GP 7.60)*	[]	[X]
Projects on International Waterways (OP/BP/GP 7.50)	[]	[X]

10. List of Factual Technical Documents

1. Agricultural Competitiveness Project – Report prepared by the International and National Consultants for KERA, the Ministry of Agriculture and the World Bank Kazakhstan, October 31, 2003
2. Agro-Food Program of Kazakhstan for Years 2003 – 2005.
3. Akhmetova, Dinara – Report on MIS and Value Added Chains
4. Balgabaeva, Zhanar - Report on the System of Agricultural Knowledge and Information – December 2003
5. BISAM Company - Rapid Rural Assessment of Social Issues: Qualitative Analysis, May 2004
6. Debatisse, Michael, and Philippe Chabot - A Review of Grain Marketing Sector in Kazakhstan and Ukraine, June, 2000
7. Deberdiev, Anvar– Institutional Development and Policy Framework – April 2004
8. FAO – Wheat Production in Kazakhstan Technology, Incentives and Competitiveness, October 2003
9. Financial Management Guidelines for Project Management Unit
10. Giovannucci, Daniele - National Trade Promotion Organizations: their role and functions
11. Giovannucci, Daniele, Back To Office Report, March 10-16, 2004
12. Giovannucci, Daniele, Back To Office Report, October 24-28, 2003
13. Grigoruk - Report on Knowledge Extension and Transfer, April 2004
14. Integrated Safeguards Data Sheet and Minutes of Public Disclosure
15. Jumabayeva Anara – ACP Economic and Cost Analysis, May 2004
16. Kazantseva, - Report on Reforms in Agricultural Commodities Quality Assessment
17. Kenny, Mary – Report on management of food control programmes and improvements in compliance with food safety standards and the SPS Agreement, March 6, 2004
18. KERA Company - Feasibility Study, June 2004
19. Latypova, Olga – Quality Improvement by International Standards, November 2003
20. Laurent Gaonac'h and David Loftus, Kazakhstan - Au pays des steppes, la filière blé mise sur l'export, 2003

* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas

21. Mandl, Paul - Quality Improvements Through International Standards, May 2004
22. McMurray, Cecil H – Report on Monitoring and Control of Quality of Agricultural Products and Food Safety, March 31, 2004
23. Nazhmidenov, Kairat – Seed System of Kazakhstan – October 2003
24. Operational manual “Competitive Grand Scheme of the Agricultural Competitiveness Project”, June 2004
25. Procurement Plan
26. Project Implementation Manual
27. Sadler, Marc - Livestock, Cotton & Oilseed Sectors, May 2004
28. Santucci, Fabio M. - Agricultural Knowledge and Information System in Kazakhstan: Present situation and proposals for its improvement, within the framework of the Agricultural Competitiveness Project, March 22-30, 2004
29. Serova, Evgeniya - Overview of the Food and Agricultural Policy in the Republic of Kazakhstan, May, 2004
30. World Bank Sector Work– Kazakhstan’s Livestock Sector – Supporting Its Revival
31. Zharmagambetova, Zhamal – Justification on Reforms in Agricultural Commodities Quality Assessment, March 2004

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