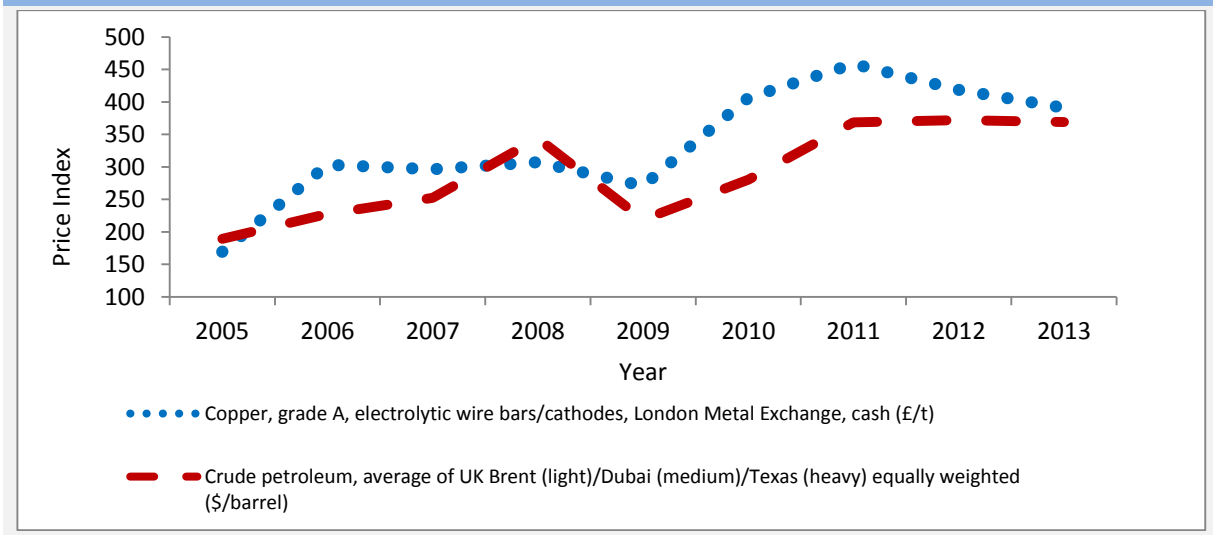
4. Economic Diversification and Nonextractive Growth

Diversification of the economy and broad-based economic development are critical for the long-term sustainable development in resource-rich developing countries (RRDCs) for two reasons. First, the high level of export concentration makes these economies vulnerable to commodity price fluctuations (figure 4.1) that can result in abrupt contraction of public resources and/or create a negative spillover effect in the rest of the economy. Second, extractive sectors are generally capital intensive, have weak links to the rest of the economy, and, as a rule, do not generate much employment. Therefore, investments in these sectors and their expansion have a low impact on the growth and productivity of other industries leading to a high concentration of gross domestic product (GDP) and a low impact on job creation.

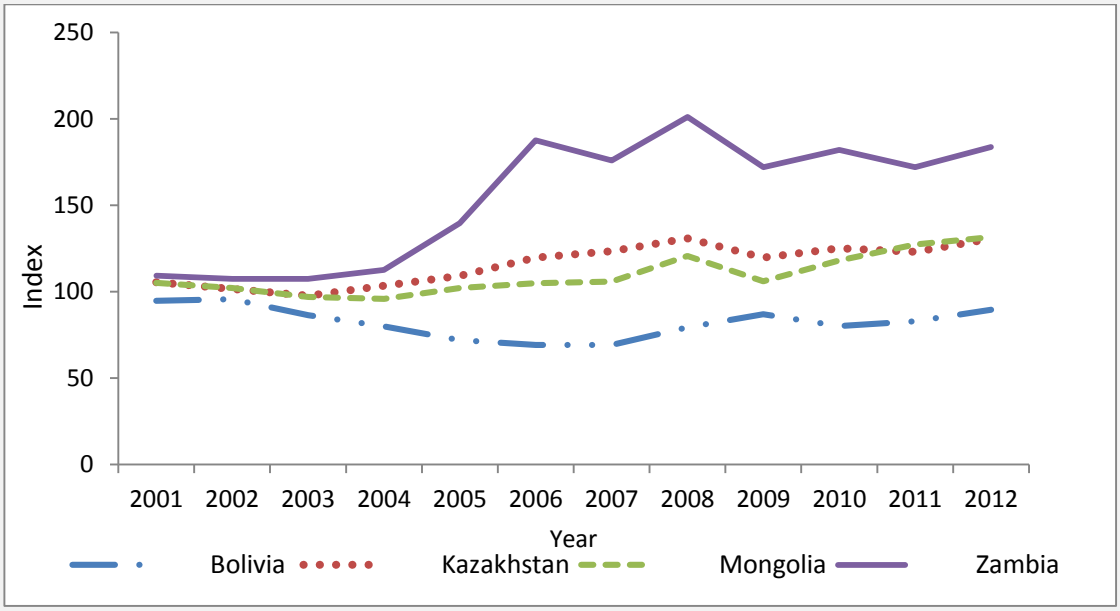
Resource-dependent countries, however, face a number of challenges in achieving economic diversification. Fast growth in export revenues from resource extraction is invariably accompanied by exchange rate appreciation pressures, or the so-called Dutch Disease, that reduces competitiveness of other traded sectors of the economy (figure 4.2). Three of the four case study countries suffered from this phenomenon over the last decade, albeit to a varying degree and with fluctuations linked to resource revenues. To counteract the Dutch Disease, countries need to increase productivity and promote investment in nonextractive sectors to spur their growth.

Figure 4.1. Price Index of Selected Commodities 2005–2013, (2001 = 100)



Source: United Nations Conference on Trade and Development (UNCTAD).

Figure 4.2. Real Exchange Rates, 2001–13, (2001=100)



Source: UNCTAD.

There is no clear consensus about measures that are necessary to achieve economic diversification, but a few general principles are widely accepted. First, investments in infrastructure—for instance, improving a poor road network and lack of access to power—are often the most critical constraints for growth in many developing countries. These investments are important for reducing the cost of doing business and improving competitiveness. Second, support for agriculture: despite increasing reliance on resource rents, agriculture is often still the sector that employs the largest share of the labor force (32 to 40 percent in **Bolivia**, **Mongolia**, and **Kazakhstan**, and a reported high of 72 percent in **Zambia**). It faces pressures both from the exchange rate appreciation as well as from increasing mechanization as wages are pushed up. Improving agricultural productivity and commercialization, and linking producers to markets are among some of the important measures in this regard. Examples of countries such as Chile and Malaysia confirm the proposition that a healthy rural economy is also important for industrialization because of the linkages between the two. Third, it is important to promote private investment in the nonextractive sectors through improving the business and regulatory environment, providing better access to finance, and supporting entrepreneurship and skill development (see box 4.1). Many governments have also attempted a proactive industrial policy through a system of targeted subsidies and incentives. The efficacy of such measures has generally not proven to be high. Chile provides a good example, whereby the government—while being very particular about the fundamentals (macroeconomic stability, fiscal discipline and business climate conducive for investment)—did not pursue an "industrial policy" approach. Rather, it

encouraged a wide array of small-scale experimentation, with broad participation of nongovernmental organizations (NGOs) and the private sector (box 4.1).

Box 4.1. Chile's Innovation and Entrepreneurial Ecosystem

Background: Although copper remains the main export item (47 percent of total exports amounting to 12 percent of GDP), and an important source of revenue in Chile, non-copper exports have expanded significantly, particularly in renewable natural resources (for example, fisheries, forestry, and agriculture). This expansion is generally attributed to favorable exchange rates in the 1970s and 1980s, and improved policies (open trade, an increased use of Free Trade Agreements, and expansion of public infrastructure). The introduction of the fiscal rule has had a positive influence on these exports by providing a minimal predictability of the exchange rate path, in spite of fluctuations in the price of copper. It has been a critical factor because of the long maturation period for many of these exports (agriculture). Chile has also diversified its export markets to reach East Asia and Europe. Overall, there is an increased awareness of the importance of innovation to growth and a desire to move toward a more diversified and knowledge-based economy.

Chile's National Innovation System: The institutional set up for promoting innovation is rather simple and includes two main government bodies. The National Council on Innovation for Competitiveness (CNIC) advises the President on innovation policies, including the education of specialized human resources and development, and the transfer and diffusion of technology. It produced a strategy entitled "Towards National Innovation" (2007) which identified wide–ranging reforms and initiatives to be financed with the funds from copper royalties. The Ministerial Committee on Innovation is a policy-making body, which further articulates the innovation policies established by the CNIC, and executes and monitors their implementation. The budget of the National Innovation System grew from $437 million in 2007 to $1.037 billion in 2013.

Innovation and Entrepreneurship: Chile's success as a hub for innovation and entrepreneurship in South America has been aided by its business-friendly environment, and a large number of schemes and funds made available by the government, universities, foundations, NGOs, and others to encourage innovative and experimental activities in the non-mineral sectors. Many innovation efforts have used a "clustered," sector-specific approach, targeting vertical programs. During the mission to Chile, the evaluation team found that although there is broader support for horizontal programs, a few experts felt that the cluster approach should also be considered, at least at the experimental level, to the extent that such pilots are based on limited fiscal funding and co-financing from the private sector. Interestingly, so far, the most active and promising programs in this area were the ones supporting links to the copper sector, including suppliers (machinery and other technology) and consulting services.

Simultaneously, various other initiatives used horizontal approaches that try to encourage research and development (R&D) and commercialization independently of specific sectors. For example, there is an R&D tax credit for in-house projects. In 2013, the Ministry of Economy launched a portal that allows businesses to incorporate online in just one day. One of the most successful initiatives creating headlines all over the world and promoting awareness of Chile's own "Chilecon Valley" is the Start-Up Chile Program, launched in 2010 to attract e-commerce and information technology (IT) software ventures. With this program, the government provides a co-financing grant and a one-year visa to entrepreneurs from all over the world to develop their projects in Chile. Although the program is open to Chileans, most of the start-ups come from abroad. As of 2013, Chile has paid 1,567 entrepreneurs from 65 countries to launch 732 startups. The Chile–California Program was an important example of a successful mechanism for the transfer of "know-how" in agriculture. Through this program, the Ford Foundation funded the training of Chilean agronomists at the University of California-Davis. This led to

a number of successful initiatives, such as the introduction of new varieties of crops (for example, yellow corn) with the participation of university research centers.

Lessons Learned. The Chilean experience with developing nonextractive, export-oriented sectors proves that it can be a very long process that requires a long-term commitment to the fundamentals, such as maintaining a predictable and open trade regime, providing necessary public infrastructure, as well as being open-minded about experimenting, albeit on a small scale. The most visible success stories (wine, fruit, and salmon) are often country-specific and driven by *sui generis* geographic and historical factors, and hence hard, if not impossible, to replicate. At the same time, the Chilean experience shows that horizontal policies for promoting innovation and nonextractive growth—ensuring an even playing field, improving the business environment, providing non-distortionary incentives and complementarities, investing (small scale) in R&D together with the private sector, encouraging and facilitating links between various industries, including the extractives sector—can be quite effective. Such policies also may not require large fiscal commitments. In fact, the key word in Chile seemed to be "innovation" rather than "diversification." Many initiatives on "innovation" were actually feeding off of the booming mining industry, providing services and technological solutions. Securing co-financing from the private sector was considered critical, and equivalent to passing the "market test."

Three factors consistently emerge as key to promoting growth and innovation in nonextractives: (i) **getting the fundamentals right** (macroeconomic stability; control of inflation; an open trade policy; transparency and good governance; a conservative and countercyclical fiscal policy; a healthy banking sector; and an independent Central Bank); (ii) **investing in basic infrastructure**—roads, communication, and access to electricity and water; and (iii) **investing in people**, especially in education at all levels.

Sources: World Bank Group; IEG.

World Bank Group Strategies

The Bank Group strategy in two of the four case study countries—**Kazakhstan** and **Zambia**—explicitly had economic diversification as one of the key objectives. Diversification did not feature prominently in any of the country partnership strategies (CPSs) for **Bolivia**, but was implicit in the objective of "productive development and job creation." In **Mongolia**, given its relatively recent arrival in the group of resource-rich countries, earlier strategies (2004–10) did not emphasize diversification and job creation; rather, the focus was on developing a suitable Bank Group engagement strategy in a rapidly changing macroeconomic situation linked to an envisaged significant increase in mineral revenues. The most recent CPS (2012) has building a "sustainable and diversified basis for economic growth and employment in urban and rural areas" as one of its three objectives.

In each of the four countries, the approach to diversification largely followed the three-pronged strategy mentioned above, but with a significant variation in emphasis among the different components. The CPSs for **Kazakhstan** and **Zambia** had the most comprehensive approach in this area, and **Mongolia** the least. In none of the countries, however, was the objective quantified in the results framework, nor were there any mechanisms in place to monitor diversification. In essence, the strategies broke down

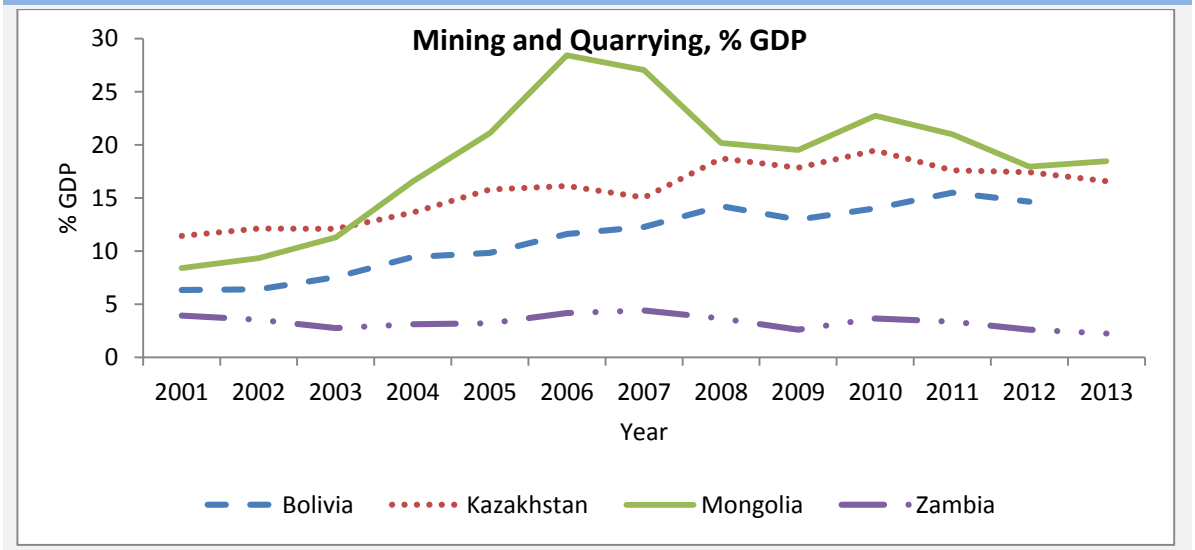
along conventional sector engagements: infrastructure, agriculture, and private sector development.

Outcomes and World Bank Group Contribution

The assessment of Bank Group programs in support of diversification is particularly challenging as none of the CPSs defined diversification beyond general statements or specified any indicators to monitor progress. Most indicators in the results frameworks tended to be at the micro level and had little relevance for measuring progress on the overarching objective.

The individual country program evaluations (CPEs) in this cluster tried (to the extent possible) using various other metrics for diversification—with all of them painting a somewhat negative picture. Using the share of extractives in GDP as the measure, indicates that economies of three out of the four countries are even more concentrated now than they were 10 years ago (figure 4.3). **Zambia** is an exception, but then mining and quarrying is still a much smaller part of its economy compared to the others. However, this measure could be misleading because with favorable price and volume trends, it may be inevitable that the share of extractives in GDP has increased.

Figure 4.3. Share of Mining and Quarrying in GDP, 2001–13

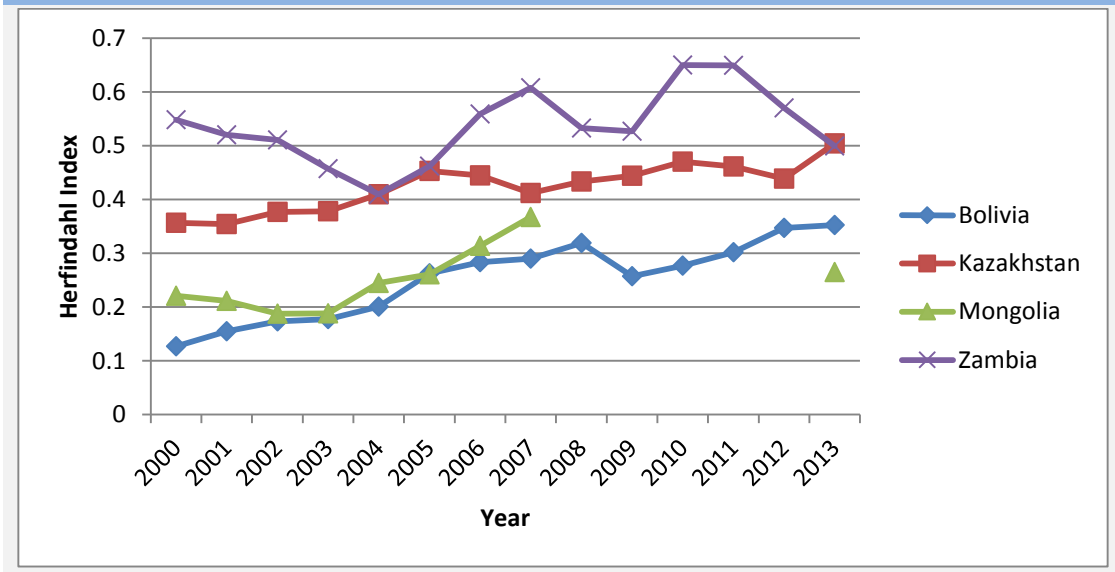


Source: World Development Indicators, World Bank.
Note: GDP = gross domestic product.

Another perspective is provided by using the export diversification index. A commonly used measure is the Herfindahl-Hirschmann (HH)[1] Index that measures the extent of diversification of exports across industries. The lower the number, the less concentrated

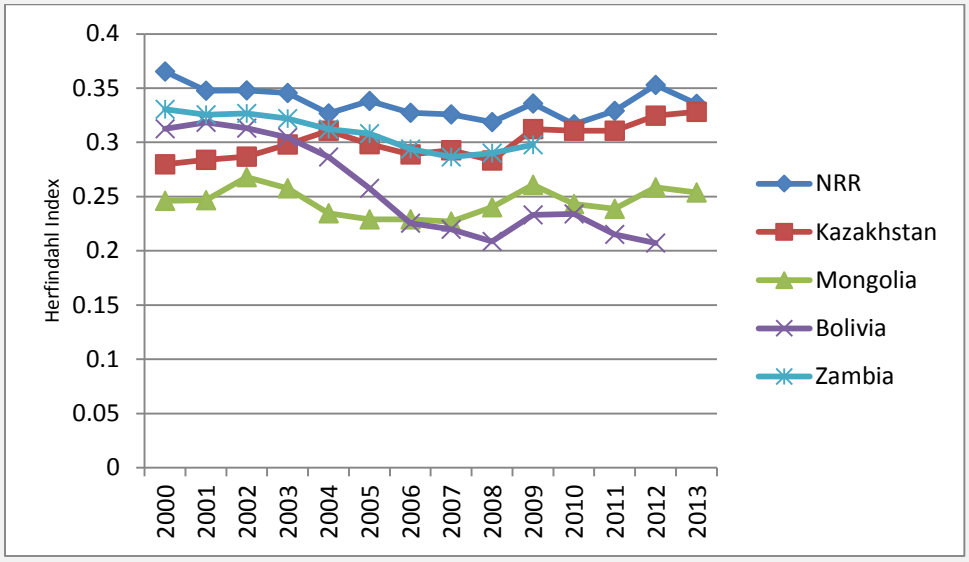
the exports. By this measure, the concentration of exports in all four case study countries either remained the same or increased over the last 10 years (figure 4.4). This too could be an incomplete or misleading measure. Export concentration could become higher despite growth in other exports if extractive industries are growing particularly rapidly, or because of growth in other extractive-related industries (**Zambia**) or sectors that are not labor-intensive (all four countries). Therefore, it does not address the issue of job creation outside of the extractive industries that most policy makers prioritize and to which the Bank CPSs give most importance. In this case, it might be useful to look at diversification across the key sectors—mining and quarrying, agriculture, manufacturing, construction, and services. Again using the HH Index as the measure, **Bolivia** and **Zambia** showed increased diversification since 2000 (figure 4.5). However, this measure also has a limitation in that there is no presumption that the composition of sectors in GDP is ideal. It could show improvement, for example, if the nontradable sectors are buoyant even while manufacturing and agriculture are stagnant.

Figure 4.4. Average HH Index for Export Diversification



Source: World Development Indicators, World Bank.
Note: HH = Herfindahl-Hirschmann; NRR = natural resource-rich countries.

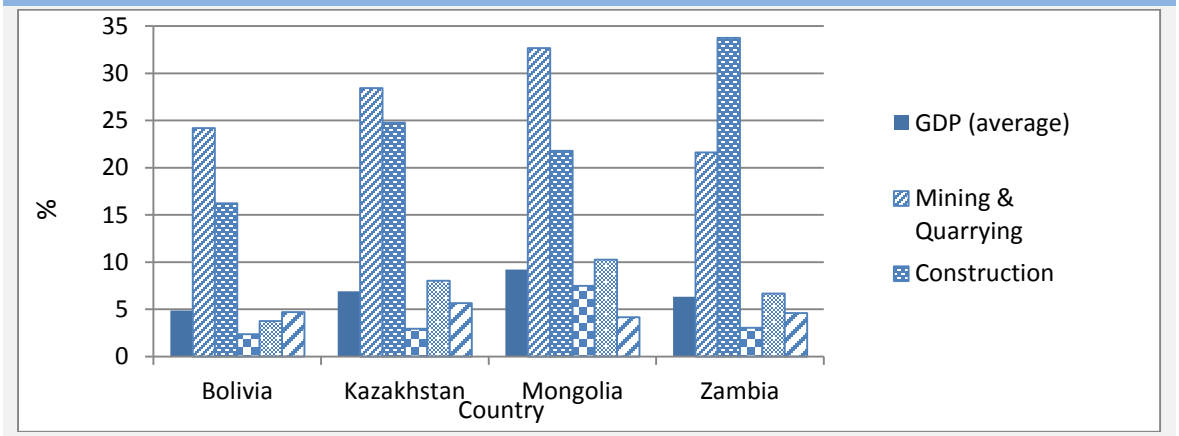
Figure 4.5. Average HH Index for Domestic Economic Diversification



Source: World Development Indicators, World Bank.
Note: HH = Herfindahl-Hirschmann; NRR = natural resource-rich countries.

Another possible measure is to look at growth over time in sectors that have the potential for job creation, including agriculture, services, construction, and manufacturing. The objective could be to aim for growth that is not too far below the overall GDP growth. This measure gives a slightly more nuanced picture (figure 4.6). In all four countries, GDP growth is driven largely by the extractives sector. Construction also experienced significant growth, probably linked to increased construction activity resulting from increased public and private investment in real estate. However, growth in manufacturing was anemic in most cases, with a mixed picture in agriculture.

Figure 4.6. Average Annual Growth Rates by Sector, 2004–2013



Source: World Development Indicators, World Bank.
Note: GDP= gross domestic product.

Ultimately, whatever the metric used, progress in economic diversification and growth in nonextractive sectors was limited during the review period. This has often spurred policy makers to pursue proactive promotional measures that can be costly, but whose efficacy has not been established.

Although diversification is widely seen as an important objective by the governments of resource-rich countries (and endorsed by the Bank in its country strategies), there is no full consensus on the subject in the literature. A recent Bank study (Gill and others, 2014) argues that based on historical evidence from industrialized countries, diversification is neither necessary nor sufficient for economic development. Instead, it notes that the strategy for resource-rich countries should not be to aim for economic diversification, but rather to efficiently convert resource rents into physical, human, and institutional capital. However, in another recent Bank economic report for Kazakhstan (World Bank 2013), a "positive association between rising diversification and rising per capita incomes for countries which have per capita income of up to $20,000" was noted. Nevertheless, its policy recommendations are consistent with those in the above-mentioned study. The Bank's de-facto focus on infrastructure, agriculture, and private investments is consistent with this approach, and appears to be generally relevant. However, this review of the four case study countries also provides several nuanced lessons in each of the three areas that could be considered in the future design of country strategies for resource-dependent countries.

Sector-Level Outcomes and World Bank Group Contribution

INFRASTRUCTURE

Infrastructure features as a high priority in the development plans of all four countries. In part, this is because deficiencies in infrastructure were often cited as a major impediment to growth. In addition, infrastructure improvements are also often seen as a way for governments to demonstrate the tangible benefits of resource rents to their people. This approach was evident in Bank Group strategies in all four countries, with the greatest emphasis in **Zambia** and **Kazakhstan** and to a more limited extent in **Bolivia** and **Mongolia,** where infrastructure investments were framed more from equity rather than a growth perspective. Bank Group support was primarily for roads and power, the two infrastructure subsectors that are often the highest priority, with generally satisfactory outcomes (with the exception of the road subsector in **Mongolia**). Bank Group support was primarily in the form of World Bank lending and (limited) non-lending services. Except for some infrastructure-related investments in sectors such as telecom and gas, and a few aborted attempts to develop public-private partnership (PPP) projects in **Zambia** and **Kazakhstan,** the role of the International Finance

Corporation (IFC) in providing advisory services or offering long-term financing in infrastructure projects was minimal.

Roads: Within infrastructure, roads received the greatest focus, both for upgrading and expanding the network and for ensuring adequate institutional mechanisms for sustainable financing. The road sector was a major and sustained focus of Bank support in **Zambia** and **Kazakhstan**, providing examples of effective Bank interventions. Both countries have ambitious programs of upgrading and expanding their road networks. In **Zambia**, the Bank (jointly with other donors) helped finance road investments and the establishment of new institutions. Today, the sector structure is solid, even from an international perspective, although its efficacy in recent years has come under threat as the government faces increased political pressure to expand the network beyond what is considered to be economical and sustainable. In **Kazakhstan**, with funding of more than $3 billion since 2009, the Bank is the single largest donor for the government's program to upgrade the Central Asia Regional Economic Cooperation (CAREC) corridors that pass through the country. Although Kazakhstan has ample resources of its own to finance the program, it invited the Bank to ensure sound program planning and execution. Bank involvement helped introduce stronger fiduciary and governance standards, upgrade the capacity of local contractors, and begin the modern maintenance practice of outsource contracting. The Bank also provided significant support for policy and institutional development in the sector.

Power: Increasing access to power was an important goal in all four countries, and all four faced the need for additional investments in power generation with the attendant growth of their economies. Like roads, power was a significant focus of World Bank programs in **Zambia** and **Kazakhstan**, with more limited support in **Bolivia** and **Mongolia**. The Bank promoted the conventional policy and institutional reform agenda: increasing access, improving operational and financial performance of sector entities, establishing tariff-setting mechanisms, and promoting competition. Overall, the CPEs assessed outcomes in all four countries as moderately satisfactory, but the impact of the Bank on the subsector was limited. In none of the countries was the Bank's role central to sector development. Bank support was more opportunistic than based on a medium- to long-term sector strategy.

IFC was largely absent from the sector, in part because of a lack of interest from the governments to promote private power on terms that would be attractive to potential investors. Similar to the road sector, there is a strong rationale for the Bank to support the power sector, given its critical importance. In this context, the Bank also has an established sector policy of promoting commercial operations and private participation. However, Bank support for the sector was not central in any of the case study countries, indicating the need to find ways to broaden and deepen its support on a sustained

basis. Unlike the roads sector, the power sector appears to elicit significant interest from other donors and private players.

AGRICULTURE

All four reviewed countries had an established tradition of and an untapped potential for agricultural development. The sector received significant support in all four countries through projects designed to improve rural farm and non-farm incomes, promote value added through agro-processing, and the creation of non-farm employment. However, the Bank's impact in agriculture was limited because it lacked a strategic approach based on sector policy dialogue, and it missed opportunities for scaling up individual project interventions. The outcomes of Bank programs were rated unsatisfactory in **Zambia** and **Kazakhstan** and satisfactory in **Bolivia** and **Mongolia**. However, the Bank's main focus in both **Bolivia** and **Mongolia** was much more on livelihoods and rural poverty alleviation rather than on commercialization and export agriculture—areas most relevant to diversification. In **Zambia**, despite significant potential in agriculture, the Bank initially did not give priority to the sector, although the pace of Bank support picked up in the second half of the evaluation period. IFC has only one investment—in the country's largest agro-processing company (Zambeef), and it did not pursue an active policy of promoting agribusiness more generally. Bank experience in **Mongolia** and **Bolivia** points to the complementarity of rural poverty alleviation and diversification, although a more explicit consideration of these two goals could have provided alternative designs for the interventions. IFC's work in **Bolivia** stands out as one of the few examples of a proactive IFC role in agriculture.

Overall, Bank support for agriculture did not have much impact in the sector for several reasons, including: complex project designs; insufficient sector work; and disparate projects in different areas that lacked synergies. Most importantly, individual projects reflected opportunistic financing rather than being based on a well-considered and agreed sector strategy.

PRIVATE SECTOR DEVELOPMENT

In all RRDCs, the primary target of private investors quite naturally is the extractives sector. However, the extractive sectors rarely generate much employment. Dutch Disease, combined with the typical obstacles to doing business act as barriers to attracting investments in nonextractive sectors. In addition, there are often insufficient linkages by extractive sectors with domestic industry in terms of supply chains and sub-contracting. Thus, making nonextractive sectors attractive to private investors has been an important part of the Bank Group strategy in all four countries.

Private sector development (PSD) was a specific area of Bank Group programs in all CPE countries, but with significant variation in emphasis with regard to the

components. The Bank Group approach to PSD in all four countries can be divided into three components: (i) improving the business environment; (ii) promoting access to finance, particularly for small and medium enterprises (SMEs); and (iii) directing investments in sectors with greater employment potential. Within this broad framework, this was an area of shared responsibility between the Bank and IFC, with the Bank generally focusing on the business environment and IFC on investments. Regarding access to finance, the Bank generally focused on the broader financial sector issues, and IFC on making finance accessible to SMEs.

All four CPEs rated outcomes for PSD negatively. Two common reasons stand out in all countries: limited strategic thinking on PSD in general, and insufficient collaboration between the Bank and IFC, with often parallel and uncoordinated efforts, lacking consideration of relative comparative advantage and synergies. Instruments such as risk-sharing, guarantees, credit information, and so on, did not receive the attention necessary when the credit risk seemed to have been a bigger constraint than the availability of finance. IFC had a rather limited net effect in promoting investments in the nonextractive industries even though it made relevant efforts.

Business Environment. Improving the business environment was a specific area of Bank focus in **Bolivia** and **Zambia**. In both countries, the Bank carried out significant analytic and advisory activities (AAA) work to influence government policies, but with little impact. In **Zambia**, the Bank funded a number of studies dealing with competitiveness issues. Based on extensive consultations with the public and private sectors, the studies identified the critical policy and institutional constraints to attracting private investments in specific subsectors. The studies, however, did not find much traction in the government, in part because each had a long list of similar recommendations without adequate assessment of sequencing and implementation. They also lacked ownership within the government. Further, there are questions about the utility of subsector analysis without addressing the broader issues of competitiveness affecting the entire economy. IFC's limited involvement in the sector studies was a missed opportunity: its experience in dealing with potential investors could have provided valuable inputs, and the Bank's work could have been exploited by IFC in its investment promotion efforts. IFC's work on the business environment was primarily related to regular updates of the Doing Business (DB) indicators. Despite formal improvement in DB indicators in three of the four case study countries, the Independent Evaluation Group (IEG) observed a clear disconnect between the rankings and the actual perceptions of main participants and observers on the ground, including IFC staff, about the state of the business environment.

Access to finance by SMEs is often a challenge, and the four CPE countries were no exception. However, the financial sector in RRDCs did not have a liquidity problem,

given the growing revenues from extractive industries. The main constraint to SME finance was not availability of financing, but access. The Bank's role, as noted, was to ensure the soundness of the financial sector, and the joint Bank–IMF Financial Sector Assessment Program (FSAP) proved to be a valuable instrument in this regard in all four countries. In **Kazakhstan** and **Mongolia,** the financial sector faced serious issues of significant non-performing loans (NPLs)[2], mainly caused by the construction and real estate bubbles generated during the commodity price boom years. In both countries, the Bank supported reforms in the financial sector through development policy loans (DPLs) that allowed the government to restructure and capitalize the troubled banks. It also provided technical assistance and policy advice to design and implement the reform programs. Bank policy advice was sound, but the problem of NPLs continues to linger.

In **Kazakhstan,** IFC supported the financial sector during the financial crisis in 2008 through the re-capitalization of the systemic banks, providing higher risk financial instruments of equity and subordinated loans to improve the capital adequacy of client banks. In other CPE countries, IFC focused on loans or short-term trade finance guarantees to commercial banks for on-lending to SMEs and agribusiness, as well as support for leasing. Experience with these IFC loans, however, was mixed. In some cases, there was insufficient demand for IFC funds, often because the participating banks had access to other sources of funds at more favorable terms (**Zambia**), or because there was little impact beyond the benefits of the IFC financing itself (**Mongolia**). The banks in **Zambia** cited the issue of SME creditworthiness as the constraint, something IFC's financing alone does not address. To complement its loan operations, IFC also proactively supported various advisory services to SMEs, including some innovative pilot programs to work with grassroots organizations. Most of these programs, however, have remained at the pilot level, and have not been scaled up.

The episodes of financial crises in **Kazakhstan** and **Mongolia** point to broader financial sector issues in resource-rich countries. Increasing liquidity in the banking sector because of growing resource rents often carries the risk of questionable investments (for example, in real estate). This raises the question of whether the financial sector should have been an area of Bank focus from the outset.

Promoting private investment in nonextractive sectors. IFC's investments in nonextractive sectors in all four countries were limited, and were generally concentrated in the financial sector. In **Bolivia**, IFC made several efforts at engagement, but the business environment was not conducive to foreign investment. The nationalization of several IFC-financed companies in the last few years has no-doubt left a negative perception of country risk both in the markets and within IFC. In **Zambia**, IFC accomplished little beyond its investment in Zambeef and a few lines of

credit. More recently, IFC issued a Kwacha bond ($28.4 million) to deepen Zambia's capital market. While it has no short-term impact on private investment, it could prove to be an important instrument in developing Zambia's domestic capital market. Similarly, in **Kazakhstan,** during the whole period reviewed, IFC made only 10 investments in non-financial sectors (including cement, tourism, furniture, health insurance, transport, and agribusiness).

Conclusions

Economic diversification and growth of nonextractive sectors has been, and is likely to be, an important developmental objective in resource-dependent countries and the Bank Group strategies therein. At the same time, Bank Group strategies and studies do not have a common definition of diversification, as well metrics to measure it. There is, nevertheless, a common understanding that the basic policy tenet is that of using resource rents to build up other diversified assets. The most compelling conclusion based on recent studies, and confirmed by the practical experience of most successful countries such as Chile, is that the most important step a government can take is to focus on the fundamentals, that is: maintain macroeconomic stability, invest in infrastructure, improve the business climate, encourage private investment and invest in people[3]. In this regard, the Bank Group's broad implicit strategy of focusing on infrastructure, agriculture, and private sector development is relevant—although this evaluation observed a wide variation in performance and results in each area. In this context, the Bank Group could also help clients define a realistic diversification strategy, taking into account constraints and opportunities in each of the three component parts, and advised by analytical work. This review highlights a few lessons that could provide future guidance for Bank Group support in resource-dependent countries in specific areas.

Moving forward, it is important that the Bank define some suitable metrics that can help guide policy discussions on the effectiveness of these interventions. As discussed, various measures that have traditionally been used to measure diversification have limitations. Therefore, it may be useful to have a combination of various metrics that, taken together, can shed light on the effectiveness of the programs. These may also need to be combined with broad measures of sector-level performance.

Infrastructure is a sector in which the Bank Group needs to maintain and expand its presence. Most countries have growing needs in this area, and the Bank has an advantage in providing a combined approach to both the physical and institutional dimensions of sector development. Bank experience in infrastructure was generally positive in all four countries reviewed. Transport (roads) and power are the most

important subsectors that have a direct bearing on private investment. However, there is a risk of countries pursuing sub-optimal investments in response to political and popular pressures. Thus, the focus of the Bank should continue to be on ensuring the economic efficiency of investments and on institutional development. Other subsectors (water and sanitation, urban services, and so on) are unlikely to feature prominently in investor perceptions. Bank support in these areas could be primarily viewed from the lens of social development.

Agriculture is an important sector that needs to be supported by significantly more analytical work. Despite the well-recognized importance of the sector and its high potential in all four CPE countries, the outcomes of Bank programs have been generally poor. The Bank has often lacked a coherent strategic approach to the sector around which different interventions could then be designed. In most cases, there was little synergy between the Bank's individual projects, thus severely diminishing their sustainability. Agriculture is a sector in which the economic diversification objective overlaps with rural poverty alleviation. In RRDCs, both perspectives need to be kept in mind in the design of strategies and interventions.

The PSD strategies of the Bank and IFC need to be joint not only in their titles. The Bank and IFC will have to formulate a coherent and actionable approach to PSD. All four observed country strategies did not present much evidence of any real coordination or cooperation between the two institutions. This has often meant missed opportunities, possibly a waste of resources, and, at times, inappropriate interventions. IFC could become more proactive in seeking out potential investors in nonextractive sectors, and particularly in labor-intensive sectors.

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[1] The Herfindahl-Hirschmann Concentration Index shows whether exports are concentrated on some products or distributed in a more homogeneous manner among a series of products.

[2] According to the most conservative estimates, NPLs amount to 30 to 35 percent of the total number of loans in Kazakhstan, thus making it the global "leader" in this respect.

[3] This aspect (e.g., skills) is covered in chapter 5.