

ASIAN DEVELOPMENT BANK

**COUNTRY ASSISTANCE PLAN
(2001–2003)**

KAZAKHSTAN

December 2000

FOREWORD

The Country Assistance Plan describes the planned program of assistance by the Asian Development Bank for Kazakhstan covering the three-year period 2001-2003. It includes loan and technical assistance projects, as well as possible cofinancing from other donors. The CAP was prepared by ADB between April and June 2000, in close consultation with the Government of Kazakhstan and other stakeholders, including nongovernment organizations. The CAP was discussed with the Board of Directors in October 2000. The assistance plan described in the CAP is only indicative and may be revised to reflect more recent developments.

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CURRENCY EQUIVALENTS

(as of 30 November 2000)

Currency Unit	–	Tenge (T)
T1.00	=	\$0.00694
\$1.00	=	T144.1

ABBREVIATIONS

ADB	-	Asian Development Bank
CAP	-	Country Assistance Plan
COS	-	Country Operational Strategy
CSP	-	Country Strategy and Program
DMC	-	developing member country
EBRD	-	European Bank for Reconstruction and Development
EFF	-	Extended Fund Facility
FSU	-	former Soviet Union
GDP	-	gross domestic product
IDB	-	Islamic Development Bank
IMF	-	International Monetary Fund
KARM	-	Kazakhstan Resident Mission
NGO	-	nongovernment organization
SME	-	small and medium-size enterprise
SOE	-	state-owned enterprise
TA	-	technical assistance

NOTES

- (i) The fiscal year (FY) of the Government ends on 31 December.
- (ii) In this report, "\$" refers to US dollars.

**COUNTRY ASSISTANCE PLAN (2001-2003)
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CONTENTS

	Page
I. Country Performance Assessment	1
A. Economic Performance Assessment	1
B. Poverty Assessment	2
C. Assessment of Socio- Environmental Performance	3
1. Gender Issues	3
2. Human Development	3
3. Environment	4
D. Governance	4
E. Implementation Assessment	5
1. The Portfolio	5
2. Issues in Project Implementation	5
II. Country Operational Strategy	6
A. The COS	6
B. Progress in Implementation	6
C. Poverty Partnership Agreement	6
III. Sector Strategies	7
A. Agriculture	7
B. Infrastructure	7
1. Energy	7
2. Transport	8
3. Industry and Finance	9
C. Social Infrastructure and Environment	9
1. Education	9
2. Water Supply	10
3. Environment	10
D. Governance Dimensions of ADB Operations	10
E. Gender Dimensions of ADB Operations	11
F. Private Sector Development	11
IV. Regional Cooperation	12
V. Donor Activities and Aid Coordination	12
VI. Cofinancing and Catalyzing External Resources	13
VII. ADB's Operational Program	14
A. The Proposed Program	14
B. Strengthened Role of ADB's Resident Mission	14
VIII. Economic and Sector Work Program	15
IX. Local Cost Financing	15
APPENDIXES	16

KAZAKHSTAN

I. COUNTRY PERFORMANCE ASSESSMENT

A. Economic Performance Assessment

1. The economy began to recover from the recession caused by the weak world commodity markets and the Russian crisis in the second half of 1999. Gross domestic product (GDP) grew by 1.7 percent in 1999, compared with a 1.9 percent contraction in 1998. This resulted from a bumper harvest, a rebound in industrial production, an increase in capital investment, and rising world prices for the country's major commodity exports such as oil and metals. Growth in GDP accelerated to about 10 percent in the first half of 2000 because of growing domestic consumption, strong exports, and the economic recovery in Russia.

2. Progress has been made in moving towards macroeconomic stabilization. The fiscal situation has improved, helped by strong economic growth, higher oil export revenue and the Government's efforts to strengthen tax collection and improve public expenditure management. Military expenditure fell in 1999 and accounted for 0.9 percent of GDP compared with 2.2 percent of GDP a year earlier. The budget deficit was reduced from 8 percent of GDP in 1998 to 3.5 percent in 1999. A budget surplus (1.8 percent of GDP) was achieved in the first half of 2000. Since late 1999, the monetary policy has been designed and implemented to stimulate economic recovery while keeping inflation under control. The refinancing rate was cut three times from 25 to 18 percent in 1999 and further to 14 percent in the first half of 2000. Inflation recorded 17.8 percent in 1999, largely due to the effect of currency devaluation. However, inflation has subsided since the second half of 1999 and was 5.1 percent in the first eight months of 2000. The national currency, the tenge, depreciated sharply against the US dollar after the authorities floated it in April 1999, but has largely stabilized since the second half of the year. The balance-of-payments situation has experienced encouraging developments. The external current account deficit was reduced from 5.6 percent of GDP in 1998 to 1.1 percent in 1999 as imports declined more sharply than exports. Exports have climbed since late 1999 due to the rising world prices of oil and metals, increased oil export quota through the Russian pipeline, and the effect of currency devaluation. As a result, a current account surplus (7.9 percent of GDP) was achieved in the first half of 2000. Detailed economic indicators are given in Appendix 1.

3. Despite the recent economic recovery, Kazakhstan needs to address three major issues so as to realize sustained, equitable economic development. First, efforts should be made to diversify the economy since it is highly dependent on the exports of oil and metals. Such an economic pattern not only raises the risk of "Dutch-disease", but also makes the country vulnerable to world price fluctuations. Second, the Government needs to improve external debt management. Kazakhstan's external debt situation is severe. By the end of 1999, external public debt amounted to \$4.1 billion (25.3 percent of GDP) and interest payments in the 2000 state budget account for 21 percent of revenues. The large external public debt can place macroeconomic stability in jeopardy and will have adverse effects on the sustainability of economic growth, because a sizeable portion of government expenditures must be used for debt servicing and thus limited resources are left for public investment projects and other development purposes. Third, despite the Government's initial enterprise reform, the corporate sector remains weak, as reflected by extensive corporate losses and inter-enterprise arrears. Strong efforts are required to develop an efficient corporate sector through the enforcement of bankruptcy and merger proceedings, accelerated enterprise restructuring, and improved corporate governance.

4. The Government has developed an economic program for 2000-2002 aimed at promoting economic growth and achieving macroeconomic stabilization. The program, supported by the International Monetary Fund (IMF) under a three-year Extended Fund Facility (EFF) approved in December 1999, focuses on consolidating public finances, reducing inflation, maintaining a free-floating exchange rate, and accelerating structural reforms. In the fiscal area, Parliament approved a more prudent government budget for 2000, which requires raising tax revenue, reforming the tax code, strengthening tax and customs administration, and improving public expenditure management. The central bank will strengthen its supervisory activities to ensure that all banks comply with prudential requirements, and will continue to intervene on the currency market to prevent excess short-term exchange rate fluctuations. The Government will enhance its efforts to liberalize the trade system by removing the tariffs imposed on its major trading partners in early 1999 and further reducing trade barriers. Moreover, the Government will restructure the financial and corporate sectors, accelerate privatization of medium-size and large state-owned enterprises (SOEs), improve governance, develop legal and regulatory frameworks necessary for a market-based economy, and fight corruption. These steps will help improve the quality of public services and promote private sector development.

5. The short-term economic outlook for Kazakhstan is positive. GDP for 2000 is projected to grow by about 7 percent, driven by the upward trend in world prices for major commodity exports and by continuing economic rebound in Russia, the major trading partner of Kazakhstan. The budget deficit for 2000 will likely shrink to about 3.0 percent of GDP, as the Government is committed to achieving medium-term sustainability of public finance. Inflation is projected to decline to about 9 percent in 2000, provided the central bank keeps tight control on credit growth and money supply. The balance-of-payments situation should continue to improve, as exports are expected to grow steadily and inflows of foreign capital should increase. The economy over the medium term, however, will depend on development of the domestic oil sector, the world commodity markets, and economic performance in Russia.

B. Poverty Assessment

6. Poverty has risen rapidly since Kazakhstan attained independence in 1991. The current economic growth is narrow-based (mainly oil, gas and metal subsectors) and has not led to a widespread improvement of the people's living standards. As a result, poverty remains a serious problem. The Government indicates that 43 percent of the population lived below the poverty line in 1999, compared with 25 percent in 1992. Poverty is more pervasive in rural areas than in urban areas, and those most affected are pensioners, women, and children.

7. The sharp rise in poverty was caused by the persistent economic difficulties. The economic contraction resulted in the increase in unemployment and the decline in personal incomes. Hyperinflation eroded real wages and social allowances to a fraction of the pre-independence values. Due to severe fiscal constraints, arrears on wage and pension payments in the public sector occurred, the Government's social expenditures were sharply reduced, and the delivery of social services (such as basic education and primary health care) and social assistance deteriorated.

8. The Government is conscious of the urgent need to address the poverty problem and approved a state program on fighting poverty and unemployment in June 2000. The program, which will be implemented during 2000-2002, aims at poverty reduction through the creation of income-generating job opportunities, improvement of social services delivery, and strengthening of social safety nets. In particular, the program proposes to reduce the rate of unemployment from 13.5 percent in 2000 to 9 percent in 2002. To effectively implement the antipoverty

program, efforts are needed in three areas. First, a comprehensive poverty analysis should be undertaken to examine the causes and extent of poverty, and options for poverty reduction. Moreover, measures need to be taken to promote pro-poor, sustainable economic growth and social development, and improve governance. Special attention should be paid to stimulating development of small and medium-size enterprises (SMEs) and strengthening institutional capacities of local governments and communities, which are primarily responsible for delivering basic public services and providing social assistance to the poor. Finally, the international aid community needs to provide timely financial and technical assistance.

C. Assessment of Socio- Environmental Performance

1. Gender Issues

9. The economic difficulties after 1991 have reversed some of the accomplishments of the Soviet system on gender issues. The former Soviet Union (FSU) provided protection against gender discrimination. Gender equality of admittance to schools was apparent, female employment was considerable, and substantial benefits were provided for women. Some of these achievements are in jeopardy due to the economic constraints during the past years. Unemployment among women is disproportionately high and those women being still employed earn average wages that are equivalent to only three-quarters of men's. Single mothers and families with many children, especially in rural areas and small towns, are most affected by the decline in incomes, the cut in social spending, and the deterioration of basic social services and assistance. Women are also suffering from the worsening health system, especially with reference to birth control and environmental degradation such as contaminated drinking water and deteriorating hygienic conditions.

10. The economic hardship has also led to the problem of child labor. A report¹ prepared by the International Labor Organization in 1997 showed that child labor did exist, particularly in the rural areas, although the extent of the problem nationwide remained unanswered due to the lack of comprehensive data. Children work primarily to support their families and the work of children is often detrimental to their health and development. The Government has taken initial action to tackle the problem of child labor. The Constitution, adopted in 1995, includes a provision that children shall be under the protection of the State. The Labor Code has been revised to set maximum hours of work for those under 18 years of age. With assistance from ADB and the United Nations, the Government has been implementing a number of projects to improve education services so as to attract children in schools. As the economic situation improves, it is expected that the Government will enhance its efforts to develop assistance programs directly targeted to the needs of the working child.

2. Human Development

11. The standards in human development, which were favorably comparable with those of other countries with similar per capita GDP before independence, have deteriorated because of the persistent economic difficulties. The 1999 Kazakhstan Human Development Report showed a fall in the Human Development Index between 1991 and 1995, and a slight recovery thereafter. This resulted from the declines in incomes and life expectancy, as well as the rise in age-specific mortality rates. Using internationally comparable standards, the 1999 UNDP Human Development Report ranked Kazakhstan 76th among 174 countries, compared to a rank of 54th in 1990. Detailed social indicators are given in Appendix 1.

¹ International Labor Organization. 1997. *Child Labor in Kazakhstan*.

12. Concerted efforts are needed to promote human development in three areas. First, the Government needs to facilitate equitable long-term economic growth, which will generate more income and government revenues needed to finance social services and assistance. Second, public administration and expenditure management must be improved to ensure the maximum impact of the Government's social spending. Third, nongovernment organizations (NGOs) should be encouraged to identify and assist the targeted groups, and the private sector should be permitted to provide social services and social assistance. These efforts should be complemented by continued reforms in the education and health sectors to deliver these services more efficiently, and to strengthen the social security system so as to provide incentives for self-employment and job training.

3. Environment

13. Kazakhstan faces major environmental problems as a result of the policies adopted during the Soviet period, which failed to account of the cost of land, water, and air degradation, and led to an overuse of natural resources. Centrally planned irrigation practices, associated with extensive crop production schemes and excessive use of chemical fertilizers, have caused soil erosion and salinization over wide tracts of arable land. Massive chemical and industrial complexes have polluted the air, soil, and water. The desiccation of the Aral Sea, the rise in the level of the Caspian Sea, and massive desertification are urgent concerns. Other environmental concerns include air pollution from coal-burning power plants, losses of grain as a result of locust swarms, lack of forest cover or vegetation, hazardous wastes, and biodiversity. Some environmental indicators are given in Appendix 1.

14. With assistance from the World Bank and UNDP, the Government has prepared a National Environmental Strategy aimed at reducing environmental pollution and natural resource degradation. In 1998 the Government also developed a National Environmental Action Plan, which proposes a number of priority policy reforms and investment projects to address the urgent environmental concerns. The major policy issues proposed include environmental legislation and regulation, environmental management, promotion of cleaner technology, human resources development, and capacity building for monitoring and enforcement. However, weak institutional capacity and shortage of financial resources have limited the effective implementation of the National Environmental Action Plan.

D. Governance

15. Kazakhstan has made progress in improving governance since independence. The Government has taken action to improve accountability by dismantling the state orders system, reducing trade barriers, initiating financial and corporate reforms, and restructuring the taxation system. The Government has also taken measures to improve the budgetary process to make it efficient, participatory and transparent. Extrabudgetary funds have been merged with the budget since 1999 and greater responsibility for public resources management has been given to local governments. The Government has made efforts to fight corruption. A study² undertaken by the European Bank for Reconstruction and Development (EBRD) and the World Bank in 1999 showed that corruption in Kazakhstan was less serious than in most of other FSU republics. Through privatization of SOEs, the Government is withdrawing from resource allocation in the productive sectors and encouraging an expanding role from the private sector. The ongoing civil

² EBRD and the World Bank. 2000. *Measuring Governance and State Capture: The Role of Bureaucrats and Firms in Shaping the Business Environment*.

service reform will redefine the role of the Government, downsize and retrain civil servants to handle new responsibilities, and encourage the participation of NGOs in the development process.

16. However, there are a number of governance issues that cause concern. These issues are (i) low predictability in the policy and institutional environment as a result of frequent changes in the central Government; (ii) inefficient policy and regulation frameworks for private sector development, particularly in taxation, licensing and customs; (iii) limited institutional capacities of Government agencies; and (iv) weak corporate governance. The Government is aware of these weaknesses and some responsive actions have been taken. A new tax code will be adopted in 2000 to improve the transparency and effectiveness of the taxation system. The Government plans to further simplify the regulations and procedures of registration and licensing to encourage private sector businesses. The Government is also strengthening its capacity for policy formulation and implementation through staff training and external assistance. Nevertheless, greater efforts are needed to further improve governance so as to provide better public services.

E. Implementation Assessment

1. The Portfolio

17. ADB started its operations in Kazakhstan shortly after the country became a member in 1994. As of 30 June 2000, ADB had approved 10 loans for seven projects totaling \$415 million (of which \$355 million was from ordinary capital resources and \$60 million from concessional Asian Development Fund). By the end of 1999, ADB has disbursed a total of \$331.6 million. In addition, 29 technical assistance (TA) grants amounting to \$16 million have been approved. Four loans have been closed and 19 TA projects have been completed. The major part of ADB's lending was so far aimed at fostering economic growth. Despite the economic difficulties, fiscal constraints, and institutional weaknesses in Kazakhstan, ADB's portfolio is generally performing well and all approved loan and TA projects were rated satisfactory in terms of implementation progress and achievement of development objectives.

18. As in the other Central Asian developing member countries (DMCs), ADB has a relatively young portfolio of loan projects in Kazakhstan. Consequently, their development impact is yet to be fully realized. A large portion (63 percent) of ADB lending assistance has been provided as policy-based loans. A Special Assistance Loan approved in 1994 supported the macroeconomic stabilization and structural reform program. An Agriculture Sector Program Loan approved in 1995 supported agriculture reforms and facilitated the transition to a competitive market-based agriculture sector. ADB extended assistance in 1997 to support a pension reform program that has transformed the pension system from a pay-as-you-go basis to a fully-funded, defined contribution system. ADB's TA projects have had significant development impact in improving the legal and regulatory frameworks in various sectors, strengthening institutional capacities, promoting regional cooperation, and creating an environment for private sector-led growth. Detailed portfolio performance indicators are given in Appendix 2.

2. Issues in Project Implementation

19. The country's absorptive capacity is limited by (i) the difficult fiscal situation and the resultant scarcity of local counterpart funds; (ii) a weak administrative structure with limited policy formulation and implementation capacities; (iii) inadequate experience with policies, procedures, and practices of external aid agencies; and (iv) communication and language

barriers. ADB has been dealing with these issues by conducting policy dialogue with the Government and strengthening its institutional capacities through loan and TA projects. The Kazakhstan Resident Mission, which became operational in 1998, has facilitated the dialogue with the Government and contributed to smoother project implementation. However, it is likely that the country's absorptive capacity will remain limited and the Government will continue to experience fiscal constraints in the near term, which could have an impact on project implementation. While the Government's budgetary situation needs to be monitored closely, ADB will enhance its dialogue with the Government and provide further training of government officials to build capacity for project implementation.

II. COUNTRY OPERATIONAL STRATEGY

A. The COS

20. The current Country Operational Strategy (COS) for Kazakhstan was endorsed by the Board in 1996. The objectives of the COS are: (i) encouraging the transition to a market-based economy by supporting the Government's reform agenda, encouraging institutional change, and strengthening social protection; (ii) promoting the rehabilitation of the environment; (iii) strengthening the long-term potential for sustainable growth; and (iv) encouraging the creation of a new output structure and new production capacity through private sector investment. The country's development needs are vast, but ADB's resources are limited. Moreover, other external aid agencies provide extensive financial and technical assistance. To maximize development impacts, ADB activities are therefore focused in the following areas: (i) management of reform at the central and local government levels; (ii) education and training; (iii) agriculture; (iv) industry; and (v) infrastructure, especially rehabilitation projects.

B. Progress in Implementation

21. Since the adoption of the COS in December 1996, ADB has approved three loans totaling \$185 million and 11 TA grants amounting to \$6.8 million for Kazakhstan. These loan and TA projects have contributed to the country's social and economic development by supporting pension reform, strengthening management of water and land resources, and improving education services. However, implementation of the COS has been affected by ADB's zero lending to the country during 1998 and 1999, which was mainly due to the lack of the country's absorptive capacity and severe fiscal constraints caused by the Russian crisis and the fall in the world prices of oil and metals. The Government and ADB are both conscious of the importance of developing a close partnership, and are making efforts to strengthen the bilateral cooperation.

C. Poverty Partnership Agreement

22. The current COS needs updating to reflect ADB's Poverty Reduction Strategy approved in November 1999 and the Government's priority of fighting poverty and unemployment, and to lay the foundation for a Poverty Partnership Agreement between the Government and ADB. In close consultation with the Government and civil society, ADB will formulate a new Country Strategy and Program (CSP) in 2001 to identify priority areas for future assistance. Moreover, a TA grant will be provided to finance a poverty analysis and assist the Government in preparing a medium-term poverty reduction strategy. The TA, which will be implemented in 2001 in collaboration with the United Nations Development Programme and the World Bank and in close consultation with all stakeholders, will help formulate the new CSP. Based on the outcome of the poverty assessment and the new CSP, the Government and ADB will conclude a

Partnership Agreement in the second half of 2001 to set out specific targets and action plans for poverty reduction.

III. SECTOR STRATEGIES

A. Agriculture

23. Agriculture is important for achieving sustainable economic growth and reducing rural poverty. With the support of ADB's Agriculture Sector Program Loan approved in 1995, the Government has enacted major agriculture reforms at the national level, which included improving land tenure, privatizing state-owned farms, reducing state interventions in markets, and dismantling state-owned monopoly trading companies. However, further efforts are needed to deepen agriculture reform and revive the agriculture sector. The major sector issues are (i) the lack of private ownership of agricultural land, (ii) weak farm and water resources management, and (iii) the lack of commercially oriented agricultural financial institutions, which constrains agricultural production and discourages new investment in agriculture.

24. The Government's overall objective for the agriculture sector is to encourage the development of a competitive market-based agriculture sector. To achieve this goal, the Government has set six tasks: (i) improving land legislation, (ii) providing farmers with financial support, (iii) upgrading agricultural machinery and equipment, (iv) assisting to establish farmers' associations, (v) preserving the gene pool of plants and animals, and, (vi) accelerating construction of rural infrastructure. A new draft Land Law, presently under review by Parliament, does not authorize private ownership of agricultural land, although it provides for use rights being granted to private individuals and legal entities for 49 years.

25. ADB's agriculture sector strategy emphasizes the need for private ownership of land, farm restructuring, strengthening of institutional and business management capacities at the local levels, and reforming agricultural finance to serve the privatized farms and agribusiness enterprises. The strategy focuses ADB investment on water resources management, farm systems development, and establishment of commercially oriented rural credit institutions. In addition, ADB will provide support for rural income and employment generation through policy reform, training, credit, and market development, primarily in household microenterprises, small rural businesses and agro-processing enterprises.

B. Infrastructure

1. Energy

26. Kazakhstan is well endowed with oil and gas reserves. Since independence, the country has been successful in attracting foreign private investment in the oil and gas subsectors. The Government has also taken steps to privatize energy enterprises. As a result, private sector involvement in the energy sector is active and this is likely to continue in the foreseeable future. However, a number of sector issues need to be addressed. First, the policy environment for private investors needs to be improved, particularly in the areas of registration, licensing, taxation, and land rights. Second, renewable energy needs to be developed for the remote communities that will unlikely get grid connected electricity in the near term. Without power supply, these communities will be unable to obtain proper heating during the harsh winter, with the poor likely to suffer the most. Third, there is a need to promote energy efficiency so as to improve the environment, due to large negative environmental externalities (such as air pollution, poor water quality and ecological damage) associated with the energy sector.

27. The Government's main objective for the energy sector is to increase energy production, particularly oil and gas, by creating a favorable climate for private sector involvement and privatizing state-owned energy enterprises. Meanwhile, the Government is considering ways to develop renewable energy for reducing poverty in the remote regions and to yield long-term cost savings. In consideration of the environmental effects of the energy sector, the Government's sector strategy stresses the importance of improving energy efficiency and the environment.

28. Given Kazakhstan's large investment needs, active private sector involvement, and the rapid privatization process in the energy sector, ADB assistance to the sector focuses on creating a viable policy environment to facilitate private sector and market-based activities for energy sector development. This will require developing an appropriate regulatory framework, adjusting tariffs to improve resource mobilization, strengthening revenue collection, enhancing operational efficiency, and encouraging energy conservation. Subject to the energy sector study and the justification of the new CSP, ADB may be involved in (i) promoting renewable energy development to provide electricity and heating, particularly to the poor, in off grid areas; and (ii) improving energy efficiency to reduce sector-associated environmental damage.

2. Transport

29. The major issues in the transport sector are the deteriorating transport infrastructure and inefficient administrative arrangements and regulations. This is because the Government experienced fiscal constraints after independence, and the existing transport infrastructure in the country, inherited from the FSU, was developed as part of a regional network to serve intra-FSU traffic, without paying adequate attention to regional economic cooperation. The transport sector faces the challenge of balancing investments in rehabilitating the deteriorating assets to restore and preserve the integrity of past investments, and those in improving system capacity and efficiency to meet domestic, regional, and global needs.

30. The Government's major objectives for the transport sector are (i) ensuring the provision and maintenance of adequate infrastructure, (ii) promoting competition while addressing safety and environmental concerns, and (iii) increasing cost recovery. These objectives are pursued by (i) providing financial resources for rehabilitation and maintenance of the transport network; (ii) privatizing road transport operations and dismantling licensing controls; (iii) promoting, in collaboration with neighboring countries, the most efficient means of transport for large loads over long distances; (iv) privatizing inland waterway transport; (v) improving the civil aviation infrastructure and supporting services to encourage operations by foreign and local airlines; and (vi) increasing sector revenues through appropriate pricing and taxation. The Government's sector strategy also includes use of labor-intensive methods of construction and maintenance, where feasible, to generate employment opportunities for poverty reduction.

31. ADB assistance to the transport sector focuses on road and rail transport. The transport sector strategy envisages support for (i) developing an efficient policy and regulatory framework; (ii) restructuring Government organizations to be responsive to market demands; (iii) corporatizing and commercializing enterprises and, where appropriate, privatizing them; (iv) encouraging private sector participation; (v) promoting competition in the provision of services; (vi) increasing funding through enhancing tax and fee collection, improving cost recovery, and removing subsidy-induced distortions in the pricing of services; (vii) rehabilitating infrastructure; (viii) improving maintenance operations and safety standards of infrastructure facilities; and (ix) promoting regional cooperation through network enhancement and cross-border policy. ADB will

strengthen sector institutions and develop staff skills in areas such as policy analysis, planning, accounting, project management, and maintenance of infrastructure through TA operations.

3. Industry and Finance

32. The pressing issues in the industry and finance sectors are to restructure SOEs and improve the environment for private sector development. The current policies and regulations need to be improved to attract local and foreign investment. Privatization of large SOEs needs to be accelerated, corporate governance to be strengthened, and SMEs to be promoted to generate income and employment opportunities. The financial sector needs to be developed to meet the needs of an emerging private sector.

33. The Government's strategic objective for the industry and finance sectors is to develop a legal and regulatory framework conducive to private sector development. In the near term, the Government plans to revise existing laws, or draft new laws, on bankruptcy, real estate, intellectual property, taxation, business licensing and stock exchange development. In the industrial sector, the Government intends to privatize large SOEs in the nonstrategic sectors and improve corporate governance for those enterprises not privatized. In the financial sector, the Government will strengthen the banking system, develop the capital market, and reform the insurance industry.

34. ADB's industry and financial sector strategy will aim at assisting the Government to foster private sector development. This will be achieved through support for (i) policy and institutional reforms; (ii) strengthening of corporate governance through enterprise restructuring and staff training; (iii) SME development through advisory services and provision of financial resources; and (iv) capital market development to provide investment opportunities for the pension funds, which have grown rapidly as a result of the Government's Pension Reform.

C. Social Infrastructure and Environment

1. Education

35. Education is essential to realize the long-term potential for growth. As economic transition has placed new demands on the education sector, there is a need to reform the existing education system to meet the needs of a market-based economy. The Government has undertaken education reform to rationalize the sector, but more work needs to be done in this area. The major issues in the education sector are to restore the provision of quality education services and deepen education reform to deliver these services efficiently.

36. The Government's overall strategy for the education sector is to develop an effective and efficient education system to serve the country's needs for equitable and sustainable development. The Government's current priorities in the sector include secondary school computerization, textbook and computer software development, distance learning, teacher training, and health and ecological education.

37. The objective of ADB's education sector strategy is to continue support for education reform and provision of education services. This will be achieved by (i) improving efficiency of resource utilization; (ii) strengthening educational management; (iii) developing new skills needed by the emerging labor market; (iv) providing equipment, textbooks, and instructional materials to ensure the quality of education services; (v) training teachers; and (vi) encouraging private education.

2. Water Supply

38. Kazakhstan is suffering poor water services and a shortage of safe drinking water, especially in the rural areas. This has undesirable consequences for its people. Consumers incur significant time costs and inconvenience in coping with deficient services; many collect water from rivers, irrigation channels, and other villages and towns. Poor and unsafe water services are responsible for deteriorating public health and increased expenditures on health, with the poor being affected most. The poor water supply and sanitation systems result from deficient design, use of poor construction materials and methods, insufficient maintenance, and timely rehabilitation. Given the lack of funds and the poor state of repair of sector assets, the quality of household water services will continue to deteriorate.

39. The Government is conscious of the urgent need to improve water services through policy and institutional reforms, repair and rehabilitation of existing infrastructure. The Government has developed the state water strategy and plans to prepare the state strategy for rural household water supply soon to set out specific targets and action plans. The Government also intends to rehabilitate the existing water supply and sanitation systems through its budgetary allocations and external borrowing.

40. ADB will assist the Government to improve household water services in the rural areas. This will include assisting in the formulation and implementation of the state strategy for rural water supply, strengthening institutional capacity for better household water management, improving the quality and efficiency of drinking water services, and rehabilitating household water supply infrastructure and facilities.

3. Environment

41. The major environmental issues and the Government's responses are discussed in paragraphs 13-14. Given ADB's limited resources, the coverage of environmental issues by other aid agencies and a number of major initiatives already underway, ADB's direct involvement in addressing environmental concerns will remain limited. However, the current COS stresses that as a minimum, ADB will ensure that (i) none of its activities will have negative environmental effects; and (ii) wherever possible, proactive environmental components will be included in its operations.

D. Governance Dimensions of ADB Operations

42. The COS emphasizes the importance of improving governance at the central and local levels. ADB's assistance program for 2001-2003 will aim at addressing the major governance issues identified earlier (see para. 16). This is summarized in Table 1 below.

Table 1: Governance Dimensions of ADB Operations

Governance Issues	Proposed Responsive Action/Projects in the Program
Low predictability in the policy and institutional environment as a result of frequent changes in the central Government	ADB will assist to improve predictability in the policy and institutional environment through support for reform and capacity building in the agriculture, industry, infrastructure, and social sectors, as well as at the local levels under the Decentralized Public Works Sector Development Program and the Decentralized Rural Renewable Energy Development Project.

Inefficient policy and regulation frameworks for private sector development	The Urban Small Business Development Project and the Rural Employment and Income Generation Sector Development Program and the associated TAs will aim at improving policy and regulatory frameworks for private sector development.
Limited institutional capacities of the Government agencies	All loan and TA projects will include strong components for building capacity of government agencies. ADB will also provide a TA grant to strengthen the Government's capacity for developing and implementing sound public investment programs.
Weak corporate governance	Corporate governance will be enhanced under the Railway Restructuring Sector Development Program and the Road Maintenance Project.

E. Gender Dimensions of ADB Operations

43. The COS contains a succinct assessment of the gender issues during economic transition and calls for promoting gender in education, addressing gender bias in employment, and rationalizing social service provision. An ADB-financed study on the impact of transition on women entitled *Women and Gender Relations in Kazakhstan: The Social Cost* has been published. ADB will provide a TA grant in 2000 to prepare a poverty analysis that will examine the gender dimensions of poverty and identify options for ADB gender-related assistance. Four loan projects (i.e., an Urban Small Business Development Project, an Early Childhood and Women Development Project, a Rural Employment and Income Generation Sector Development Program, and an Educational Skills Transfers for the New Labor Market Project) and related TA projects have been programmed for 2001-2003 to promote gender development.

F. Private Sector Development

44. Kazakhstan has an active private sector, encouraged by the Government that is attempting to put in place a modern, workable environment for doing business. However, problems and impediments still exist, including corruption, lack of suitable legal system and regulations, inefficient government administration, and banking restrictions. SMEs appear to suffer most from such problems.

45. The Government is committed to improving the climate for private sector development. The legal and regulatory framework has been developed to encourage provide sector investment. New laws to open up the insurance and leasing sectors are being drafted. In addition, the Government has completed privatization of small and medium-size SOEs and plans to sell large ones in the nonstrategic sectors.

46. To date, ADB has not yet made private sector investments in Kazakhstan. This resulted mainly from an earlier arrangement between ADB and EBRD that there would be a division of labor between the two institutions such that private sector operations would be the responsibility of EBRD. However, it is now felt by all parties that ADB has a relevant role to play in direct support to the private sector. Consequently, in consultation with the governments of the Central Asian DMCs, ADB prepared a Private Sector Strategy for Central Asia in March 1998. The strategy proposes that ADB respond to the region's needs by (i) focusing on private sector operations that would be directly complementary to public sector programs; (ii) developing programs in those sectors that can have a direct impact on reducing the costs of transition, particularly in the social sectors; and (iii) seeking the maximum involvement of other investors or participants. The strategy recognizes that, given the programs of ADB and other funding agencies, there are opportunities for direct ADB assistance to the private sector in (i) the financial sector; (ii) infrastructure, especially in rehabilitation and operation projects; (iii) the

"company towns" facing difficulties; (iv) agriculture to encourage farm restructuring; (v) SMEs; and (vi) social infrastructure to help create private sector service providers.

47. With the approval of the Private Sector Development Strategy by the Board in March 2000, ADB will be actively involved in private sector operations in Kazakhstan. Staff of the Private Sector Group visited the country in May 2000 and identified six projects for possible support. These are (i) an investment in the Almaty Commercial Bank; (ii) an investment in the Bank Turan Alem; (iii) an investment in Agristar, an agribusiness company; (iv) the Caspian Energy Infrastructure Project; (v) the Amangeldy Gas Project; and (vi) the Hurricane Kumkol Munai Gas Flaring Project.

IV. REGIONAL COOPERATION

48. Strengthening regional economic cooperation is important for realizing the development aspirations of the countries in Central Asia, in view of their landlocked location far from the markets of industrialized countries. Economic growth and poverty reduction in the Central Asian countries demand developing new trading relations within the region and new trading partners and transport links to external markets. Since early 1997, ADB has been providing technical assistance to encourage economic cooperation among its Central Asian DMCs (i.e., Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan as well as the Xinjiang Uygur Autonomous Region of the People's Republic of China). Activities under Phase I (1997-1998) of this initiative concentrated on identifying infrastructure needs and policy issues in the areas of energy, trade and transportation. As a result of Phase I activities, the high priority of rehabilitating the road linking Almaty in Kazakhstan with Bishkek in the Kyrgyz Republic was identified and a parallel set of loan and TA packages prepared. This project is expected to be presented to the Board in late 2000 and has received cofinancing support from EBRD and the European Union.

49. Activities in Phase II, commencing in 1999, intensify the initiative on regional cooperation. ADB sponsored the high-level Conference on Central Asian Regional Cooperation in Transportation in Almaty, Kazakhstan in September 2000. Two additional high-level conferences in Central Asia on energy and trade will be held in 2001. The conferences aim at identifying priority investment projects of the involved governments for ADB assistance and policy and institutional reforms needed for implementing these projects. In addition, moderate steps are being taken to broaden ADB's regional initiative in areas such as education, health, and rural finance. ADB's planned activities for encouraging regional economic cooperation in Central Asia are discussed in detail in its Central Asian Assistance Plan.

V. DONOR ACTIVITIES AND AID COORDINATION

50. No formal consultative group meeting has been held since 1996 and the date of the next meeting has yet to be fixed. However, informal meetings and coordination among donors have frequently taken place in Kazakhstan.

51. In addition to ADB, other major sources of external assistance to Kazakhstan include the World Bank, IMF, EBRD and Japan. The World Bank has the largest aid program comprising both policy-based adjustment loans and investment projects in a wide range of areas covering agriculture, energy, environment, finance, health, legal reform, roads, social protection, taxation, urban transport, and water supply and sanitation. EBRD has focused on support to private sector development, but has been increasingly involved with public sector projects in the areas of port, power, railways, and telecommunications. The United Nations and the European Union

have provided technical assistance for enterprise and civil service reforms, food production and distribution, and human development. The Islamic Development Bank (IDB) is active in the areas of health, transport, postal service, and water supply. Japan, the largest bilateral donor, has provided significant balance-of-payments support and has extended loans for reconstructing the Astana airport and rehabilitating the transport infrastructure. The United States has provided assistance for privatization, tax and pension reforms, and social services. Other main bilateral aid sources are Germany, Saudi Arabia, and Turkey.

52. Kazakhstan first received IMF assistance under a Systemic Transformation Facility in July 1993. This was followed in 1994 by a Standby Arrangement that was renewed in 1995. In June 1996, IMF and the Government agreed to replace the Standby Arrangement with an EFF, which expired in June 1999. IMF approved a new EFF to support the Government's economic program for 2000-2002 in December 1999. While the Government does not plan to draw on IMF's resources soon, it intends to use IMF program to pave the way for seeking financial assistance from other donors and attracting foreign direct investment into the country (see para. 4).

53. There has been close coordination between ADB and other donors, which has reinforced and complemented the respective aid activities in Kazakhstan. Management of ADB and the World Bank signed a joint letter in March 2000 to lay out the framework and structure of the bilateral cooperation. During the consultative group meeting in 1994, it was agreed that the World Bank would focus on health while ADB would concentrate in the education sector. This agreement was reviewed and reconfirmed at the staff level during the last country consultative group meeting in 1996. ADB has excellent relations with the resident offices of other donors in Kazakhstan and there is regular exchange of operational information and documents. A summary of overall external assistance to Kazakhstan is given in Appendix 3.

VI. COFINANCING AND CATALYZING EXTERNAL RESOURCES

54. ADB will continue to explore cofinancing opportunities in conjunction with the lending program for 2001-2003 to mobilize additional financial resources to Kazakhstan. Given the country's limited debt service capacity and in line with the external borrowing policy agreed with IMF, official cofinancing (especially concessional and grant cofinancing) will be explored from bilateral and multilateral sources. Although there are presently limited prospects for export credit and commercial cofinancing, ADB will continue to explore such possibilities for commercially viable projects in line with the external borrowing policy.

55. Due to its limited debt service capacity, the Government is pursuing the economic program for 2000-2002, supported by the IMF, to limit its sovereign-guaranteed nonconcessional borrowing (see para. 4). This will affect to some extent ADB's effort to explore cofinancing opportunities for the country during this period.

56. Despite the constraints in Kazakhstan, ADB will make efforts in exploring cofinancing possibilities during 2001-2003. Some progress has made in this area. EBRD and the European Union have committed to cofinancing the proposed Almaty-Bishkek Regional Road Rehabilitation Project. IDB has showed interest in cofinancing the proposed Rural Household Water Supply Project while EBRD, the European Union, and Germany have expressed interest in cofinancing the proposed projects for employment generation.

VII. ADB'S OPERATIONAL PROGRAM

A. The Proposed Program

57. The proposed lending and TA program for 2001-2003, as agreed upon by the Government, is summarized in Table 2 and shown in detail in Appendices 4 and 5 (project profiles for firm 2001 loans are given in Appendix 6). The program has an average annual level of \$103 million in lending (against the IPF level of \$150 million) and \$4 million in technical assistance. The program is modest due to the country's limited absorptive and implementation capacities. Nevertheless, the program strongly reflects the implementation of the poverty reduction strategy. The amount of lending for poverty interventions, including core poverty interventions, accounts for 35 percent of the total. These interventions will promote employment, improve rural household water supply, and strengthen social protection for children and women. The program for 2002-2003 is tentative and will be finalized after the poverty analysis is completed and the country's Public Investment Program for 2003 is formulated.

Table 2: Lending and Technical Assistance Program, 2001-2003

A. Public Sector Lending Program										
	1999 (actual)		2000		2001		2002		2003	
	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)
Lending Program (OCR)	-	-	3	110.0	3	115.0	3	100.0	3	95.0

B. Technical Assistance Program										
	1999 (actual)		2000		2001		2002		2003	
	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)
TA Program ^a	2	1,600.0	8	4,100.0	6	3,500.0	7	4,500.0	6	3,900.0

^a Although the proposed TA program has been generally agreed upon by Management, ADB financing may be subject to further reprioritization to fit in with the ADB-wide annual resource envelope.

58. Given the fact that responsibility for delivering social services and social assistance programs has recently been delegated to local governments, a number of the loan projects will be prepared and implemented in close consultation with local governments. The greater involvement of local governments in ADB operations will both ease the pressure on the central Government for provision of counterpart funds, and contribute to effective project implementation.

59. The TA program will help prepare the proposed lending activities and build sustainable capacities of the Government in the agriculture, energy, industry, social services, and transport sectors. With the recent decentralization of responsibility for social services and social assistance, a majority of the advisory TA projects will strengthen capacities of local governments. This will ensure greater impact of the capacity building efforts. In addition, a TA grant will be provided to strengthen the Government's capacity for developing and implementing credible public investment programs.

B. Strengthened Role of ADB's Resident Mission

60. With the approval of the Resident Mission Policy by the Board in February 2000, ADB is strengthening the capacity of its Kazakhstan Resident Mission (KARM) to further develop the partnership with the country. KARM was moved from Almaty to Astana, the new capital of Kazakhstan in August 1999. The number of KARM staff has been increased and the office facilities have improved significantly. During 2001-2003, KARM will be provided with sufficient

qualified staff and infrastructure to achieve its expanded functions. These functions include (i) government, civil society, and private sector relations; (ii) policy dialogue and support; (iii) country reporting; (iv) aid coordination; and (v) external relations and information dissemination.

VIII. ECONOMIC AND SECTOR WORK PROGRAM

61. The economic and sector work program, which is summarized in Table 3, is aimed at shaping and supporting ADB operations in the country. Three types of economic and sector work are planned for 2001-2003. First, some studies (i.e., the Review of Public Investment Program, the Assessment of External Debts, and the Study on Governance) will analyze major macro issues, which could be used for policy dialogue with the Government. Second, some studies will update ADB's knowledge of the areas in which ADB has provided assistance. Such work (i.e., the Education Sector Study Update and the Pension System Update) would contribute to a better understanding of the progress, problems and prospects in these areas and thus help develop more appropriate assistance programs in the future. Third, some studies will familiarize ADB with issues in the new sectors to make preparations for its possible future assistance. These will include the Study on Water Supply and Urban Development, the Study on Renewable Energy Development, and the Insurance Sector Study.

Table 3: Economic and Sector Work Program, 2001-2003

2001	2002	2003
Review of Public Investment Program	Assessment of External Debts	Study on Governance
Education Sector Study Update	Insurance Sector Study	Pension System Update
Study on Water Supply and Urban Development	Study on Renewable Energy Development	Environment Profile Update
Financial Sector Review		

IX. LOCAL COST FINANCING

62. To date, ADB has financed about 66 percent of the total project costs, including 36.4 percent (\$46.75 million) of the total local costs for Kazakhstan. In the near term, Kazakhstan is likely to continue to borrow from ADB for financing part of local costs due to fiscal constraints. Despite the recent improvement, the Government's fiscal situation remains difficult and this will constrain its capacity to mobilize adequate counterpart funds and cover the entire local costs for the projects to be financed by ADB during 2001-2003. The Government's difficulties in local cost financing will have to be monitored closely.

KAZAKHSTAN
COUNTRY PERFORMANCE INDICATORS

Item	1995	1996	1997	1998	1999	2000 ^a
ECONOMIC INDICATORS						
A. Income and Growth						
1. GDP per Capita (\$, current)	1,052.1	1,350.7	1,445.9	1468.8	1060.0	1,045.0
2. GDP Growth (% in constant prices)	-8.2	0.5	1.7	-1.9	1.7	7.0
a. Agriculture and Forestry	-24.4	-5.0	1.9	-18.9	21.6	-5.5
b. Industry and Construction	-14.9	-3.5	5.0	6.0	4.6	21.5
c. Services	-1.3	3.2	0.9	-0.4	-1.7	3.0
B. Money and Inflation						
	(annual percent change)					
1. Consumer Prices (annual average)	176.3	39.1	17.5	7.1	8.3	12.9
2. Consumer Prices (end of period)	60.3	28.7	11.3	1.9	17.8	8.5
3. Broad Money (M2)	106.1	13.8	29.2	-13.3	83.4	40.8
C. Government Finance						
	(percent of GDP)					
1. Revenue (including grants)	16.9	13.8	20.7	17.9	21.1	22.4
2. Expenditure (including Net lending)	20.8	18.6	27.7	21.8	24.6	25.2
3. Overall Surplus (+) / Deficit (-)	-2.7	-4.7	-7.0	-8.0	-3.5	-2.9
D. Balance of Payments						
1. Merchandise Trade Balance (% of GDP)	-1.3	-1.6	-1.2	-3.4	-2.2	-2.0
2. Current Account Balance (% of GDP)	-3.1	-3.6	-3.6	-5.6	-1.1	6.3
3. Export (\$) Growth (annual percentage change)	57.2	21.8	9.6	-14.9	2.0	5.0
4. Import (\$) Growth (annual percentage change)	28.1	23.0	8.3	-7.0	-15.4	7.0
E. External Payments Indicators						
1. Gross International Reserves (\$ million, end of period)	1,660.0	1,980.0	2,244.0	1,964.0	2,003.0	2,200.0
- months of imports	3.2	3.1	3.3	3.0	3.6	3.3
2. External Debt Service (% of exports of goods and services)	9.1	17.6	27.5	22.8	27.3	na
3. External Debt (% of GDP)	21.0	20.0	26.7	33.8	49.9	na
Memorandum Items:						
GDP (current prices, T billion)	1,014.2	1,415.8	1,698.3	1,747.7	1,893.5	2,290.0
Exchange Rate (tenge per \$, end of period)	64.0	73.8	75.9	84.0	138.2	146.2
Population (million)	16.2	16.0	15.9	15.7	14.9	14.9

GDP = Gross Domestic Product

^a Government estimate/projection.

Sources: Kazakhstan authorities and the International Monetary Fund.

^b Data for 1995-1999: National Statistics Agency

^c Data for 1995-1998: IMF and Data for 1999: National Bank of Kazakhstan

^d Data for 1995-1998: IMF and Data for 1999: National Statistics Agency

^e Data for 2000: IMF projection

^f Data for 2000: IMF projection

^g Data for 1995-1998 and 2000: IMF and Data for 1999: National Bank of Kazakhstan

A1 ^b

B3 ^c

D2 ^d

E1 ^e

E2 ^f

E3 ^g

Footnote for BOP and exchange rate only if 1993 column is shown:

^c Kazakhstan tenge (T) replaced the ruble in November 1993. The National bank of Kazakhstan uses the average exchange rate of T5.3/\$ for 1993; IMF uses T2.6/\$.

KAZAKHSTAN
COUNTRY PERFORMANCE INDICATORS

Item	1985	1990	Latest Year
POPULATION INDICATORS			
Total Population (million)	15.7	16.4	14.9 (1999)
Rural Population (percent)	44.2	43.2	44.3 (1999)
Annual Growth Rate (%)	1.2	-0.5	-0.6 (1999)
SOCIAL INDICATORS			
Total Fertility Rate (births per woman)	3.01	3.01	1.86 (1997)
Maternal Mortality Rate (per hundred thousand live births)	66.6 (1987)	67.2 (1991)	54.9 (1998)
Infant Mortality Rate (below 1 year; per '000 live births)	30.1	26.3	21.6 (1998)
Life Expectancy at Birth (years)	67.7	68.6	64.5 (1998)
Female	73.1 (1987)	73.1 (1991)	70.4 (1998)
Male	63.9 (1987)	63.8 (1991)	59.0 (1998)
Adult Literacy (%)	99	97.5 (1989)	98.5 (1998)
School Enrollment for all levels (% of children aged 6-24)	-	-	63.9 (1997)
Population Below Poverty Line (%)	-	25.0 (1992)	43.4 (1999)
Income Ratio of Highest 10% to Lowest 10%	-	-	11.3 (1998)
Percent of Rural Households with Access to Safe Water (%)	92	30	65 (1997)
Percent of Rural Households with Access to Sanitation (%)	90	19	61 (1993)
Public Education Expenditure as % of GDP	6.6	6.6	4.1 (1999)
Public Health Expenditure as % of GDP	3.1	3.3	2.3 (1999)
Social Security Expenditure as % of GDP	-	0.8 (1994)	8.3 (1999)
Human Development Index	-	0.802	0.704 (1997)
Human Development Ranking	-	54	76 (1997)
ENVIRONMENTAL INDICATORS			
Forestry			
Total Forest Area (thousand hectares)	-	9,540	10,504 (1995)
Biodiversity			
Nationally protected area			
Area (thousand hectares)	-	-	7,337 (1997)
Number	-	-	70 (1997)
As % of land area	-	-	2.7 (1997)
Wetlands of international importance			
Area (thousand hectares)	-	-	609 (1997)
Number	-	-	2 (1997)
Land Use (thousand hectares)			
Cropland	-	-	11,392 (1999)
Permanent pasture	-	-	92,404 (1998)
Air Pollution (Ambient concentrations)			
Particulates			
SO2			
Water Pollution (concentration of pollutants in water bodies)			
Biochemical Oxygen Demand (BOD)			
Chemical Oxygen Demand (COD)			
Global Environmental Problems			
Total CO ₂ emissions (thousand metric tons)	-	-	360,5 (1998)
Per capita CO ₂ emissions (kg)	-	-	23 (1998)

- = not available; GDP = Gross Domestic Product; CO₂ = carbon dioxide.

^a Data for the latest year is sourced from the 1998 UNDP Human Development Report.

KAZAKHSTAN
PORTFOLIO PERFORMANCE

Table 1 : Implementation, Disbursement Performance and Postevaluation Results
Public Sector Projects only
(as of 31 December 1999)

A. Project Portfolio	Net Loan Amount \$ million %		Rating (No.) ^a										
			Total		Implementation Progress				Development Objectives				
			No.	%	HS	S	PS	U	HS	S	PS	U	
Agriculture and Natural Resources	39.9	26.1	1	25.0	-	1	-	-	-	-	1	-	-
Energy	-	-	-	-	-	-	-	-	-	-	-	-	-
Finance and Industry	-	-	-	-	-	-	-	-	-	-	-	-	-
Social Infrastructure	63.1	41.2	2	50.0	-	2	-	-	-	-	2	-	-
Transport and Communications	50.0	32.7	1	25.0	-	1	-	-	-	-	1	-	-
Others/Multisector	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	153.0	100.0	4	100.0	0	4	-	-	-	0	4	-	-

B. Disbursements	OCR	ADF	Total
(1) Total funds available for withdrawal (\$ mn, active loans only)	115.00	38.04	153.04
(2) Disbursed amount (\$ mn, cumulative, active loans only)	29.76	23.55	53.31
(3) Percentage disbursed [(2)/(1)] (%)	25.88	61.90	34.84
(4) Disbursements (\$mn, active loans only, latest year)	10.62	6.67	17.29
(5) Disbursement ratio (%) ^b	11.08	30.68	14.70

C. Net Transfer of Resources (\$ million)	OCR	ADF	Total
Net transfer in 1995	62.58	0.00	62.58
Net transfer in 1996	20.90	6.00	26.90
Net transfer in 1997	47.03	16.84	63.86
Net transfer in 1998	102.01	12.54	114.55
Net transfer in 1999	(11.05)	6.29	(4.76)
Total	221.46	41.66	263.12

D. Post-Evaluated Projects (By Year of Approval)	1968 - 1977		1978 - 1987		1988 - 1999		1968 - 1999	
	No.	%	No.	%	No.	%	No.	%
1. Postevaluation Rating								
Rated Generally Successful (GS)	-	-	-	-	2	100.0	2	100.0
Rated Partly Successful (PS)	-	-	-	-	-	-	-	-
Rated Unsuccessful (US)	-	-	-	-	-	-	-	-
No Rating	-	-	-	-	-	-	-	-
Total	-	-	-	-	2	100.0	2	100.0
2. Postevaluation Rating by Sector								
1968-1999								
	No.	%	No.	%	No.	%	No.	%
Agriculture and Natural Resources	1	50.0	-	-	-	-	1	50.0
Energy	-	-	-	-	-	-	-	-
Finance and Industry	-	-	-	-	-	-	-	-
Social Infrastructure	-	-	-	-	-	-	-	-
Transport and Communications	-	-	-	-	-	-	-	-
Others/Multisector	1	50.0	-	-	-	-	1	50.0
Total	2	100.0	-	-	-	-	2	100.0

^a HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory

^b Ratio of disbursement during the year over the undisbursed net loan balance less cancellations at the beginning of the year. Effective loans during the year have also been added to the beginning balance of undisbursed loans.

KAZAKHSTAN
PORTFOLIO PERFORMANCE

Table 2 : Status of Project Implementation
Public Sector Projects Only
(as of 31 December 1999)

Sector ^a	Project Title	Net Loan Amount		Approval Date (mm/yy)	Effectivity Date (mm/yy)	Closing Date		Physical Progress (% complete)	Cum. Contract Awards (\$ million)	Cumulative Disbursement (\$ million)	Project Performance Rating ^b	
		OCR	ADF			Original	Revised				Implementation Progress	Development Objective
		(\$ million)				(mm/yy)						
AGR	Improvement	30.00	-	Dec-97	Aug-98	Jun-05	-	5.0	0.43	0.20	S	S
AGR	Improvement	-	9.92	Dec-97	Aug-98	Jun-03	-		5.04	1.15	S	S
SOC	Education Rehabilitation & Management Improvement	-	18.17	Jan-96	Oct-96	Jun-01	-	85.0	15.76	15.87	S	S
SOC	Basic Education	35.00	-	Sep-97	Aug-98	Jun-03	-	40.0	12.49	12.53	S	S
SOC	Basic Education	-	9.96	Sep-97	Aug-98	Jun-03	-		9.14	6.53	S	S
T&C	Road Rehabilitation	50.00	-	Aug-96	Mar-97	Nov-00	-	15.0	29.92	17.04	S	S
Total		115.00	38.04						72.77	53.31		

^a Sector:

AGR: Agriculture and Natural Resources

ENE: Energy

SOC: Social Infrastructure

I&F: Industry and Finance

T&C: Transport and Communications

OTH: Multisector/Others

^b HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory

KAZAKHSTAN
OVERALL EXTERNAL ASSISTANCE
(in \$ million)

External Source	1996-1998 (annual average)		1999 Approvals	
	Loan/Credit	TA	Loan/Credit	TA
A. Multilateral Assistance				
ADB	83.0	2.7	–	1.6
EBRD	20.3	1.1	59.1	1.6
EU	–	23.1	–	19.0
IDB	n.a.	0.2	9.4	0.1
IMF	117.2	–	–	–
UNDP	–	1.1	–	1.2
World Bank	212.2	1.5	209.9	1.1
Other UN Organizations ¹	–	4.5	–	4.9
Subtotal	432.7	34.2	278.4	29.5
B. Bilateral Assistance				
Canada	–	1.2	–	1.8
Egypt	–	0.2	–	0.4
France	–	0.8	–	0.4
Germany	5.7	2.6	7.0	5.2
Japan	36.4	15.0	159.0	21.3
Korea	–	0.8	–	0.9
Netherlands	–	0.6	–	0.6
Oman	–	3.3	–	–
Poland	–	0.7	–	2.2
Turkey	–	3.2	–	0.1
United Kingdom	–	2.2	–	1.8
United States	–	47.3	–	61.3
Subtotal	42.1	77.9	166.0	96.0
Memo Items:				
External Assistance ² as % of Current Expenditure			4.9	(1999)
External Assistance as % of Capital Expenditure			67.7	(1999)

n.a. = not available.

¹ Includes ESCAP, IAEA, UNHCR, UNESCO, ILO, UNDCP, UNICEF, UNFPA, FAO and WHO.

² Includes only investment projects.

Source: Statistics Bulletin of Ministry of Finance, N3, 2000.

KAZAKHSTAN
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2001-2003

Sector/Project Name	Poverty Classification ^a	Crosscutting Operational Priority ^b	Responsible Division	Year of PPTA	PROJECT COST (\$ million)					
					TOTAL	Bank			Gov't	Cofinancing (Others)
						OCR	ADF	Total		
2001 LOAN PIPELINE										
Industry and Finance										
1. Urban Small Business Development	ODI	PSD	IEFI	2000	TBD	25.0	-	25.0	TBD	TBD
Subtotal					TBD	25.0	0.0	25.0	TBD	TBD
Social Infrastructure										
1. Rural Household Water Supply	PI	HD	AEWU	2000	TBD	20.0	-	20.0	TBD	TBD
Subtotal					TBD	20.0	0.0	20.0	TBD	TBD
Transport and Communications										
1. Railway Restructuring Sector Development Program	ODI	GG	IETC	1999	105.0	70.0	-	70.0	35.0	TBD
Subtotal					105.0	70.0	0.0	70.0	35.0	TBD
Total					TBD	115.0	0.0	115.0	TBD	TBD
2002 LOAN PIPELINE										
Agriculture and Natural Resources										
1. Rural Employment & Income Generation Sector Development Program	CPI	GAD	AEFN	2001	TBD	55.0	-	55.0	TBD	TBD
Subtotal					TBD	55.0	0.0	55.0	TBD	TBD
Social Infrastructure										
1. Early Childhood and Women Development in Rural Areas	CPI	HD/GAD	AEEH	2001	TBD	10.0	-	10.0	TBD	TBD
Subtotal					TBD	10.0	0.0	10.0	TBD	TBD
Transport and Communications										
1. Road Maintenance	ODI	GG	IETC	2001	TBD	35.0	-	35.0	TBD	TBD
Subtotal					TBD	35.0	0.0	35.0	TBD	TBD
Total					TBD	100.0	0.0	100.0	TBD	TBD
2003 LOAN PIPELINE										
Social Infrastructure										
1. Educational Skills Transfers for the New Labor Market	ODI	HD	AEEH	2002	TBD	20.0	-	20.0	TBD	TBD
Subtotal					TBD	20.0	0.0	20.0	TBD	TBD
Transport and Communications										
1. Decentralized Public Works Sector Development Program	ODI	GG	tbd	2002	TBD	45.0	-	45.0	TBD	TBD
Subtotal					TBD	45.0	0.0	45.0	TBD	TBD
Energy										
1. Decentralized Rural Renewable Energy Development	ODI	GG	IEEN	2002	TBD	30.0	-	30.0	TBD	TBD
Subtotal					TBD	30.0	0.0	30.0	TBD	TBD
Total					TBD	95.0	0.0	95.0	TBD	TBD

^a CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions.

^b ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD = Private Sector Development; and RC = Regional Cooperation.
TBD = to be determined.

* This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000, which will be applied from January 2001 onward.

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KAZAKHSTAN

LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2001-2003^a

Sector/Project Name	Responsible Division	Type of TA	Amount (\$'000)		
			Bank	Others	Total
2001 TECHNICAL ASSISTANCE PROGRAM					
Agriculture and Natural Resources					
1 . Rural Employment and Income Generation Sector Development Program	AEFN	PP	600.0	-	600.0
Subtotal			<u>600.0</u>	<u>0.0</u>	<u>600.0</u>
Social Infrastructure					
1 . Early Childhood and Women Development in Rural Areas	AEEH	PP	600.0	-	600.0
2 . Capacity Building for Rural Household Water Supply ^b	AEWU	AD	500.0	-	500.0
Subtotal			<u>1,100.0</u>	<u>0.0</u>	<u>1,100.0</u>
Industry and Finance					
1 . Support for Urban Small Business Development ^b	IEFI	AD	600.0	-	600.0
Subtotal			<u>600.0</u>	<u>0.0</u>	<u>600.0</u>
Transport and Communications					
1 . Road Maintenance	IETC	PP	600.0	-	600.0
2 . Strengthening Railways ^b	IETC	AD	600.0	-	600.0
Subtotal			<u>1,200.0</u>	<u>0.0</u>	<u>1,200.0</u>
Total			<u>3,500.0</u>	<u>0.0</u>	<u>3,500.0</u>
2002 TECHNICAL ASSISTANCE PROGRAM					
Agriculture and Natural Resources					
1 . Good Governance for Rural Employment and Income Generation ^b	AEFN	AD	600.0	-	600.0
Subtotal			<u>600.0</u>	<u>0.0</u>	<u>600.0</u>
Energy					
1 . Decentralized Rural Renewable Energy Development ^c	IEEN	PP	900.0	-	900.0
Subtotal			<u>900.0</u>	<u>0.0</u>	<u>900.0</u>
Social Infrastructure					
1 . Educational Skills Transfer for the New Labor Markets	AEEH	PP	600.0	-	600.0
2 . Strengthening for Early Childhood and Women Development ^b	AEEH	AD	500.0	-	500.0
Subtotal			<u>1,100.0</u>	<u>0.0</u>	<u>1,100.0</u>
Transport and Communications					
1 . Improving Governance in the Transport Sector ^b	IETC	AD	600.0	-	600.0
2 . Decentralized Public Works Sector Development Program	tbd	PP	700.0	-	700.0
Subtotal			<u>1,300.0</u>	<u>0.0</u>	<u>1,300.0</u>
Others					
1 . Capacity Building for Local Governments for Poverty Reduction	PE3	AD	600.0	-	600.0
Subtotal			<u>600.0</u>	<u>0.0</u>	<u>600.0</u>
Total			<u>4,500.0</u>	<u>0.0</u>	<u>4,500.0</u>
2003 TECHNICAL ASSISTANCE PROGRAM					
Agriculture and Natural Resources					
1 . Rural Sector Development II	AEFN	PP	700.0	-	700.0
Subtotal			<u>700.0</u>	<u>0.0</u>	<u>700.0</u>
Energy					
1 . Support for Public-Private Partnership in Decentralized Rural Renewable Energy Development ^b	IEEN	AD	600.0	-	600.0
Subtotal			<u>600.0</u>	<u>0.0</u>	<u>600.0</u>
Social Infrastructure					
1 . Municipal Services for the Urban Poor	AEWU	PP	700.0	-	700.0
2 . Capacity Building for Skills Transfer for New Labor Markets ^b	AEEH	AD	600.0	-	600.0
Subtotal			<u>1,300.0</u>	<u>0.0</u>	<u>1,300.0</u>
Transport and Communications					
1 . Improving Governance in Decentralized Public Works ^b	tbd	AD	600.0	-	600.0
Subtotal			<u>600.0</u>	<u>0.0</u>	<u>600.0</u>
Others					
1 . Environmental Improvement	IEEN	PP	700.0	-	700.0
Subtotal			<u>700.0</u>	<u>0.0</u>	<u>700.0</u>
Total			<u>3,900.0</u>	<u>0.0</u>	<u>3,900.0</u>

^a Although the proposed TA program has been generally agreed upon by Management, ADB financing may be subject to further reprioritization to fit in with the ADB-wide annual resource envelope.

^b Piggy-backed to a loan.

^c This TA consists of two phases: Phase One will finance a study on public-private partnership for decentralized rural renewable energy development, and Phase Two will provide support for preparing a project.

KAZAKHSTAN
LENDING PROGRAM, 2001-2003
BY POVERTY CLASSIFICATION, CROSSCUTTING OPERATIONAL PRIORITY AND SECTOR

Classification	2001 (Firm)		2002-2003	
	No.	% ^a	No.	% ^a
I. By Poverty Classification *				
A. Core Poverty Intervention	-	-	2	33.3
B. Poverty Intervention	1	33.3	-	-
C. Other Development Interventions	2	66.7	4	66.7
Total	3	100.0	6	100.0
II. By Crosscutting Operational Priority *				
A. Environment	-	0.0	-	0.0
B. Gender and Development	-	0.0	1	16.7
C. Good Governance	1	33.3	3	50.0
D. Human Development	1	33.3	2	33.3
E. Private Sector Development	1	33.3	-	0.0
F. Regional Cooperation	-	0.0	-	0.0
Total	3	100.0	6	100.0
III. By Sector				
A. Agriculture and Natural Resources	-	0.0	1	16.7
B. Energy	-	0.0	1	16.7
C. Finance and Industry	1	33.3	-	0.0
D. Social Infrastructure	1	33.3	2	33.3
E. Transport and Communications	1	33.3	2	33.3
F. Others/Multisector	-	0.0	-	0.0
Total	3	100.0	6	100.0

^a rounded off.

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