

Country and Portfolio Indicators, and Assistance Pipeline

Table A1.1: Country Economic Indicators

Item	1999	2000	2001	2002
A. Income and Growth				
1. GDP per capita (\$, current)	1,129.1	1230.2	1493.7	1648.4
2. GDP growth (% , in constant prices)	2.7	9.8	13.5	9.5
Agriculture	28.0	(3.2)	17.3	2.7
Industry	2.7	15.5	13.8	9.8
Services	(1.5)	8.8	12.1	9.3
		(% of GDP)		
B. Saving and Investment (current prices)				
1. Gross Fixed Capital Formation	15.5	17.3	24.6	28.6
2. Gross National Saving	17.1	18.1	27.9	30.1
		(annual % change)		
C. Money and Inflation				
1. Consumer prices (annual average; % change)	8.3	13.2	8.4	5.9
2. Consumer prices (end of period; % change)	17.8	9.8	6.4	6.6
3. Liquidity (M3) growth (% change)	84.4	44.9	45.1	33.0
D. Government Finance¹				
1. Revenue (% of GDP)	19.8	23.0	23.0	21.9
2. Expenditure (% of GDP)	23.2	23.1	23.4	22.3
3. Overall Fiscal Surplus (deficit) (% of GDP)	(3.4)	(0.1)	(0.4)	(0.4)
E. Balance of Payments				
1. Exports of goods and services (\$ million)	6,123	10,599	10,515	11,906
2. Imports of goods and services (\$ million)	5,645	9,004	10,343	11,544
3. Current account balance (% of GDP)	(0.2)	3.2	(4.9)	(2.4)
F. External Payments Indicators				
1. Gross official reserves (\$ million, end of period)	2,003	2,102	2,508	3,141.0
Months of imports of goods & services	3.6	2.8	2.9	3.3
In % of stock of short-term debt	–	139.2	112.1	128.4
2. National Fund of the Republic of Kazakhstan (end of period, \$ million)	–	–	1,240	1,915
3. Public and publicly guaranteed external debt (% of GDP)	17.0	21.8	17.4	14.3
G. Memorandum Items				
GDP (current prices, T billion)	2016.5	2599.9	3250.6	3747.2
Exchange rate (annual average; T per \$)	119.6	142.1	146.7	153.3
Population (million)	14.9	14.9	14.8	14.8

– = not available, GDP = gross domestic product, T = tenge

Sources: National Statistical Agency, Ministry of Finance, National Bank; IMF Article IV Consultations with the Republic of Kazakhstan, 2002; IMF, Concluding Statement, 2003 Article IV Consultation, 2003.

¹ According to the latest IMF estimates, the corresponding figures for the overall fiscal surplus (deficit) for 1999, 2000, 2001 and 2002 are as follows: (5.0), (0.8), 2.7, and 1.5, respectively. Source: IMF Article IV Consultations with the Republic of Kazakhstan, 2003

Table A1.2: Country Poverty and Social Indicators

Item	1985	1990	Latest Year	
A. Populations Indicators				
1 Total Population (million)	15.7	16.4	14.8	(2002)
2 Rural Population (%)	44.2	43.2	43.7	(2002)
3 Annual Population Growth Rate (% change)	1.2	(0.5)	(0.1)	(2002)
B. Social Indicators				
1 Total Fertility Rate (births per woman)	3.0	3.0	1.9	(2002)
2 Maternal Mortality Rate (per 100,000 live births)	66.6 (1987)	69.4 (1996)	48.6	(2001)
3 Infant Mortality Rate (below 1 year; per '000 live births) ^a	30.1	28 (1993)	19.4	(2001)
4 Life Expectancy at Birth (years)	67.7	68.6	66.4	(2002)
Female	73.1 (1987)	73.1 (1991)	72.1	(2002)
Male	63.9 (1987)	63.8 (1991)	60.3	(2002)
5 Adult Literacy (%)	99	99.5	99.5	(2001)
Female		99.5	99.5	(2001)
Male		99.5	99.5	(2001)
6 School Enrollment for All Levels (% of children aged 6-24)		65.8 (1994)	80.0	(2002)
7 Child Malnutrition (% below 5 years)		na	4.2	(1999) ^b
Rural Households with Access to Safe Water (%)	92	na	73	(2000)
Rural Households with Access to Sanitation (%)	90	19	na	
Public Education Expenditure as % of GDP	6.6	5.7	3.2	(2002)
Public Health Expenditure as % of GDP	3.1	3.3	1.9	(2002)
Social Security Expenditure as % of GDP		0.8 (1994)	5.4	(2002)
Human Development Index	0.848 (1990)	0.742 (1999)	0.750	(2000)
Human Development Ranking	54/173 (1990)	83/173 (1999)	79/173	(2000)
C. Poverty Indicators				
1 Poverty Incidence (%)	–	34.6 (1996)	27.0	(2002)
2 Percent of Poor to Total Population				
Akmola		28.9 (2000)	20.4	(2001)
Aktobe		18.3 (2000)	29.4	(2001)
Almaty		46.2 (2000)	39.3	(2001)
Atyrau		49.6 (2000)	41.0	(2001)
East-Kazakhstan		15.4 (2000)	22.1	(2001)
Jambyl		47.7 (2000)	48.4	(2001)
West-Kazakhstan		12 (2000)	28.3	(2001)
Karaganda		18.6 (2000)	22.4	(2001)
Kostanai		22.3 (2000)	26.2	(2001)
Kyzylorda		51.6 (2000)	38.5	(2001)
Mangistau		59.7 (2000)	46.2	(2001)
Pavlodar		14.9 (2000)	16.1	(2001)
North-Kazakhstan		11.9 (2000)	10.0	(2001)
South-Kazakhstan		52.8 (2000)	38.4	(2001)
Astana City		11.6 (2000)	2.2	(2001)
Almaty City		4.8 (2000)	5.5	(2001)
3 Poverty Gap		11.4 (1996)	7.7	(2001)
4 Poverty Severity Index		5.2 (1996)	3.0	(2001)
5 Income Inequality (% top decile over bottom decile)		10.2 (1997)	11.3	(2001)
6 Human Poverty Index		31 (1998)	23.9	(2001)

– = not available, % = percent, GDP = gross domestic product, na = not applicable.

^a Official data are based on definitions used in the Soviet Union, and would be much higher using international definitions. According to the 1999 Kazakhstan national demographic survey, the infant mortality rate using international definitions was 62 per 1,000 live compared with 50 per 1,000 immediately before independence.

^b Low weight-for-age (underweight).

Sources: Kazakhstan Statistical Yearbook, 2000-2002; Statistical Bulletin, Ministry of Finance, 2002; United Nations Millennium Development Goals Report for Kazakhstan, 2002; United Nations Draft Common Country Assessment for Kazakhstan, April 2003.

Table A1.3: Progress toward the Millennium Development Goals and Targets¹

Goals and Targets	Status of Kazakhstan
<p>Goal 1: Eradicate extreme poverty and hunger²</p> <p>Target 1: Halved, between 1996 and 2015, the proportion of people whose income is below officially defined subsistence level</p> <p>Target 2: Halved between 1997 and 2015, the number of people lacking balanced nutrition</p>	<p>Data show that the proportion of people who live below the subsistence minimum decreased from 35% in 1996 to 27% in 2002. The Sector Program for Poverty Reduction (2003–2005) targets reducing the number of poor by 2005 to 20% of the total population.³</p> <p>No direct evidence exists of hunger in Kazakhstan, but prevalence of micronutrient deficiencies (hidden hunger) is high.</p> <p>Over the 5-year period (1997–2001), the proportion of people with income below food-basket cost was reduced only marginally from 12.7% in 1997 to 11.3% in 2001.</p>
<p>Goal 2: Achieve universal primary education</p> <p>Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling</p>	<p>Target achieved. Official rates of enrolment remain nearly universal. Equal access is ensured to girls and boys.</p>
<p>Goal 3: Promote gender equality and empower women</p> <p>Target 4: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015</p>	<p>Target achieved. The right to free secondary education in public educational institutions irrespective of gender is guaranteed by the Constitution. Secondary education is compulsory.</p> <p>Female enrolment increases at higher education levels. However, gender disparity is evident in employment where women often receive lower wages for the same type of work and have trouble breaking into male-dominated activities.</p>

¹ Based on the assessment prepared by the United Nations in 2002 and staff studies and estimates.

² Targets 1 and 2 have been modified considering data availability and the specific circumstances in Kazakhstan. The modification adopted by the United Nations in the 2002 assessment of MDGs in Kazakhstan has also been adopted in the Country Strategy and Program.

³ CSP uses the poverty incidence figures consistent with the poverty partnership agreement that was signed with the Government in July 2003. More recently the Government informed that the poverty incidence in 2002 has declined to 24.2%.

Goals and Targets	Status of Kazakhstan
<p>Goal 4: Reduce child mortality Target 5: Reduce by two thirds, between 1990 and 2015, the under-5 mortality rate</p>	<p>Officially reported infant mortality rate after the 1993 peak of 28 deaths per 1,000 live births fell to 19.4 in 2001. However, there are striking differences between the official rates and the rates from the Demographic and Health Survey, which showed that infant mortality rate was 62 per 1,000 live births in 1999 compared with 50 per 1,000 live births by the end of 1994.</p> <p>The Sector Program for Poverty Reduction for 2003–2005 targets reducing infant mortality by 2005 to 18.6 per 1,000 live births. This target is one of the program's main performance indicators.</p>
<p>Goal 5: Improve maternal health Target 6: Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio</p>	<p>Ministry of Health information shows that the maternal mortality rate has been declining after 1998, when it dropped from 77.5 per 100,000 live births in 1998 to 48.6 in 2001.</p> <p>Different sources of data on maternal mortality show differing numbers. While the national average rate dropped in 2001, for example, the oblast trends diverged greatly.</p>
<p>Goal 6: Combat HIV/AIDS, malaria, and other diseases Target 7: Have halted by 2015, and begin to reverse, the spread of HIV/AIDS</p>	<p>As of 1 October 2002, the country had 3,093 HIV-positive persons registered, compared with 2,648 by 31 March 2002, and 100 in 1996.</p>
<p>Target 8: Have halted by 2015, and begin to reverse, the incidence of malaria and other major diseases</p>	<p>Malaria is not a problem. The reemergence of tuberculosis (TB), however, presents a serious threat, with 59.7 cases per 100,000 population in 1994 to 155.7 in 2001.</p> <p>The Sector Program on Poverty Reduction for 2003-2005 sets the following goals: (i) reduce TB mortality from 26.4 per 100,000 people to 23.2 and (ii) halt the increase in TB incidence by 2005 to 160 per 100,000.</p>

Goals and Targets	Status of Kazakhstan
<p>Goal 7: Ensure environmental sustainability</p> <p>Target 9: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources</p>	<p>Eight documents have been prepared to lay the legal foundation to address environmental challenges. These are:</p> <ul style="list-style-type: none"> • National Environmental Action Plan for Sustainable Development of the Republic of Kazakhstan, • Law on Air Protection, • National Strategy and Action Plan for Conservation and Sustainable Use of Biological Diversity, • National Strategy and Action Plan to Combat Desertification, • National Disaster Preparedness Plan, • National Environmental Hygiene Action Plan, • Energy Development Action Plan; and • Sectoral Program "Fresh Water" (2002–2010).
<p>Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water</p>	<p>The percentage of people with access to improved water supply has been declining in urban and rural areas. From 1991 to 2000 potable water supply decreased by 55%.</p>
<p>Target 11: By 2020, achieve a significant improvement in the lives of the rural population⁴</p>	<p>Already poor rural housing conditions deteriorated further in 1996–99 with respect to access to central water pipeline, sewerage, hot water supply, central heating, and bath and/or shower inside the house.</p>

CSP = Country Strategy and Program, HIV/AIDS = human immunodeficiency virus/acquired immunodeficiency syndrome, MDGs = millennium development goals.

Source: United Nations. *Millennium Development Goals in Kazakhstan, 2002*; 1990-1998: *The State of Worlds Children*, 2000 UNICEF; 2000 UN Statistical Division, Millennium Database. Agency on Statistics.

⁴ Target 11 has been modified considering data availability and Kazakhstan's specific circumstances. The modification adopted by the United Nations in the 2002 assessment of MDGs in Kazakhstan has also been adopted in the CSP.

Table A1.4: Country Environment Indicators

Indicator	1985		Latest Year	
A. Energy Efficiency of Emissions				
1. GDP/Unit of Energy Use (PPP\$/kgoe)	—		1.80	[2001]
2. Traditional Fuel Use (% of total energy use)	—		—	[2001]
3. Carbon Dioxide Emissions				
Tons	—		123.00	[2001]
Tons per capita	10.50	[1995]	8.00	[1997]
B. Water Pollution: Water and Sanitation				
1. % Urban Population with Access to Safe Water	85.00	[2000]	86.00	[2001]
2. % Rural Population with Access to Safe Water	61.00	[2000]	63.00	[2001]
3. % Urban Population with Access to Sanitation	—		—	
C. Land Use and Deforestation				
1. Forest Area (million hectares)	26.40	[1999]	26.50	[2001]
2. Average Annual Deforestation				
Square kilometers (km ²)	—		(2,390.00)	[2001]
% change	—		(2.20)	[2001]
3. Rural Population Density (people/km ² of arable land)	—		22.00	[2001]
4. Arable Land (% of total land)	—		79.60	[2001]
5. Permanent Cropland (% of total land)	—		7.70	[2001]
D. Biodiversity and Protected Areas				
1. Nationally Protected Area				
Million hectares	73.40	[1999]	73.57	[2001]
% of total land	2.70	[1999]	2.70	[2001]
2. Mammals (number of threatened species)	—		18.00	[2001]
3. Birds (number of threatened species)	—		15.00	[2001]
4. Higher Plants (number of threatened species)	—		—	
5. Reptiles (number of threatened species)	—		—	
6. Amphibians (number of threatened species)	—		—	
E. Urban Areas				
1. Urban Population				
Million	8.40	[1997]	8.35	[2001]
% of total population	55.60	[1997]	56.00	[2001]
2. Per Capita Water Use (liters/day)	—		167.00	[1999]
3. Wastewater Treated (%)	—		—	
4. Solid Waste Generated Per Capita (kg/day)	—		—	

— = not available, % = percent, GDP = gross domestic product, kg = kilogram, kgoe = kilograms of oil equivalent, km² = square kilometer, PPP = purchasing power parity.

Sources: ADB. 2002. *Outlook 2002*. Manila; ADB. 2002. *Basic Statistics*. Manila; Agency on Statistics of the Republic of Kazakhstan. 2001. *2001 Statistical Yearbook of Kazakhstan*. Almaty; United Nations Development Programme. 2002. *Human Development Report 2001*. New York; World Bank. 2001. *The Little Green Data Book 2001 from the World Development Indicators*. Washington DC.

Table A1.5: Development Coordination Matrix

Sector/Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
Agriculture	<ul style="list-style-type: none"> • Support agriculture reforms for the transition to a market economy, including improving land tenure, privatizing state-owned farms, reducing state interventions in markets, dismantling state-owned monopoly trading companies, and improving water resources management • Support the Government's program for rural development, including diversification of rural industry, creation of jobs, and enhancement of social service provision 	<ul style="list-style-type: none"> • European Bank for Reconstruction and Development (EBRD): Provide credit to farmers for warehouse grain receipts using credit lines through commercial banks covered by a private sector indemnity fund • World Bank: Support (i) privatization of state-owned farms, including improving managerial capacity, providing agricultural support services and equipment, creating off-farm jobs and providing rural credit; and (ii) improvement of water resources management. Under the technical cooperation agreement on the joint economic research program, the World Bank has started a livestock sector study
Energy	<ul style="list-style-type: none"> • Under Asian Development Bank's (ADB) regional cooperation initiatives, rehabilitate (i) the regional power interconnector to facilitate regional power trade, and (ii) the regional gas transmission system 	<ul style="list-style-type: none"> • EBRD: Support rehabilitation of the national power transmission system. • World Bank: Support market reforms, enhanced role of the private sector, and rehabilitation of oil fields and national power transmission systems
Transport	<ul style="list-style-type: none"> • Focusing on road and rail transport systems, support rehabilitation and maintenance of national networks that are critical links in the regional transport network to (i) reduce physical and nonphysical barriers to regional trade and movement of goods and people; (ii) improve managerial and strategic planning capacity; (iii) promote market reforms; (iv) enhance safety, construction, and maintenance standards; and (v) privatize, corporatize, or commercialize state-owned transport enterprises 	<ul style="list-style-type: none"> • EBRD: Support (i) rehabilitation and maintenance of national highways that are key regional trade and transportation routes (Almaty-Astana, Almaty-Bishkek, Aktau- Atyrau), and development of a national road maintenance program; (ii) promotion of market reforms and support for restructuring and commercialization of the railway corporation, rehabilitation of track network, and purchase of new locomotives; and (iii) renovation and modernization of Aktau seaport • Islamic Development Bank (IsDB): Support rehabilitation of the Almaty-Astana road in collaboration with ADB, and propose similar collaboration on the Borovoe-Petropavlovsk road linking Astana with the border to the Russian Federation • Japan Bank for International Cooperation (JBIC): Support (i) rehabilitation of highway segments in west Kazakhstan, and (ii) determining of tariffs for aviation and railway transport • World Bank: Support rehabilitation and maintenance of national highways and rural roads (Almaty-Astana) in collaboration with other international financial institutions. Prepare to undertake a regional trade facilitation and transportation study for Central Asia, including cross-border issues

Sector/Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
Information and Communications Technology (ICT)	<ul style="list-style-type: none"> Significant ADB involvement in ICT is not envisaged. It will be considered based on the Government's ICT strategy, which is being prepared with EBRD support. 	<ul style="list-style-type: none"> EBRD: Provide technical assistance (TA) to develop ICT policy and strategy, including promotion of market reforms, deregulation, dismantling of monopolies, and private sector participation. A lending operation is the expected outcome of the dialogue with Government based on the strategy work.
Water Resources	<ul style="list-style-type: none"> Rehabilitate irrigation infrastructure, including improving national and local managerial capacity to ensure continued operation and maintenance in the long term. Collaborate closely with the World Bank. 	<ul style="list-style-type: none"> World Bank: In collaboration with ADB, support rehabilitation of irrigation infrastructure in other areas of southern Kazakhstan, including promoting a common reform agenda and strategic approach. In collaboration with European Union Technical Assistance to Commonwealth of Independent States, helped draft the water code.
Rural Water Supply and Sanitation	<ul style="list-style-type: none"> Provide water and sanitation services to rural areas, including rehabilitating existing systems or developing new ones, enhancing national and local government strategic planning and managerial capacity, and establishing decentralized community operations and maintenance capabilities 	<ul style="list-style-type: none"> IsDB: In collaboration with ADB, help provide water to rural Karagandy, promoting a common strategic approach Japan International Cooperation (JICA): Provide materials and equipment for rural water supply in north Kazakhstan.
Urban /Municipal Services	<ul style="list-style-type: none"> The ADB strategy does not as yet envisage active involvement in the municipal services sector. 	<ul style="list-style-type: none"> EBRD: Provide non-sovereign guaranteed lending for solid waste management and urban water supply and sanitation services in Almaty and Atyrau cities JBIC: Rehabilitate water supply and sanitation systems in the capital city of Astana World Bank: Lend directly to local governments with central Government guarantee for rehabilitation of urban water supply and sanitation systems in selected small cities
Education	<ul style="list-style-type: none"> As the lead external development partner in the sector, restore quality education services and support the deepening of sector reforms to meet the needs of a market economy. This includes improving resource utilization, developing skills for new labor markets, use of ICT, teacher training, encouraging private education, and enhancing strategic planning capacity. Further ADB support will be considered based on the 2003 update of the education sector strategy. 	

Sector/Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
Health	<ul style="list-style-type: none"> Through a regional Japanese Fund for Poverty Reduction grant address micronutrient deficiencies in children and mothers through wheat fortification and salt iodization. 	<ul style="list-style-type: none"> JICA: (i) Improve the health care system in Semipalatinsk, east Kazakhstan, which has heavy radiation pollution, by providing training equipment; and (ii) provide medical equipment to Kyzylorda region and Astana City
Social Protection	<ul style="list-style-type: none"> ADB does not yet envisage active involvement in social protection. Assistance may be considered in future based on the Sector Program for Poverty Reduction, 2003–2005. 	<ul style="list-style-type: none"> World Bank: Extensive support reform of Kazakhstan's social protection system to ensure effective delivery and management. Under the technical cooperation agreement for the joint economic research program, the World Bank has started preparing health and pension policy notes.
Private Sector Development	<ul style="list-style-type: none"> ADB public sector operations supported private sector development through infrastructure improvements and institutional reforms (for example, pension system). Support under the forward program will focus on infrastructure, rural development and policy and institutional reforms to foster private sector development; promote small- and medium-sized enterprise (SME) development, including by providing credit; and support capital market development. However, ADB's non-sovereign guaranteed lending operations can only begin once the private sector operations framework agreement is signed with the Government. 	<ul style="list-style-type: none"> EBRD: Support the transition to a market economy, with a focus on the private sector and enterprises. Assistance includes EBRD's flagship SME development program and strengthening of the financial sector. International Finance Corporation: Approved 34 non-sovereign guaranteed operations totaling \$241 million in energy, finance, manufacturing, mining, tourism, and trade, including support to SME development. World Bank: Offered broad range of assistance: (i) management of state assets (including privatization); (ii) measures to improve the business environment (through regulatory reforms and de-licensing); (iii) policy studies on impediments to private sector development and growth of the mining sector; (iv) financial services for rural enterprises; and (v) support for SME development (including business advisory services, information technology, and linkages with large enterprises).
Finance and Banking	<ul style="list-style-type: none"> Regional TA is being provided to harmonize customs procedures and reduce barriers at border crossings to facilitate cross-border trade and movement of goods. ADB is considering collaboration with the Development Bank of Kazakhstan, and extension of credit lines to SMEs, on a non-sovereign guaranteed basis. (See note under Private Sector Development regarding the requirement for the framework agreement). 	<ul style="list-style-type: none"> EBRD: (See Private Sector Development) World Bank: (See Private Sector Development)

Sector/Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
Poverty Reduction	<ul style="list-style-type: none"> TA has been provided to prepare a comprehensive medium-term poverty reduction strategy, including a poverty assessment and high-level forum, involving close collaboration with UNDP and the World Bank. ADB is helping to improve monitoring of poverty reduction projects. This assistance will intensify during CSP implementation. ADB and the Government signed the poverty partnership agreement. 	
Environment	<ul style="list-style-type: none"> Strategy includes TA to improve management and strategic planning capacity in the Ministry of Environment and Natural Resources (see also Water Resources above). 	<ul style="list-style-type: none"> JICA: Support for (i) environmental monitoring of the Balkash Lake and watershed, and (ii) water quality analysis and monitoring UNDP: Support for the Government to prepare for the Environment Summit, Johannesburg, August 2002. With the World Bank, helped the Government prepare the national environmental action plan (NEAP). World Bank: The environment is among the main strategic priorities. Primary focus is on water resources, including irrigation management, pollution cleanup, and the Aral Sea problem. With UNDO, the World Bank has helped the Government prepare and implement the NEAP. The World Bank completed a study of Kazakhstan's major river basins in April 2003, helped develop a forestry code, and made investment project proposals under the United Nations' Caspian environmental program.
Governance	<ul style="list-style-type: none"> ADB Strategy has focused on sectoral governance issues (such as policy and institutional reforms and capacity building) through lending and TA, and on investment project programming and aid coordination. On the basis of recommendations of the country governance assessment completed in 2003, a cluster of TAs to enhance capacity in strategic planning and budgeting, and improve intergovernmental fiscal relations and government performance monitoring capacities is being processed in 2003. Follow-up TAs have been proposed in the forward. 	<ul style="list-style-type: none"> European Union-Technical Assistance to Commonwealth of Independent States (EU-TACIS): Assistance to implement the civil service law, establish a regional civil service training center, promote decentralization, and encourage civil-society participation. IMF: Assistance to formulate tax policy, at the local level reform the customs agency, and modernize the treasury, (this in collaboration with the World Bank). JICA: Assistance to enhance strategic planning capacity, specifically in economic and industrial policy formulation UNDP: A broad range of support, including to strengthen strategic planning capacity, train parliamentarians in law drafting, introduce international accounting standards, advise on

Sector/Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
Governance - continuation	program. A TA has also been proposed to strengthen the policy and institutional framework to promote competition	<p>decentralization and functional reviews of ministries and local authorities, and empower nongovernment organizations.</p> <ul style="list-style-type: none"> • USAID: Support primarily at the local level, to introduce democratic practices and empower civil society; and at the central and local levels, to undertake public sector fiscal reform, including intergovernmental fiscal transfers and capacity building to improve budget formulation • World Bank: Its strategy for public sector reform aims to ensure efficient public resource management and improve public service efficiency and effectiveness. Support has included a functional analysis to decentralize responsibilities, and to facilitate public expenditure management (budget formulation and monitoring, intergovernmental finances, public procurement); audit and accounting standards; SME support; tax and customs reform; and a survey of the social service delivery system. The World Bank completed a diagnostic study on service delivery in 2002 and is closely working with USAID on developing the new budget code.
Gender	<ul style="list-style-type: none"> • In 1997 ADB prepared a report: Women and Gender Relations in Kazakhstan—The Social Cost. Limited ADB lending since this report narrowed opportunities to mainstream gender and development in loan projects. Regional technical assistance (RETA) 9005: Improving Nutrition for Poor Mothers and Children in Central Asian republics funded by a grant from the Japan Fund for Poverty Reduction, focused on gender and development. Another RETA is being processed to study gender issues anew. 	<ul style="list-style-type: none"> • See Appendix 3 for the focus of other development partners.

ADB = Asian Development Bank, EBRD = European Bank for Reconstruction and Development, EU-TACIS = European Union Technical Assistance to Commonwealth of Independent States, ICT = information and communications technology, IsDB = Islamic Development Bank, JBIC = Japan Bank for International Cooperation, JICA = Japan International Cooperation Agency, NEAP = national environmental action plan, RETA = regional technical assistance, SME = small- and medium-sized enterprise, TA = technical assistance, UNDP = United Nations Development Programme, USAID = United States Agency for International Development.

Table A1.6: Portfolio Indicators—Portfolio Amounts and Ratings
(public sector loans, as of 31 December 2002)

Sector	Net Loan Amount		Rating ^a													
			Total		Highly Satisfactory		Satisfactory		Partly Satisfactory		Unsatisfactory		Potential Problem ^b		At Risk ^c	
	\$ million	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	(%)
Agriculture and Natural Resources	35.0	20.4	2	33.3	—	—	—	—	2	100.0	—	—	—	—	2	100.0
Energy	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Finance	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Industry and Nonfuel Minerals	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Multisector	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Social Infrastructure	34.0	20.0	2	33.3	—	—	2	100.0	—	—	—	—	—	—	—	—
Transport and Communications	102.0	59.6	2	33.3	—	—	2	100.0	—	—	—	—	—	—	—	—
Total	171.2	100.0	6	100.0	—	—	4	100.0	2	33.3	—	—	—	—	2	33.3

— = not available, % = percent, No. = number.

^a One rating for implementation progress and development objectives, based on the lower rating of either.

^b Potential problem loans are satisfactory loans but have four or more risk factors associated with partly satisfactory or unsatisfactory performance.

^c A loan is "at risk" if it is rated as partly satisfactory, as unsatisfactory, or as a potential problem.

Source: Asian Development Bank estimates.

Table A1.7: Portfolio Indicators—Disbursements and Net Transfers of Resources
(public sector loans, as of 31 December 2002)

Disbursements and Transfers	OCR	ADF	Total
Disbursements^a			
Total Funds Available for Withdrawal (\$ million)	152.5	18.7	171.2
Disbursed Amount (\$ million, cumulative)	72.7	13.6	86.3
Percentage Disbursed (disbursed amount/total available)	47.7	72.8	50.4
Disbursements (\$ million, 2002)	6.4	1.0	7.5
Disbursement Ratio (%) ^b	7.5	17.9	8.1
Net Transfer of Resources (\$ million)			
1998	102.0	12.5	114.6
1999	(11.0)	6.3	(4.8)
2000	0.7	3.9	4.7
2001	(17.3)	2.2	(15.1)
2002	(27.0)	0.5	(26.5)

% = percent, ADF = Asian Development Fund, OCR = ordinary capital resources.

^a Includes one ongoing loan.

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

Source: Asian Development Bank estimates.

Table A1.8: Portfolio Indicators—Evaluation Rating by Sector
(1996–2002)

Sector	Highly Successful		Successful		Partly Successful		Unsuccessful		No Rating		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Agriculture and Natural Resources	—	—	1	50	—	—	—	—	—	—	1	50
Energy	—	—	—	—	—	—	—	—	—	—	—	—
Finance	—	—	1	50	—	—	—	—	—	—	1	50
Industry and Nonfuel Minerals	—	—	—	—	—	—	—	—	—	—	—	—
Multisector	—	—	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—	—	—
Social Infrastructure	—	—	—	—	—	—	—	—	—	—	—	—
Transport and Communications	—	—	—	—	—	—	—	—	—	—	—	—
Total	—	—	2	100	—	—	—	—	—	—	2	100

— = not available, % = percent. No. = number

Table A1.9: Portfolio Implementation Status
(public sector loans, as of 31 December 2002)

No.	Sector	Loan No.	Seg	Title	Net Loan Amount		Approval Date (dd/mm/yy)	Effective Date (dd/mm/yy)	Closing Date		Progress (% complete)
					OCR (\$ million)	ADF (\$ million)			Original (dd/mm/yy)	Revised (dd/mm/yy)	
1	AGR	1592		Water Resources Management and Land Improvement	25.8	—	17 Dec 97	11 Aug 98	30 Jun 03	30 Jun 05	37%
2	AGR	1593		Water Resources Management and Land Improvement	—	9.2	17 Dec 97	11 Aug 98	30 Jun 03	30 Jun 05	37%
3	SOC	1541		Basic Education	24.7	—	24 Sep 97	05 Aug 98	30 Jun 03	—	90%
4	SOC	1542		Basic Education	—	9.5	24 Sep 97	05 Aug 98	30 Jun 03	—	90%
5	T&C	1455		Road Rehabilitation	50.0	—	27 Aug 96	31 Mar 97	30 Nov 00	31 Mar 03	100%
6	T&C	1774		Almaty–Bishkek Regional Road Rehabilitation	52.0	—	31 Oct 00	31 May 02	30 Jun 05	—	2%
Total					152.5	18.7					

— = not available, % = percent, ADF = Asian Development Fund, AGR = agriculture and natural resources, dd = day, mm = month, yy = year, OCR = ordinary capital resources, Seg = segment (pertaining to loans with more than one withdrawal authority), SOC = social infrastructure, T&C = transport and communications.
Source: Asian Development Bank estimates.

No.	Sector	Loan No.	Seg	Title	Cumulative Contracts/ Commitments (\$ million)	Cumulative Disbursements (\$ million)	Rating		Potential Problem ^a	At Risk ^b
							IP	DO		
1	AGR	1592		Water Resources Management and Land Improvement	21.1	3.3	PS	S	Yes	Yes
2	AGR	1593		Water Resources Management and Land Improvement	5.4	4.1	PS	S	Yes	Yes
3	SOC	1541		Basic Education	23.0	24.7	S	S	No	No
4	SOC	1542		Basic Education	9.4	9.5	S	S	No	No
5	T&C	1455		Road Rehabilitation	44.0	43.8	S	S	No	No
6	T&C	1774		Almaty–Bishkek Regional Road Rehabilitation	3.6	0.9	S	S	No	No
Total					106.5	86.3				

— = not available; ADF = Asian Development Fund, AGR = agriculture and natural resources, DO = development objectives, ENE = energy, FIN = finance, HS = highly satisfactory, IND = industry and nonfuel minerals, IP = implementation progress, MUL = multisector, no. = number, OCR = ordinary capital resources, OTH = others, PS = partly satisfactory, S = satisfactory, Seg = segment (pertaining to loans with more than one withdrawal authority), SOC = social infrastructure, T&C = transport and communications, U = unsatisfactory.

^a “Yes” for loans with four or more risk factors associated with partly satisfactory or unsatisfactory performance.

^b A loan is considered "at risk" if it is rated as "PS" or "U" in either implementation progress or development objectives, or if it is a potential problem loan.

Source: Asian Development Bank estimates.

Table A1.10: Assistance Pipeline for Lending Products, 2004–2006

Sector Project/Program Name	Poverty Classifi- cation	Thematic Priority	Division	Year of Project Preparatory Assistance	Total	Cost (\$ million)				
						ADB		Total	Gov't ^a	Cofi- nancing
						OCR	ADF			
2004 Firm Loans										
Agriculture and Rural Development										
1. Regional Rural Development (previously Rural Area Development Project)	PI	ECO/PSD	ECAE	2003	tbd	50.0	0.0	50.0	tbd	tbd
Subtotal					tbd	50.0	0.0	50.0	tbd	tbd
Transport and Communication										
2. Borovoe–Kokshetau– Petropavlovsk Road Rehabilitation	OTH	ECO/REG	ECTC	2002	tbd	40.0	0.0	40.0	tbd	10.0
Subtotal					tbd	40.0	0.0	40.0	tbd	10.0
Total					tbd	90.0	0.0	90.0	tbd	10.0
2005 Standby Loan										
Agriculture and Rural Development										
1. Second Water Resources Management and Land Improvement ¹	OTH	ECO/ENV	ECAE	2004	tbd	50.0	0.0	50.0	tbd	tbd
Subtotal					tbd	50.0	0.0	50.0	tbd	tbd
Total					tbd	50.0	0.0	50.0	tbd	tbd
2006 Standby Loan										
Social Infrastructure										
1. Second Rural Water Supply and Sanitation Sector	PI	HD/GAD	ECSS	2005	tbd	50.0	0.0	50.0	tbd	10.0
Subtotal					tbd	50.0	0.0	50.0	tbd	10.0
Total					tbd	50.0	0.0	50.0	tbd	10.0

ADB = Asian Development Bank, ADF = Asian Development Fund, ECAE = Agriculture, Environment and Natural Resources, ECO = economic growth, ECSS = Social Sectors Division East, ECTC = Transport and Communications Division, ENV = environment protection, GAD = gender and development, HD = human development, OCR = ordinary capital resources, OTH = others, PI = poverty intervention, PSD = Private Sector Development, REG = regional, tbd = to be determined.

^a Government share will be calculated based on Bank's *Graduation Policy, 1999*.

Source: Memorandum of Understanding of the Country Strategy and Program Mission signed on 27 May 2003.

¹ The Government has informed that the decision on this project will depend on the progress in implementation of the ongoing first phase project. For this reason the Government did not favor including this project as firm in the 2006 pipeline.

Table A1.11: Assistance Pipeline for Nonlending Products and Services, 2004–2006

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
2004							
Agriculture and Natural Resources							
1. Second Water Resources Management and Land Improvement	ECAE	PP	TASF	600.0		0.0	600.0
2. Improved Environmental and Natural Resource Management	ECAE	ID	TASF	600.0		0.0	600.0
3. Strengthening Rural/Regional Planning (attached to Regional Rural Development)	ECAE	ID	TASF	500.0		0.0	500.0
Social Infrastructure							
4. Policy Research on Education Sector Strategies ²	ECSS	ETSW	Staff/IAE				
Subtotal				1,700.0		0.0	1,700.0
Transport and Communication							
5. Capacity Building in the Transport Sector (attached to Borovoe-Kokshetau-Pertopavlovsk Road Rehabilitation)	ECTC	ID	TASF	500.0		0.0	500.0
Subtotal				500.0		0.0	500.0
Others							
6. Support for Increasing Competitiveness of Domestic Enterprises	ECGF	ID	TASF	600.0		0.0	600.0
Subtotal				600.0		0.0	600.0
Total				2,800.0		0.0	2,800.0
2005 Firm							
Social Infrastructure							
1. Second Rural Water Supply and Sanitation Sector	ECSS	PP	TASF	600.0		0.0	600.0
2. Policy Research on Education Sector Strategies ³	ECSS	ETSW	Staff/IAE				
3. Capacity Building of National and Local Governments to Implement the Poverty Reduction Strategy, Phase II	ECAE	ID	TASF	500.0		0.0	500.0
Subtotal				1,100.0		0.0	1,100.0

² Specific areas to be jointly identified with the Government.

³ Specific areas to be jointly identified with the Government.

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
4. Strengthening Core-Government Capacity for Policy Development and Implementation in Kazakhstan (previously Capacity Building for Investment Planning)	ECGF	ID	TASF	500.0		0.0	500.0
Subtotal				500.0		0.0	500.0
Total				1,600.0		0.0	1,600.0
2005 Standby							
Agriculture and Natural Resources							
1. Institutional and Technological Strengthening for the Water Resources Management and Land Improvement (attached to Second Water Resources Management and Land Improvement Project)	ECAE	ID	TASF	600.0		0.0	600.0
Subtotal				600.0		0.0	600.0
Total				600.0		0.0	600.0
2006 Firm							
Others							
1. Supporting the Shift from Local State Government to Local Self-Government in Kazakhstan (previously Capacity Building for Fiscal Management at the Local Level)	ECGF	ID	TASF	500.0		0.0	500.0
Subtotal				500.0		0.0	500.0
Total				500.0		0.0	500.0
2006 Standby							
Social Infrastructure							
1. Institutional Strengthening for Rural Water Supply and Sanitation Sector, Phase II (attached to the Second Rural Water Supply and Sanitation Sector Project)	ECSS	ID	TASF	500.0		0.0	500.0
Subtotal				500.0		0.0	500.0
Total				500.0		0.0	500.0

ADB = Asian Development Bank; CARs = Central Asian Republics, ECAE = Agriculture Environment and Natural Resources Division, ECGF = Governance, Finance, and Trade Division, ECO = economic growth; ECSS = Social Sectors Division, ECTC = Transport and Communications Division, ETSW = economic, thematic, and sector work, IAE = internal administrative expenses, ID = institutional development, PPTA = project preparatory technical assistance, TASF = technical assistance special fund, tbd = to be determined.

Source: Memorandum of Understanding of the Country Strategy and Program Mission signed on 27 May 2003.

COUNTRY STRATEGY AND PROGRAM FORMULATION

A. Process

1. The first step in preparing the Country Strategy and Program (CSP) was to undertake a comprehensive poverty analysis followed by a participatory high-level forum held in Astana in April 2002.
2. The second step was a visit to Astana of an Asian Development Bank (ADB) mission comprising three East and Central Asia Department (ECRD) directors. The mission, met among others, the deputy prime minister in charge of foreign assistance from official sources. The mission's objective was to confirm at the highest level the Government's desire to avail itself of ADB assistance.
3. The third step was the 2002 country programming mission, which had wide-ranging and frank discussions with the Government on emerging development requirements. The mission concluded that booming oil revenues had created an illusion of riches that did not hold in the face of poor performance of the social, agriculture, environment, and infrastructure sectors. Their development needs were not being met with potential disastrous consequences for productivity. Meetings with development partners; academic institutes; civil-society institutions, including Parliament and nongovernment organizations (NGOs); and the private sector helped the mission make its assessments.
4. In April-May 2002 the preliminary findings of a growth study (done by an ADB staff consultant) became available, pointing out the gap between growth targets and investment outlook. Despite reforms, private investment in non-oil sectors had remained low, requiring improvement of the investment climate and a more active fiscal policy. Preliminary findings were presented to the regional management team of ECRD.
5. In August-September 2002, the director general of ECRD visited Kazakhstan and met senior officials, including the deputy prime minister for a policy dialogue on the strategic directions of ADB operations. The director general also met with development partners.
6. Diagnostic assessments (governance, environment, and private sector) were ongoing and preliminary findings discussed among the country team members.
7. Beginning with the directors' mission, regular contacts were maintained with the executing agencies through sector missions, the country programming mission, and the September mission.
8. The CSP mission prepared the CSP initiating paper, laying down the preliminary assessments, analysis, and framework for the CSP. With the approval of the regional management team, the CSP initiating mission was fielded in October 2002. It held comprehensive discussions with the national and regional governments, development partners, civil-society institutions, private sector, and academic institutions. The initiating paper was revised to reflect the assessments and findings of the mission.
9. In December 2002, the revised CSP initiating paper was presented to management for endorsement of the CSP's proposed sector and thematic strategic focus.

10. Management's endorsement of the strategic focus was a milestone, triggering the work on sector and thematic road maps, which are the backbone of ADB operations in Kazakhstan. ADB decided to prepare four sector and three thematic road maps. The country team decided to prepare thematic road maps for environment, governance, and private sector development even though thematic road maps are not mandatory.

11. The CSP mission was fielded in March-April 2003 to finalize the sector and thematic focus, assistance program, performance indicators, and cofinancing arrangements. The mission also met with a regional government, development partners, private sector, and NGOs. To obtain complete ownership of the various national government stakeholders, the counterpart ministry widely circulated the mission's Memorandum of Understanding (MOU) and gave the concerned ministries and agencies enough time to study the MOU before endorsing.

12. During April-May 2003, workshops were held to discuss and disseminate the findings of the environment, governance, and private sector development assessments.

13. Before writing the full CSP, the mission first presented in May 2003 a story line to management and the regional management team.

B. Participation Arrangements

14. The mission extensively consulted the key stakeholders during CSP preparation. An externality of this consultation process was greater clarity in the Government's thinking on development priorities. By April 2003, when the CSP mission ended, the Government and the ADB mission had come a long way in development needs assessment compared to April 2002, when the first contacts were made with the Government on forward operations of ADB. The matrix below summarizes CSP mission consultations with stakeholders. Extensive consultations were also made while preparing the four diagnostic assessments, through the high-level forum to discuss poverty assessment and the workshops to discuss the other three assessments, and while preparing the sector and thematic maps. The consultations with various stakeholders are summarized below:

Stakeholders	Occasions
Nongovernment organizations (group and individual meetings)	<ul style="list-style-type: none"> • Country Programming Mission, May 2002 • CSP Initial Consultation Mission, October 2002 • CSP Mission, March-April 2003
Parliament (a cross-section of members, including the chair and members of the Committee on Economics, Finance and Budget)	<ul style="list-style-type: none"> • Country Programming Mission, May 2002 • CSP Initial Consultation Mission, October 2002
Private Sector (local and foreign)	<ul style="list-style-type: none"> • CSP Initial Consultation Mission, October 2002 • CSP Mission, March-April 2003
Academic Institutions (government-owned and private)	<ul style="list-style-type: none"> • Country Programming Mission, May 2002 • CSP Initial Consultation Mission, October 2002

Stakeholders	Occasions
<i>Oblast</i> Governments	<ul style="list-style-type: none"> • Country Programming Mission, May 2002 • CSP Initial Consultation Mission, October 2002 • CSP Mission, March-April 2003
Development Partners <ul style="list-style-type: none"> • The mission met with development partners individually at the beginning of the mission and in a group at the end of the mission. • The October 2002 and March-April 2003 missions invited World Bank representatives to participate in key mission meetings with the Government. The World Bank could not send a representative to the October mission. 	<ul style="list-style-type: none"> • Country Programming Mission, May 2002 • DG, ECRD mission in September 2002 • CSP Initial Consultation Mission, October 2002 • CSP Mission, March-April 2003

DG, ECRD = Director General of the East and Central Asia Department, CSP = Country Strategy and Program

COUNTRY SECTOR AND SUBSECTOR ROAD MAPS

A. Sound Development Management in Kazakhstan

1. Governance Road Map 2000–2006

The following table shows thematic indicators now and in 2010:

Table A3.1: Thematic Indicators

Thematic Indicators	Current	2010
Rule of Law	Low average	Average
Anti-corruption and Accountability Institutions	Low average	Average
Civil Service	Average	High average
Revenue Mobilization and Budgetary Management	Average	High average
Management and Efficiency of Public Expenditure	Average	High average

2. Major Issues

The following are major issues:

- (i) Public financial management has improved, but inefficiency still exists.
- (ii) Tax administration is inefficient.
- (iii) Policy and development coordination in public administration, particularly intergovernmental fiscal relations, is poor.
- (iv) The foundation of the legal and regulatory system is adequate for a market economy but enforcement is a problem.
- (v) Poor quality of public accountability and corruption is widely perceived as a serious problem.
- (vi) Corporate governance is weak.
- (vii) Despite laws guaranteeing independence and freedom of nongovernment organizations (NGOs), the environment remains inhospitable for NGOs' acceptance and interface with government.

Table A3.2: Governance Reform Road Map

Focus and Justification	Targets/Activity Areas	ADB Input	Other Funding Agencies
<p>Support to public administration management and core government reforms:</p> <p>(i) Public expenditure and financial management. The National Fund is managed inappropriately. The budget process does not reflect priority programs. The bottom-up approach to budgeting still not being used. Budget monitoring and evaluation is not yet effective. Administration of the tax code is a major problem. The tax system is distortional due to central-local fiscal relations.</p>	<p>Improved strategic planning</p> <p>Improved Tax Administration</p>	<p>TA 3595, 2000–2002: Capacity Building for Public Investment Programming</p>	<p>World Bank: Treasury modernization</p> <p>IMF: Assistance in formulating tax policy and reforming the customs agency</p> <p>EU-TACIS: Tax Administration reform, upgrading customs facilities</p>
<p>(ii) Public administration. Confusion of responsibilities and authorities is a major problem. Coordination between president administration and government is dysfunctional. Poor coordination between ministries and agencies; corruption is a serious problem; variable service delivery</p>	<p>Improved public administration</p> <p>Strengthened policy coordination</p> <p>Strengthened policy coordination and strategic planning</p> <p>Service delivery survey instituted</p>	<p>TA 3747, 2001–2003: Governance Study and Capacity Building for Administrative Reforms contributed to review of Prime Minister Chancellery and Governance assessment</p> <p>TA, 2003: Strengthening Core Government Capacity for Policy Development and Implementation</p> <p>TA, 2005–2006: Strengthening Core-Government Capacity for Policy Development and Implementation, II</p>	<p>World Bank: Functional analysis</p> <p>USAID: Political process program</p> <p>Strategic planning capacity by UNDP and JICA</p> <p>UNDP: National capacity building for effective poverty reduction project</p>
<p>(iii) Civil Service. Human resource management is merit based, a personnel management system database in place, the Civil Service Law is difficult to implement and political patronage remain a factor.</p>	<p>Improved functional alignment between ministries</p> <p>Fully functioning merit-based system</p>		<p>EU-TACIS: Support for the National Civil Service Training Center</p> <p>World Bank: Functional review</p>

Focus and Justification	Targets/Activity Areas	ADB Input	Other Funding Agencies
<p>(iv) Legal and judicial reform. The primacy of the rule of law not recognized. Law enforcement is arbitrary. Trained lawyers and judges are scarce, and the poor have inequitable access to justice.</p>	<p>Strengthened legal system</p> <p>Empowered courts</p> <p>Specialized appeals tribunal</p> <p>Strengthened antimonopoly and antitrust law</p>	<p>Support to enhance competitiveness</p>	<p>EU-TACIS: Support for legal reform</p> <p>UNDP: Technical assistance to Parliament</p> <p>Soros Foundation: Law Reform Program</p>
<p>(v) Public accountability. A comprehensive approach to performance measurement is lacking. The accounting and auditing system is up to international standards but implementation is weak. Capacity in external and internal audit is inadequate.</p>	<p>Improved public accountability</p> <p>Strengthened auditing and accounting systems</p>	<p>TA, 2003: Support to Developing Performance Measurement for Government Programs</p> <p>RETA, 2003: Accounting and Auditing</p>	<p>World Bank: Improving efficiency and effectiveness of public service delivery</p> <p>UNDP: Introducing international accounting standards</p> <p>World Bank: Introducing audit and accounting standards</p>
<p>(vi) Public-private interface. Government intervention restricts private sector development. Corporate governance is weak. Administrative law needs improvement.</p>	<p>Strengthened privatization strategy</p> <p>Improved environment for private investment, regulatory enforcement, and corporate governance</p>	<p>RETA 36027-04, 2003: Regional Finance Sector Development Support</p>	<p>EBRD: SME development program</p> <p>USAID: Financial Markets Project, Trade and Investment Project</p> <p>EBRD: Strengthening of financial sector</p> <p>World Bank: Improvement of the business environment</p>
<p>(vii) Public participation. While the presence of NGOs is growing, they need participate in policymaking and to establish their credibility. Transparency and access to information need improvement.</p>	<p>An environment that recognizes civil-society participation</p>	<p>Consultation with civil society</p>	<p>EU-TACIS: Promotion of civil-society participation at local level</p> <p>UNDP: Empowering NGOs;</p> <p>USAID: Civic Organizations Program;</p> <p>Soros Foundation: Civil Society Development Programs</p>

Focus and Justification	Targets/Activity Areas	ADB Input	Other Funding Agencies
(viii) Local government. Intergovernmental fiscal transfers and revenue sharing mechanism are yet to fully develop. A dual subordination arrangement exists.	Improved legislation governing central-local relations Decentralized fiscal system	TA 4072, 2002: Capacity Building of National and Local Governments TA, 2003: Supporting the Shift from Local State Government to Local Self-Government TA, 2006: Supporting the Shift from Local State Government to Local Self-Government II	UNDP: Functional reviews of ministries and local authorities USAID: Local Government Program World Bank: Public Sector Resource Management Soros Foundation: Public Policy Initiative Project and Local Government Development Project World Bank: Public Sector Resource Management USAID: Fiscal Reform Project
Institutional Sector Capacity Building. Quality of services and accountability to customers is generally low due to insufficient institutional capacity.	Strengthened sector agencies to carry out their mandates through improved strategies, planning policies, skills development	Multiple TAs	EU-TACIS, USAID, UNDP, World Bank, and Soros Foundation

EBRD = European Bank for Reconstruction and Development, EU-TACIS = European Union Technical Assistance to Commonwealth of Independent States, IMF = International Monetary Fund, JICA = Japan International Cooperation Agency, NGOs = nongovernment organizations, SME = small- and medium-sized enterprise, UNDP = United Nations Development Programme, USAID = United States Agency for International Development

B. Private Sector Development

1. Background and Overview

1. As private ownership has complemented and replaced state ownership, and the legal and institutional framework for a market economy is being consolidated, the environment provides a solid basis for continued reforms to boost private sector development. As in all transitioning and developing economies, impediments to private sector development and growth remain and must continue to be removed. Success will depend upon, among other factors, on the speed with which pre-independence institutions are restructured and new institutions for a market economy are created. This process, unlike structural reform, has proven to be slow and gradual.

2. Since the beginning of the transition, early and effective focus on macroeconomic stability has been key to establishing an environment to attract investment and a foundation for further reforms. However, after the initial fast pace of reforms, and while Kazakhstan is still the leading reformer in Central Asia, faster-reforming European transition countries (e.g. Estonia, Poland, Slovenia) have performed better than Kazakhstan, notwithstanding the latter's

impressive economic growth. As high economic growth and a strong fiscal position reduces reliance on economic activity to finance the budget, Kazakhstan is now in a strong position to consolidate progress and advance the reform agenda.

3. Conversely, a slowdown of reform would have a negative impact on economic performance, especially in nonextractive sectors. Current rapid economic growth; reduced budget deficit and public indebtedness; and more benign balance of trade, current account, and payments may reduce pressures to improve the private sector environment. Therefore, the Government should instead take advantage of the current favorable macroeconomic environment to implement reforms as the economy is able to absorb higher adjustment costs.

2. Profile of the Private Sector

4. Estimates place 60–65% of the economy in private hands. These estimates include the informal sector, which is said to account for 20–30%. Of the 70–80% of the economy included in gross domestic product (GDP) calculations, more than 50% is said to be attributable to around 20 super-large companies, all still virtually, if not formally, state controlled.

5. The state is the main shareholder among large transport and oil and gas sector enterprises and maintains considerable control in the industrial sector. Based on number of large companies by type of ownership in 2001, however, agriculture sector has the highest proportion of private ownership, with 94% of large companies in the sector completely private, and only 6% completely state owned. Construction, trade, and financial activities follow, with 93%, 89%, and 83%, respectively, completely private (and 4%, 6%, and 17%, respectively, in state hands). Private sector participation in the financial sector was further increased in 2002 with the sale of the state stake in a major bank.

3. Government Private Sector Development Policy Aspects

6. In the last several years, a gradual approach has replaced early rapid liberalization. Government policy is guided by several documents¹ collectively advocating a market economy, but with significant state direction in the medium term. Key questions include whether economic growth following such an East Asian model will outpace that chosen by faster-reforming European transition countries, and whether necessary mechanisms to separate and manage the role of owner/operator and regulator are in place to maximize likelihood of success.

7. Progress in key policy areas is under way, and the Government has indicated and demonstrated a renewed sense of urgency in 2003, although several policy areas can be further accelerated. Competition and price policy is not yet up to international standards. While implementation of a recent investment law guaranteeing equal treatment for domestic and international investors is under way, nontransparent contract negotiations and public statements regarding foreign investments create the impression of a less than welcoming investment environment. The recent trend to de-emphasize import substitution in favor of export promotion is encouraging. Privatization of state-owned assets has accelerated after a period of consolidation, and transparency and industry structure in privatized sectors emerge as key issues in the process. Planned modalities for investment activities by the Government, however, could potentially crowd out private sector initiatives.

¹ The Message of the President of the Republic of Kazakhstan, "Kazakhstan 2030," Strategic Plan of Development of the Republic of Kazakhstan until 2010, and the recently adopted industrial innovation strategy.

4. Issues and Constraints Facing Private Sector

8. The constraints facing the private sector are not unique to Kazakhstan—they are typical in a transition process. Removal of constraints is an iterative process of continuous improvement. The Government has recently taken impressive measures to resolve and remove such constraints, anticorruption initiatives, tax inspection suspensions, infrastructure tariff revision, adoption of a new tax code and investment law, etc. The following barriers and constraints need to be addressed:

a. Institutional Development

9. **Public-Private Interface Issues.** These include corruption, political interference, and little possibility of redress for wronged business. Proper conduct and procedures for tax authorities, customs, and inspection agencies are the most critical for businesses in general. Frequent changes of public officials reduce institutional memory.

10. **Implementation and Enforcement of Law.** The legal framework is more robust in Kazakhstan than in other post-Soviet states, but implementation and enforcement are less effective. The many types and issuers of acts, decrees, and resolutions create uncertainty regarding the stability of current frameworks, and court dispute resolution efficiency is affected by capacity constraints and corruption, compounded by weak enforcement.

b. Constraints Increasing Transaction Costs

11. **Administrative Barriers.** Administrative barriers are seen as higher than in neighboring/developing countries. Although a new tax code is a great improvement, problems remain in tax administration. Over 60 activities are subject to licensing. Senior management spends relatively more time interacting with government officials than in other countries. Registration issues are invariant with company size, making them more onerous for small- and medium-sized enterprises (SMEs).

12. **Expensive and Inadequate Infrastructure.** Infrastructure supply is inadequate to meet shifting demand due to the widely dispersed population and economic activity, and the changing trade routes from Soviet-era north-south orientation. Electricity supply is unreliable, telephone line density low, and roads and water supply installations lack maintenance. Enforcement of rules on use, usage metering, and tariff payment need strengthening. Tariffs are set below cost recovery (implicit subsidies for high-usage industries), delaying necessary structural adjustment. Incentives to improve efficiency are lacking due to monopoly structure and lack of profit/return requirements, leading to inadequate funding.

c. Production Factor Constraints

13. **Scarcity of Long-Term Capital.** While most SMEs all over the world complain about this, only 7% of Kazakhstan's start-ups are bank-financed compared to 20% in European Union, and the informal sector is still a key source of capital. Of SMEs in Kazakhstan 40% have obsolete equipment and require significant financing to replace it, crowding out growth investment. Banks generally avoid rather than manage risk due to lack of competitive pressure mainly due to underdeveloped credit analysis practices among smaller banks and substandard reporting by would-be borrowers.

14. **High Labor Costs and Lack of Skilled Labor.** Structural adjustment and emigration during the 1990s now demand realignment of work force skills and location. Related problems are obsolete skill bases, low labor mobility and delayed restructuring due to soft-budget constraints, local administration employment objectives, high barriers to relocation for individual employees due to bundling of employment and social services, low market value of housing, and low occupancy cost.

15. **Lack of Business, Accounting, and Financial Knowledge and Skills.** Lack of knowledge is a key constraint, particularly for access to capital, and also leads to uninformed business decisions, risk of exploitation of less informed small business or asset owners (e.g. farmers and/or landowners) and increased risk of uninformed and/or unchallenged decisions by low-level government officials, as well as unrealistic financing expectations (due to lack of proper and useful documentation and hampered or inadequate loan processing). Business education is available but limited, and accreditation is a problem.

16. **Unfinished Land Reform Program.** Planned privatization of agricultural land represents value transfer of up to \$22 billion. Kazakhstan was an early reformer of land-use rights but criticized for lack of transparency. Use rights generally could not be used as a collateral due to reversion and forfeiture provisions. Clear land ownership rights would increase asset allocation efficiency, and market valuations lead to more rational production decisions. Transfer of land ownership has many risks, including crowding out of other investments (e.g. farming equipment, industrial investment) and undervaluation (if user demand is weakened by market flooding, speculators might acquire land below value).

5. Priority Initiatives for Private Sector Development

17. These include (i) further refinement of the state's role in economic activity; (ii) strengthening of entrepreneurship, including continued capacity-building support for entrepreneurs and credit providers; (iii) continued enhancement of the investment and growth environment, including strengthening of the competition framework and antimonopoly commission; (iv) accelerated privatization and corporate restructuring, including enhancement of corporate governance in enterprise; (v) flexibility of the labor market; (vi) review of trade policy (World Trade Organization accession preparedness); (vii) overhaul of the tax revenue administration and strengthening of related public governance; and (viii) reform of the infrastructure sector (especially water supply and rail transportation).

6. Asian Development Bank Pipeline Loans and Technical Assistance with Private Sector Development Content

a. Lending

- (i) **Rural area development project (2004).** This project will focus on strengthening local capacity to plan investment projects to stimulate private sector-led rural economic growth.
- (ii) **Borovoe-Kokshetau-Petropavlovsk Road Rehabilitation (2004).** Upgrading of infrastructure such as roads will lower transaction costs for the private sector and, therefore, lead to more efficient economic activity.

- (iii) **Second Water Resources Management and Land Improvement (2005).** Upgrading of infrastructure such as irrigation will lower input costs and raise productivity in the predominantly private agriculture sector. The project will also support regulatory reform and institutional development of private water users' associations to operate services on cost-recovery principles, better reflecting the true cost of irrigation.
- (iv) **Second Rural Water Supply and Sanitation Sector (2006).** This project will also support regulatory reform and institutional development of private water users' associations to operate services on cost-recovery principles, better reflecting the true cost of water supply.

b. Technical Assistance²

- (i) **Strengthening competitiveness in Kazakhstan (2004).** The assessments of the private sector and governance conclude that anticompetitive structures and behavior should be changed. A competition policy to efficiently allocate resources and economic growth should include enforcement of a regulatory framework that fights anticompetitive behavior and promotes good governance.
- (ii) **Supporting the Shift from Local State Government to Local Self-Government in Kazakhstan—Phase II (2006).** Lack of legal and financial autonomy, coupled with lack of local accountability, hampers public service delivery and increase administrative barriers to private sector activity, and development. The goal of the technical assistance to continue to help develop an effective governance framework to enhance service delivery and accelerate poverty reduction will thus support private sector development.

C. Environment

1. Overview

18. Kazakhstan is by far the largest of the Central Asian countries (2.7 million square kilometers [km²]) but has a small and declining population of under 15 million. The country's considerable mineral wealth and land resources have remarkable potential to produce prosperity. Kazakhstan's hydrocarbon resources are of global importance, but a significant portion of natural resources has been degraded and continues to be under threat from a variety of mostly human-made causes. The country inherited important but energy-inefficient and polluting metal processing and other manufacturing, and a labor force skilled technically and scientifically but lacking experience in the market economy and its regulation. The vulnerability of Kazakhstan's steppe and semidesert environment increases the pressures caused by resource mismanagement. Geography, climate, and political boundaries have made environmental management unusually dependent on the country's neighbors, especially for

² TAs attached to loans or that are project preparatory are not listed as they are covered by the description of the loans above.

water. Any lasting improvements in the sustainability of economic activities require strengthened regional collaboration and conflict resolution.

19. Kazakhstan's vast area and very low population density (just over five people/km²) are a unique challenge to economic development and environmental management. The disadvantages for socio-economic development were partly overcome during the Soviet days through the "one company town" strategy, which concentrated the population around seats of specialized production subordinated to the supply arrangements of the planned economy while making it possible to lower the cost of social service provision. The policy of population clustering was supported by subsidized transport. The policy made the one-company towns extremely vulnerable to the disruption of supply arrangements that followed the country's independence. Population clustering is back at the forefront of policy debate mainly because of the massive rural impoverishment: while the percentage of rural population has remained stable since 1990 at around 44% of the total, the share of agriculture in GDP has fallen from 34% to 8% of a declining (until recently) GDP. This fall accompanied by a rural ownership revolution that privatized most housing and many production assets, reducing the Government's ability to directly influence population distribution. The breakdown of regimented service delivery has also given rise to overgrazing, greater pressure on environmental commons, and the need to create economic and voluntary mechanisms to allocate water, for which local administrations were not prepared.

20. Since independence, some environmental indicators such as intensity of pollution (emissions per unit of real GDP) or energy efficiency (energy consumption per unit of GDP) have improved, suggesting that new growth is not the same as the old. Rapid adoption of global environmental perceptions, expectations, and vocabulary has been translated into a new structure of environment-related legislation but has, by itself, been insufficient to produce the results initially expected. The Government's commitment to environmentally sustainable development has at times come into conflict with pressing short-term livelihood and income-related issues. The gap between stated environmental objectives and financial resources mobilized remains large, and efforts to bridge this gap are not systematic. The willingness and ability of the local population to pay for environmental improvements is lower than originally assumed. A number of policy and institutional issues have not been solved and institutional capacities remain weak especially at local levels. Despite much useful work carried out in the last decade, sustainable development is not fully integrated into the operation of the Government as a whole, in all sectors and at all levels.

21. While sustainable development is now viewed as impossible without environmental safeguards, many still see them as an obstacle to economic growth and to be discussed separately from economic matters, partly because environmental costs and benefits have indirect and delayed repercussions on budgets. For example, billions of tenges worth of lost soil productivity fail to impress administrations because the impacts will be felt by future, not current, budgets. Health or agriculture expenditure now needs to be high because of the impact of past pollution on health, or past water mismanagement on farm productivity. A significant portion of the social expenditure is a payment for past and continuing environmental degradation.³ Without adequate environmental safeguards, economic activities may create more jobs and raise personal incomes and government revenues but will also require greater social expenditure and

³ Payment of a special subsidy to the population within the Aral Sea environmental catastrophe area is perhaps the most telling illustration of this link and its budget repercussions.

defensive spending by individuals to compensate for adverse environmental impacts. Few attempts have been made to analyze official growth and budget data in these terms.⁴

2. Principal Environmental Issues

a. Water Resources: General

22. Kazakhstan's location and climate determine that water and its management are of great importance to the country's economy. About half the water consumed is derived from transboundary water inflows from Kyrgyzstan, Tajikistan, and the People's Republic of China (PRC). Agriculture has traditionally used four fifths of all water consumed. Inefficient irrigation practices, lack of drainage, and deterioration of irrigation structures have contributed water waste as well as water-logging and salinization of many irrigated lands. The largest industrial water users are power generation, metallurgy, and oil production and exploration, which are also among the biggest water polluters. Limited investments were made in municipal wastewater treatment during 1990s and are only now being reinstated. In 1997 over 90% of the urban population but only about a third of the rural population were connected to piped water supply.

b. The Aral and Caspian Sea Problems

23. Large irrigation schemes and diversion of water for upstream hydropower generation have dramatically reduced inflows to the Aral Sea. Shared by Kazakhstan and Uzbekistan, it has dropped by 15 meters, and the area under water has shrunk to half of the sea's size in 1950s. Loss of fisheries, increasing water salinity, pollution by pesticides and fertilizer run-off, and salt deposition on the dry seabed are among the consequences directly affecting some 5 million people in the basin. Contaminated water presents serious health hazards, and loss of agricultural productivity in the basin affects local inhabitants' already precarious economic status.

24. The Caspian Sea, however, has been rising, for the second time during the last century, due largely to natural rather than human-made causes. The rise coincides with economic expansion along the shore, notably of oil exploration and drilling, which has seriously degraded foreshore areas, threatens the unique ecosystem of the Ural River delta, and puts pressure on people's livelihoods.

c. Land Resources and Desertification

25. Two thirds of Kazakhstan is desert, and land in danger of desertification. Besides overgrazing, the roots of this problem include unsustainable Soviet-era agricultural and water management. Decline in soil fertility through wind erosion, then by salt deposition, put more pressure on land resources. The problem spills over national borders and contributes to dust

⁴ In 2001 the Government's total social expenditure amounted to about a third of the total budget of approximately \$5 billion. A part of this amount was intended to fight poverty, acknowledged in Kazakhstan to be closely correlated with environmental status. The nature of the link is complex and would deserve to be better quantified but nobody in Kazakhstan disputes its existence. Assume one third of total social expenditure in Kazakhstan to be due to past and current environmental degradation. If so, the spending to mitigate the environmental consequences of growth amounts to about 8% of GDP in that year (\$21 billion). Considering that existing levels of social expenditure are agreed to be too low to compensate for the slide into poverty, the true cost of past and current environmental degradation is higher still. The obvious route to generating greater support for environmental management and its financing in Kazakhstan is by documenting its current budget repercussions rather than mainly by an appeal to impacts that will be felt in the future.

and sand storms in Northeast Asia. The total annual damage due to desertification and land degradation in 1997 was estimated at \$4.6 billion–\$6.2 billion.

d. Unbalanced Structure of Energy Use and Inefficiency

26. Following the decline of industrial production after independence, electricity output in the mid-1990s declined to about 60% of 1990 levels. Electricity consumption has recovered somewhat since then. Coal accounted for 40–50% of household energy consumption. Most power plants are combined heat and power plants; 70% use poor-quality coal; 15%, natural gas; 15%, hydroelectric power. Much electricity-generating equipment is obsolete and lacks modern pollution controls. While the energy consumption per unit of real GDP has declined by more than a third since 1990, the baseline figures were among the least efficient in the world.

27. Renewable energy potential has been largely undeveloped. Considerable potential is believed to exist for small hydro installation units (<10 megawatts [MW] capacity). This is significant as 5,000 villages were not connected to the grid in 1997. The development of renewable energy options is inhibited by the existence of surplus thermal capacity in some areas and absence of a unified policy and organizational structure.

e. Industrial and Urban Pollution

28. Despite complex emission and ambient standards, Soviet-era attempts to control industrial emissions proved unsuccessful. The build up of industrial wastes slowed temporarily during the initial years of the transition period but has continued since then: 5 billion tons of mine tailings occupy 14,000 hectares, causing air and water pollution. Some 2 million tons of wastes from uranium mining pose serious health threats. Radioactive contamination of areas around former nuclear testing facilities presents special challenges.

29. Most municipal wastes are placed in rudimentary landfills. Modern facilities for waste collection and recycling are lacking. Municipal waste is often mixed with hazardous industrial wastes, and facilities for safe disposal of medical wastes are lacking. Air pollution is a problem in Almaty and several large industrial cities in the north. Inappropriate location and poor environmental performance of local industries, continued widespread use of coal for electricity and heating, and vehicular pollution are the major problems. Leaded petrol continues to be the norm.

f. Biodiversity and Its Conservation

30. Human-made pressures on ecosystems and their most vulnerable and diverse segments (mountains, and riverine and coastal zones) continue to take their toll. The extent of areas accorded protection (about 16,000 km² or 0.5% of the total area, the lowest of all countries of Central Asia) is very small by international standards, and is underfinanced.

g. Emerging and Unresolved Transboundary Environmental Issues

31. The breakup of the former Soviet Union marked the end of a complex unified energy-water management system involving the former Soviet Republics of Central Asia. Following the collapse of energy transfer arrangements, upstream states now release much less water in the summer to conserve it for winter energy needs. As a result, more water is released during winter, when little of it can be used, and is wasted, never reaching the Aral Sea. Lower summer releases exacerbate water shortages in downstream locations that, over time, have become

used to an assured water supply and inefficiency in its use. A number of environmental problems described earlier on have their origin in this transboundary water-energy relationship. A number of interstate water-sharing agreements have been developed and regional initiatives to forge cooperative solutions supported by international organizations. Efforts have centered on improving irrigation efficiency and other water management practices. Other initiatives target physical improvements of the Syr-Darya channel to increase the winter river flow into the Aral Sea.

3. Environmental Management Regime

a. Policy Formulation

32. Key government documents, the Long-term Development Strategy 2030 and Strategic Plan of Development until 2010, show government awareness of the scale of environmental challenges. In 2002, the Government endorsed the United Nations' Millennium Development Goals, one of which is to ensure environmental sustainability and associated targets of (i) integrating the sustainable development principle into policies and programs and (ii) halve, by 2015, the proportion of people without access to safe drinking water. The Government attended the 2002 World Summit on Sustainable Development and has since announced that a cross-sectoral national commission for sustainable development will be created.

33. The National Environmental Action Plan (NEAP) was formulated in 1998. Its key concerns are water shortages and pollution, desertification, land degradation related to oil and mining activities, industrial and urban solid waste management, and insufficiency of forests and protected areas. More than 70 priority projects were identified with an estimated cost of \$50 million.

34. Few disagreements exist about broad environmental priorities, but the basis for calibrating responses is insufficient. NEAP's weaknesses lie elsewhere:

- (i) A firm economic basis is lacking to compare social profitability of expenditures on priority project candidates.
- (ii) Discussion of NEAP's financing is inadequate. Most recommended activities remain unimplemented.
- (iii) NEAP often formulates priorities as a series of specific problems and responses to them rather than systematically develop policies and mechanisms that mainstream environmental management. Much more attention needs to be given to developing capacity to estimate economic and financial gains from better cross-sector coordination to overcome budget authorities' skepticism.

35. The complex but fundamental issue of liability for past environmental damage has not been addressed systematically until now. The absence of policy inhibits private investment and makes it difficult to determine the desirable scale and pace of remediation efforts.

36. Environmental policy on regional cooperation in Kazakhstan has emphasized (i) specific programs tackling transboundary environmental problems such as the Aral and Caspian sea crises; and (ii) development of region-wide environmental structures and plans, most notably the Regional Environmental Action Plan, and the Interstate Commission for Water Coordination. Policy formulation in these cases has been largely donor driven, which partly explains why regional initiative priorities do not always match national environmental policies and programs.

In Kazakhstan, a big gap exists, for instance, between regional emphasis on solid and hazardous waste management and the virtual absence of a unified domestic policy on that subject. The Caspian Environmental Program, is only weakly linked to the major economic activities.

b. Regulatory Framework

37. New environment legislation and regulatory provisions are being created, gradually superseding Soviet-era provisions: the Water Code (1993); and Law on Ecological Expertise (1997), Law on Environmental Protection (1997), Law on Specially Protected Natural Territories (1997), and Law on Energy Saving (1998). The new Tax Code was passed in 2001 containing provisions for payment for natural resources use. In 2002 the new Air Pollution Law finally replaced Soviet-era legislation. Few old regulatory instruments continue to be in force. Sometimes new legislation (e.g., the Water Code) quickly became dated and needed revision (the passage of the new Water Code is said to be imminent and the key Law on Environmental Protection is under revision).

38. About 200 laws and regulations have direct bearing on environmental management. New laws sometime still coexist with old, giving rise to inconsistencies and overlaps as well as serious gaps in coverage. Rapid and unanticipated changes in the economic structure contribute to premature dating of some instruments.

39. Environment-related legislation suffers most from lack of clarity about natural resources management: (i) competence of government bodies in management, use, and conservation of natural resources; (ii) rights and terms of access and use; and (iii) enforcement framework. These areas need substantive inputs by economists, which have so far been lacking in legislative development.

c. Institutional Development

40. The institutional approach to environmental management involves the Ministry of Environmental Protection (MEP) (until August 2002, Ministry of Natural Resources and Environmental Protection), and its staff of 106 at its apex. With its 2002 reorganization and transfer from Kokshetau to Astana, MEP lost several areas of traditional responsibility, most notably water (returned to the Ministry of Agriculture [MOA]), forests (transferred to MOA), and mineral resources (transferred to the Ministry of Energy and Mineral Resources). The full significance of these changes is yet to be assessed but they suggest a potential conflict of interest inherent in combining production and conservation responsibilities in a single body. Many observers think that MEP should be an industrial pollution control agency only.

41. The structure of local environmental management consists of provincial-level and selected district environment agencies, subordinated technically to MEP but administratively and budget-wise to the local governments. Staffing levels vary from province to province, reflecting mainly the importance of industry, as local monitoring activities focus on industrial emissions and collection of pollution charges.

42. New administrative units were created during the last decade to respond to (i) Kazakhstan's international environmental commitments and (ii) the demands of regional environmental collaboration. The former include, for instance, the Inter-agency Commission on the Ratification of the Kyoto Protocol. The latter include interstate commissions with Kazakhstan's representation and the executive councils through which the commissions work.

43. Although not formally part of the environmental management structure, a number of governmental agencies have mandates with environment-related responsibilities or powers. At this stage of institutional development, the delineation of mandates is complex due to duplication and ambiguity. The effectiveness of environmental management is thus blunted by the need to reconcile the many and diverse requirements of different organizations.

44. Civil society now plays a more important role in shaping approaches to environmental management. Of the about 3,500 nongovernment organizations in 2001, about 300 primarily focused on the environment. As in most countries, the bulk of NGOs are city based, projecting mainly urban perceptions. Although mostly government run, the environmental press is lively, with a good deal of information generated by NGOs.

45. The capacity to translate a socioeconomic vision (Strategy 2030 or 2010 documents) into environmental policies, programs, and projects is yet to be developed and strengthened. The documents state goals rather than road maps and have so far been translated by MEP not into a strategy but into a disaggregated set of objectives. The capacity of government agencies to conduct policy analysis, develop programs, and identify and prepare projects for funding continues to be weak, especially at the local level. Even more scarce is local capacity to develop programs and projects that capture a variety of environmental or cross-sectoral synergies.

d. Financing of Environmental Management

46. Pollution charges are an important element of the regulatory framework. The rates (as well as charges for non-toxic and hazardous waste) are based on the toxicity of the different elements of the pollution stream and are set by provincial authorities at levels considered sufficient to cover the cost of environmental administration. The Government acknowledges that the payment structure lacks a solid economic basis. Other, more conventional, taxes and payments influencing environmental outcomes, such as differentiated taxes (e.g. on leaded and unleaded gasoline, other types of fuel, different classes of land) complete the fee structure. Extending and reforming the use of economic instruments for environmental management is among MEP's priorities.

47. Fund earmarking is clearly important. In the late 1990s, it was not transparent, and International Monetary Fund and the World Bank supported ending it. Other arguments for ending it included the advantages that unified budgets have in not prejudging the efficiency of any particular class of investments (such as environmental investment) and not preempting potentially more profitable investment options. Nevertheless, earmarking can be a temporary second-best arrangement where public investments are not allocated efficiently. MEP's insufficient capacity to fight for investments is argued to be a major weakness of environmental practice. If earmarking remains unavailable, this weakness needs to be overcome.⁵

⁵ Throughout the period of pollution charge earmarking, over three quarters of environmental fees were diverted to the general revenue. That situation continues to this day. In 1999, the state collected T2,700 million in pollution charges, T8,350 million in minerals-related royalties and T8,600 million in fuel excise duties, i.e. about \$164 million equivalent then, in taxes with an environmental impact. The figures have been interpreted by most observers as the state effectively using environmental charges to finance non-environmental priorities. By investing little in environmental management the state is also presumed to have accepted the overall—and inefficient—investment bias against environmental priorities other than air pollution. It might be necessary to review the arguments used in debating the extent to which Kazakhstan's environment is underfinanced because it is "mined" for general budget purposes. The cause for worry is not that the Government budget receives more "from the environment" than it spends on it, but that environmental degradation should be a source of government revenue.

48. Environmental finance comes from at least three other sources: (i) direct budget allocations; (ii) foreign grants and loans; and (iii) enterprises' own investment for pollution control, which in 1999 accounted for almost 90.0% of total official expenditure on environmental management of T18.9 billion (about \$120 million equivalent then or about 0.7% of the GDP). The balance funds available to MEP to directly influence environmental outcomes—thus amounted to no more than \$12 million equivalent.⁶ Almost 75% of all environmental expenditure was allocated to air pollution management, 5% each to water and land resource protection, and the balance to other uses. The expenditure pattern reflects the predominance of investments by enterprises (rather than the state) in the official total of environmental investment, and is seriously out of line with stated environmental priorities that are dominated not by air pollution but other concerns.

49. Official environmental expenditure figures cited above present only a part of the picture. They do not include investments made by ministries other than MEP in activities that span the production-environment divide (e.g. by MOA in irrigation rehabilitation). The existence of this expenditure lessens the bias mentioned above. A careful study of environmental expenditure, properly defined, and its structure is yet to be undertaken and policy conclusions drawn.

4. The Asian Development Bank's Strategy and Program

a. The Asian Development Bank's Experience

50. The Asian Development Bank (ADB) considers improved environmental and natural resource management as a pillar of poverty reduction and sustainable growth in all Central Asian developing member countries (DMCs), including Kazakhstan. ADB's lending to Kazakhstan has addressed environmental concerns through (i) environment impact assessment, and (ii) projects or programs in sectors with significant environmental linkages.

51. Nonlending activities supported by ADB gained prominence once the scale of environmental threat became better understood and institutional collaboration and cofinancing possibilities in Kazakhstan fully explored. *Environmental Profile of Kazakhstan*, commissioned by ADB in 1994, was the first baseline analysis of environmental issues there. Thanks in part to grant support from the governments of Finland and Switzerland, ADB's TA has targeted ministerial capacity building, selected environmental or natural resources management problems, and regional cooperation in environmental matters.

52. The results of the TA to pursue direct environmental objectives have been mixed (Table A3.3). Two main lessons emerge, First, ownership is key to TA success. Inadequate ownership affects project selection, design, and implementation. TA design is often ADB driven, or reflects the preferences of one government agency's plans without adequate prior inter-agency discussion and consultation with other key government agencies and stakeholders. As a result,

⁶ Current and development expenditures of MEP are about equally divided. The direct allocations by the state to MEP have risen from T110 million (\$1.2 million equivalent) in 1999 to T1,081 million (\$7.5 million equivalent) in 2001, and T1,297 million (\$8.4 million) in 2003. While allocations to MEP were noticeable in the last two years, by themselves these are insufficient to demonstrate increased government commitment to environmental management. In circumstances where environmental revenue is probably a net source of government income, the figures could equally well be interpreted as showing a greater determination to continue to rely on this funding mechanism. Defensible on the royalties side (if the proceeds are re-invested in a sustainable manner), the existing budgetary practices are harder to defend on the pollution-charge front.

projects often suffer from insufficient involvement of stakeholders, lack of commitment from the Government, and lack of provision for continued efforts once TA is formally completed.

Table A3.3: Asian Development Bank Technical Assistance Activities with Direct Environmental Objectives

TA number and type	Title	Year	Amount (\$'000)
2262, PPTA	Almaty Air Quality Study	1994	100.0
2366, PPTA	Rehabilitation of Almaty No.1 Heat and Power Station	1995	556.0
2677, PPTA	Water Resources Management and Land Improvement	1996	100.0
2964, AOTA	Institutional Development and Policy Reforms for Improved Water Management	1997	600.0
3350, AOTA	Strengthening Environmental Management	1999	700.0
5860, RETA	Institutional Strengthening and Collection of Environmental Statistics	1999	500.0
5878, RETA	Regional Cooperation for Sustainable Mountain Development in Central Asia	1999	380.0
5934, RETA	Regional Environmental Action Plan in Central Asia	2000	500.0
5941, RETA	Combating Desertification in Asia	2000	450.0
5972, RETA	Promotion of Renewable Energy, Energy Efficiency and GHG Abatement Projects	2001	5,000.0
5996, RETA	Ten Years After Rio: Promoting Subregional Cooperation for Sustainable Development	2001	200.0
6001, RETA	Regional Consultations for the Third World Forum	2001	1,000.0

AOTA = advisory and operational technical assistance, GHG = greenhouse gas, PPTA = project/program preparatory technical assistance, RETA = regional technical assistance.

53. Second, the success of projects addressing environmental and natural resources management requires a program not project-based approach. For TA to have a lasting effect, identification of priorities and design must be guided by a program framework and a strategic vision and be supported by a genuine sense of partnership.

54. Several recent regional TA initiatives have attempted to solve environmental problems comprehensively, although the linkage between proposed actions and economic policies, financial sources, and the institutional setting needs to be strengthened. A good example is RETA 5934 on Regional Environmental Action Plan (REAP) in Central Asia. A second-phase REAP has been approved for \$1 million in Global Environment Plan (GEF) funding under the United Nations Development Programme (UNDP) to continue the initiatives.

55. Other environment management insights emerge from ADB-funded activities. One of 11 stated objectives of the Agricultural Sector Program (Loan 1406-KAZ) was to assist sustainable management of the environment and agriculture. The Study of Market Reform in the Agriculture Sector (TA 2448-KAZ) provided policy recommendations for the use of rangeland. Follow-up actions were not undertaken as sector restructuring and irrigation infrastructure rehabilitation were given priority. Under Urban Small Business Development (TA 3633) SME environmental issues concerning SMEs were reviewed and several environmental audits prepared to start an initial environmental examination of the new project proposal under a possible ADB credit-line project.

b. Other Donors' Activities

56. Key donors helping improve environmental and natural resources management include the World Bank, EBRD, European Union, GEF, United Nations agencies, and several bilateral agencies. The World Bank environmental program emphasizes irrigation drainage improvement, water supply and sanitation, and related institutional and policy supports. The World Bank's nonlending services support the development of NEAP, and studies on river basin management and fisheries. EBRD's program focuses on industrial pollution control and municipal waste management. UNDP's program emphasizes environmental governance, NEAP and REAP, and implementation of international conventions. The European Union is involved in the Aral Sea program, Almaty waste management, and Almaty air program. GEF supports programs to protect the wetlands and biodiversity of the Aral and Caspian seas.

c. Asian Development Bank's Medium-Term Strategy and Program

57. ADB's environmental assistance should be reoriented to mainstream sustainable development with a program-based approach. ADB's medium-term environmental program will emphasize sustainable utilization of natural resources, especially water, and creation of an enabling environment with focuses on policy improvement and institutional strengthening. The planned second water resources management project, backed by positive experience with an ongoing similar project, will continue emphasizing integrated river basin management and the role of agriculture and irrigation practices. Other investment opportunities to improve environmental management include rural development projects with a significant environment and poverty reduction dimensions to address, among other objectives, concerns such as dryland rehabilitation.

58. ADB's TA and other nonlending services will promote an enabling environment, particularly by developing market-based instruments (e.g. mechanisms for efficient use of pollution charge revenues, and policy and regulations on the use and pricing of natural resources) and promoting cross-sectoral environmental management (e.g. establishment of the multiagency national commission for sustainable development proposed by the Government and announced by the President). An advisory TA is included in the 2004 pipeline to support the relevant initiatives.

d. Performance Monitoring

59. Environmental performance will be monitored through (i) portfolio reviews and targets specified in the environment road map and (ii) annual environmental reports. Site-specific environmental concerns will be monitored based on project review. Overall environmental management (policy, legal, institutional, and financial) will be evaluated through sector studies and dialogue with key stakeholders.

Table A3.4: Environment Road Map

A. Issues and Constraints					
(i) Inadequate policy and regulatory framework for environment and resource management					
(ii) Weak local institutional capacity					
(iii) Inadequate community participation in resource management					
(iv) Low efficiency in water use, especially in agriculture (poor irrigation practices and inadequate operation and maintenance [O&M])					
(v) Significant legacy of past environmental degradation					
(vi) Destruction of the Aral Sea, neglect of Lake Balkhash					
(vii) Pollution of water bodies and coastal zones including those of the Caspian Sea					
(viii) High incidence of poverty in southern agriculture areas, tied in part to environmental degradation					
(ix) Lack of integration of environmental concerns into the fabric of the economic life					
B. Actions and Milestones		Dates	By Agency		
			ADB	Other Funding Agencies	Active Government Involvement
1. Policy Formulation and Adoption					
(i)	Strategic Plan 2030 (environment and natural resource component)	2000–2030		UNDP	X
(ii)	National Environmental Action Plan (concurrently MEP Environment and Natural Resource Plan for 1998–2000)	1998–2000		World Bank, USAID, UNDP, EU-TACIS	X
(iii)	MEP Environment and Natural Resource Action Plans (phased versions of (i) above)	Phases I (2000–2005), II (2005–2010), III (2010–2030)			X
(iv)	Sectoral strategic plans (water, forests, health and environment, and others)	Various dates from 1997 on with medium-term perspective	In part through TAs 2946 (water), 3898 (rural development), and 4027 (industry)	World Bank	X
(v)	Aral Sea Environmental Program	Phase I: 1994–1998, up to 2003, Phase II from 2003		EU-TACIS, UNDP, World Bank, GEF, USAID, Kuwait, GTZ, UNESCO, UNICEF	X
(vi)	Caspian Sea Environmental Program	1998–2004; new phase under consideration		EU-TACIS, GEF, UNEP, UNDP	X

B. Actions and Milestones	Dates	By Agency		
		ADB	Other Funding Agencies	Active Government Involvement
(vii) National action plans for key areas covered by international environmental conventions (biodiversity, desertification, climate change and others)	1996–2003; long-term commitments	RETA 5941	USAID, CIDA, DFID, GEF	X
(viii) Regional Environmental Action Plan	2002–2010	RETA 5934	UNESCAP	X
2. Capacity and Institutional Development				
(i) Development and improvement of environmental legislation	Ongoing since 1991		DFID, UNDP	X
(ii) Support for policy formulation (including market-based instruments)	Phases I (1996–1999), II (2000–2002), III (2002 on)	TA in 2004	UNDP	X
(iii) Study to identify points of integration between economic and environment sectors	2003–2007	CEA 2003	UNDP	X
(iv) Institutional development to mainstream environmental management	2002–2010	TA in 2004		
(v) Strengthening of planning and management of environmental resources by local governments and communities	2002–2010	TA 3350		X
(vi) Ratification of and compliance with international environmental conventions	From 1992 on	RETA 5941	UNDP, UNECE, USAID	X
(vii) Strengthening of regional environmental cooperation	From 1994 onward	RETAs 5934, 5878, 5941, 5996, 6001	UNDP, USAID, EU-TACIS, OSCE, UNEP, UNESCAP, GTZ	X
(viii) Strengthening of public participation and information disclosure	From 1998 onward		UNECE, OSCE	X
3. Investments				
(i) Water resources management	From 1996, ongoing	Loan 1592/1593; proposed second loan 2005	World Bank, France, JICA	PIP
(ii) Energy efficiency, clean energy	From 1995		EBRD, USAID	Private sector mainly
(iii) Environment and poverty nexus	From 1994	Loan 1592/1593; proposed loan 2004; proposed second loan 2005	World Bank, UNDP	PIP

3. Investments - continuation				
(iv) Land rehabilitation	2000		World Bank and GEF	PIP
(v) Biodiversity conservation			GEF and UNDP	PIP
(vi) Sustainable development		RETA 5878 - initiated	GEF	PIP
C. Outcomes				
1. Expected Environmental Impacts		Current Situation	Expected Outcomes by 2015	
(i) Aral Sea inflows		5–7 km ³ per annum	10–15 km ³	
(ii) Percentage of population with access to safe drinking water		In 2001 27% of rural and 14% of urban households had no access to potable water	Halve	
(iii) Quality of critical surface waters (the Syr Darya, Irtysh, Nura, Illi, Ishim, Ural rivers, Lake Balkhash) to improve		Annual average concentration of three key parameters in 2000 to serve as baseline	tbd	
(iv) Area of land affected by salinization to stabilize and improve ('000 ha)		Baseline to be determined	tbd	
(v) Area of land threatened by desertification (million ha)		Definitions of critical lands and levels of threat yet to be determined	tbd	
(vi) Phasing out of leaded gasoline		Not yet	To occur before 2007	
(vii) Forest coverage		4.2%	4.6% by 2010 5.1% by 2020	

Abbreviations: CEA = country environment assessment, CIDA = Canadian International Development Agency, DFID = Department for International Development, EBRD = European Bank for Reconstruction and Development, EU-TACIS = European Union Technical Assistance for CIS Countries, GEF = Global Environmental Facility, GTZ = German Technical Cooperation Agency, JICA = Japan International Cooperation Agency, km³ = cubic kilometers, MEP = Ministry of Environment Protection, O&M = operation and maintenance, OSCE = Organisation for Security and Co-operation in Europe, REAP = Regional Environmental Action Plan in Central Asia, RCSMD = Regional Cooperation for Sustainable Mountain Development, RETA = regional technical assistance, TA = technical assistance, tbd = to be determined, UNEP = United Nations Environmental Program, UNESCAP = United Nations Economic and Social Commission for Asia and the Pacific, UNESCO = United Nations Education, Scientific, and Cultural Organization, UNICEF = United Nations Children's Fund, UK = United Kingdom Government Assistance, UNDP = United Nations Development Program, USAID = United States Agency for International Development.

D. Gender

1. Current Context

60. Women have traditionally been subordinate to men. However, the communist ideology, the basis for the former Soviet Union (FSU), declared men and women to be equal, and traditions and customs were perceived as the remnants of the past. The family, nevertheless, has remained the keeper of a traditional culture which the public sphere has failed to penetrate completely. As urbanization accelerates, most city dwellers come from rural areas or are first- or second-generation descendants of rural people, which saw unequal allocation of the duties and responsibilities of men and women. In rural areas men normally perform physically difficult work. The move to urban areas saw men's portion of housework significantly decrease while women's remained the same.

61. With their dual responsibilities of bringing up children and working, women have a harsher life than men. However, women are also believed to be more resilient and adaptable

than men and thus better able to deal with the pressures and strains of the transition. Women on average live longer than men in Kazakhstan, by about 18% (8% in most western countries). The life expectancy for women is 70 years, and for men, 59 years—one of the highest gender gaps in the world. Twice as many women as men are over 60. In 2000 men suffered 57% of all tuberculosis cases. Similar proportions apply to sexually transmitted diseases, drug addiction, alcoholism, and psychiatric disorders.

62. Women have been significant in economic development but, rapid transition is having a major impact on women's labor and incomes. With the massive public sector retrenchments, men have been better positioned to move into the fast-growing private sector because they have more training in new skills and are able to work longer hours than women. Where women have managed to stay in the labor force, it is because they have been willing to accept lower wages. While many traditional jobs are disappearing, new market opportunities are opening up. However, women often lack the information on economic trends and how to take advantage of them. Women are also constrained by their unequal access to land, credit, and other factors of production.

63. Women's inferior status is surprising for an FSU republic. The number of women in the political decision-making has been reduced. Women occupy only 2% of high government posts, and only 5% of high civil service and academia posts. Policy development and implementation are still largely the prerogative of men although 69% of women and only 31% of men have higher degrees. In 2001 women's wages were 58% of men's, and are lower (82%) even in the traditionally female types of labor such as health care and social services.

2. Key Issues

64. Women are more vulnerable when social and health services decline. At least 30% of women (and 70% in some areas) suffer from anemia, which is directly related to poor nutrition. There is an acute shortage of iodine-enriched salt and iron-enriched flour and vitamins. The lack of medicines and equipment in clinics and hospitals and poor rural transportation have reduced the effectiveness of health services for women and children.

65. Under the FSU, working mothers received state support, but no longer. Laws guaranteeing women paid maternity leave and leave to nurse sick children require tighter implementation. The general decline in social services such as provision of nursery schools and kindergartens and/or imposition of charges for them, has forced many women to stay home, pay for private child care, or neglect the children at home to work.

66. Although women live longer and adapt better to the transition than men, economically women fare far less well. They receive 60–90% of what men earn for the same work. This disparity has increased since independence in 1991. Women comprise 46% of the labor force, but 62% of the unemployed are women and they tend to remain unemployed longer than men. Women thus tend to turn to the informal sector and are more likely to turn to microcredit to start small businesses. Women are also more likely to take on several jobs at the same time.

67. For men a common outcome of the transition has been increasing marginalization as they are more unable to take care of themselves, their family and children, but still expect, or feel themselves expected, to maintain their normal physical and cultural status. Poverty and unemployment become reasons to divorce. Men start drinking because of these difficulties or just leave their families. Single mothers' main problems are uncertainty, and lack of state support.

68. Domestic violence against women is more common in Kazakh than other Asian families and it is wider spread in rural than urban areas. Inequality and conditions that breed for violence are more common in the south, which is the most traditional region of the country.

69. Water-related household tasks are clearly divided between males and females. Collection and transport of water are primarily the responsibility of male adults in the north and of boys in the south, except when the men are working in the fields, particularly during the planting and harvesting, then women and children take over. Women treat the water by boiling, settling, and filtering. Because they have the main responsibility for the family's health and water management and use for cooking, laundry, dishwashing, cleaning, and caring for the children, women are more affected by lack of water than men.

3. Government Approaches

70. The National Action Plan on Improving the Status of Women in Kazakhstan includes 12 priorities, identified at the Fourth International Conference on the Status of Women held in Beijing, 1995. These are clustered around four principle directions of activity determined by the President of Kazakhstan for the National Commission on Family and Women's Affairs: (i) of women's and their family's health, (ii) women's active political participation and promotion to decision-making posts, (iii) economic advancement of women, and (iv) elimination of discrimination against women. The plan's goals and objectives are to be implemented in stages: (i) short term in 1999–2000; (ii) medium term in 2001–2005; and (iii) long term in 2006–2030.

71. The principal health goals are to protect women's reproductive health, promote family planning, reduce anemia, alleviate the negative ecological impact on women's and children's health, and prevent sexually transmitted diseases. Women's economic advancement will consist of ensuring equal access of women to economic and land resources, creating an enabling environment for women's entrepreneurship, and improving the system of social protection of families and women. The plan also envisages creating mechanisms to protect women against violence; rehabilitating victims of violence by amending laws and passing new ones; and establishing information databases, crisis centers, and hot-lines. Promoting women's political participation will include establishing mechanisms to promote women to power, revising laws and passing new ones with a gender perspective, including a law on equal rights and opportunities.

72. The Temir Bank has launched a credit line for businesswomen and has provided more than \$3 million. The Government has resolved to provide about \$4.5 million credit to women's enterprise. A barrier to improving women's status is a lack of local activity, particularly in women organizing themselves. Providing microcredit to women is also not yet developed enough, and not all women who want to launch their own business can be given credits. Finally, in spite of the actions undertaken, the rate of violence against women remains high.

4. Role for the Asian Development Bank

73. ADB's proposed involvement in Kazakhstan falls within ADB's policy of gender and development (GAD), which focuses on mainstreaming as the key strategy to promote gender equity in all aspects of ADB operations, including macroeconomic and sector work, policy dialogue, lending, and TA operations. The GAD policy's key elements include (i) designing projects to promote gender equity, especially in the health, education, agriculture, natural resources management, and financial services, with emphasis on microfinance; (ii) helping DMCs in policy support, strategic agenda setting, capacity building, and GAD awareness, and in

formulating and implementing policies and programs to improve the status of women; (iii) facilitating gender analysis of proposed projects, including program and sector loans, and ensuring that gender issues are considered at all the appropriate stages of the project cycle, including identification, preparation, appraisal, implementation, and evaluation; (iv) promoting increased GAD awareness in ADB through training workshops/seminars and developing approaches and guidelines to implement the policy; (v) helping DMCs implement commitments made under the Beijing Platform for Action adopted at the World Conference on Women held in Beijing in 1995; and (vi) exploring opportunities to address some of the new and emerging issues for women in the region.

74. All the proposed ADB-financed projects have elements of GAD concerns. Through the proposed second rural water supply and sanitation sector project, households headed by poor women will have equal access to potable water. More and better water will reduce time spent collecting and treating. Women's formal representation will be strengthened in water consumer groups. The proposed rural area development project and the second water resources management and land improvement project will focus on rural poverty, with the later project focusing on rural poverty in southern Kazakhstan, where over 60% of female population live below the subsistence minimum.

5. Focus of Other Development Partners

75. Kazakhstan has ratified two United Nations (UN) Conventions—On Citizenship of a Married Woman and On Political Rights of Women—and is preparing to ratify five conventions of the International Labour Organization (ILO), which are related to the rights of women and children in employment. Kazakhstan has also ratified the Convention on Elimination of Discrimination Against Women (CEDAW), which will allow monitoring of gender equality. Kazakhstan reported to the UN special committee on CEDAW in January 2001, for which the Government has established a special working group. NGOs are also helping women by carrying out a national action, Women Against Poverty, which has provided the most disadvantaged families with social assistance of T150 million. A project of the UN Population Fund is under way to improve the health of women in south Kazakhstan, Kyzylorda, Karaganda, and provinces in Eastern Kazakhstan. Atyrau province has the highest rate of mother and infant mortality. The Government thus launched a campaign "A healthy population is the future of Kazakhstan," which resulted in the local maternity hospital receiving equipment worth \$96,000. The various actions to improve women's and families' status required about \$2 million from external resources. A network of crisis centers for victims of violence is being created, and centers already function in Almaty, Shimkent, Uralsk, and Ust-Kamenogorsk cities. Laws are now tougher against perpetrators of violence against women.

E. Transport Sector

1. Needs and Development Challenges

a. Overview

76. Kazakhstan's transport system comprises nearly 13,000 km of railways; 143,000 km of roads; 28 airports; a seaport Aktau on the Caspian Sea and an outfall port Atyrau on the Caspian Sea; and 3 river ports (Ust Kamenogorsk, Pavlodar, and Semipalatinsk).

77. Most roads (86%) are of design category 2 or 3 (pavement width of 7–8 meters). There are 685 km of category 1 roads (four-lane, dual carriageway). A technical inspection in the fall of

2000 indicated that 5,348 km (23% of the pavement) of republican roads have deteriorated dangerously. Public roads have more than 3,000 bridges, 5% made of wood. Of the 947 bridges on republican roads, 212 (22%) are reportedly unsatisfactory. There are 62 bridges in critical condition with capacity less than 50% of designed, and can be operated only under special conditions.

78. Main railways make up 13,400 km (including detours and platforms). Of this, 3,611 km are electrified, 10,205 km equipped with automatic block systems, and 12,953 km equipped with radio communication. The two-way lines make up 5,087 km and have a centralized monitoring system. Each track has an automatic block system one two sides. There are 825 stations, including 11 merchandising yards, 60 cargo stations, 58 local stations, and 696 way stations and halts. Electric traction accounts for 27% of the total number of the carriages. The rolling stock is handled by 22 car sheds and 42 locomotive sheds. The railways have 2,600 locomotives (diesel and electric locomotives), 93,000 freight cars, and 2,300 passenger cars.

79. A broad overview of the transportation system is given in Table 1.

Table A3.5: Estimates of Capital Stock

Road Sector	
Total Length (km)	143,000
Asphalt Paved (km)	81,000
Automobiles (million)	1,500,000
Freight Vehicles (1999)	206,000
Buses (1999)	43,000
Rail Sector	
Total Length (km)	13,000
Double Track (km)	4,300
Electrified (km)	3,600
Freight Wagons	88,000
Passenger Wagons	2,000
Locomotives	2,200
Locomotive Depots	42
Repair Plants	2
Aviation Sector	
Number of Registered Airlines	50
Number of Cities Served by Air Kazakhstan	26
Airports with Paved Runways	28
Airports with Paved Runways Greater than 3,000 m	6
Pipelines	
2,850 km of Pipeline for Crude oil	
3,480 km for Natural Gas	
1,500 km for Refined Products	
1999 Revenue and Expenditure (\$ million)	
Revenue	1,100
Expenditure	846

km = kilometer, m = meters.
Sources: Various.

80. In 1996–2000 the value of Kazakhstan's total exports grew by about 50%. As a percentage of GDP, total trade increased from 48.9% to 65.6%. Trade with Europe nearly

doubled during the same period. Exports in 2000 comprised largely fuel products, including coal (approximately 52%), followed by ferrous metals (approximately 25%). The leading import items were manufactured and other goods (approximately 47%) from origins largely within the region. Exports to Commonwealth of Independent States (CIS) countries, Russia, and PRC accounted for about 55% by value.

81. Given the vastness of the country and the above trade pattern, railway is still the dominant mode. Although rail freight share is declining, it will be vital for exports. Conversely, given the higher value of shipments, a mix of road and rail will be needed to better serve the transportation needs of imports. Average haul distances by road have increased as a result of changes in demand (i.e. for more high-value, low-volume goods) and a shift in traffic from rail to road due to road improvements. For both modes, speed, cost, and reliability are becoming increasingly important. However, the supply of infrastructure and services is not changing keeping pace with demand.

82. The Ministry of Transport and Communications (MOTC) is responsible for all transport sector issues. It has committees and departments for roads, railways, aviation, and marine (ports and shipping). MOTC ensures formulation of transport and transit policy, and the Ministry of Economy and Budget Planning (MOEBP) allocates resources. Several structural and institutional reforms of road and rail sector agencies have taken place in the past 5 years.

b. Road Sector

83. Based on current traffic volumes and trade patterns, the Government has identified five road corridors as strategic components of the national transportation system needed to bolster trade and economic growth:

- (i) Tashkent-Shymkent-Taraz-Bishkek-Almaty-Horgos
- (ii) Shymkent-Kzyl-Orda-Aktobe-Uralsk-Samara
- (iii) Almaty-Karaganda-Astana-Petropavlovsk-Russian border
- (iv) Astrakhan-Atyrau-Aktau-Turkmenistan border
- (v) Omsk-Pavlodar-Semipalatinsk-Maikapshagai

84. Most roads, including the above corridors, were designed and built in 1960–1980, when the permissible axle load was less than 6 tons. However, since independence, overloading has become more prevalent and enforcement of rules against it more lax. The Government's decision in July 2000 to raise the permissible axle load to 10 tons has increased the average loading on the roads even more.

85. The renewal programs in the road sector have enabled paved roads as a percentage of total roads to increase from 84% to 91% in 1996–2000. A presidential decree has committed about \$1.6 billion in 2001–2005 to improve roads of national and international significance. Consequently, 2002 expenditure on roads was about \$258 million, almost twice expenditure in 2000. Since 1995 ADB⁷ and other international financial institutions have provided about 30% of the financing to improve the national road network. The main north-south regional road corridor extending from the Kyrgyz Republic to Russia, which passes through Almaty, Karaganda, Astana, and Petropavlovsk, was the first to receive international funds. Most sections of the corridor have already been improved or are currently being improved under the national road

⁷ ADB. 1996. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Kazakhstan for Road Rehabilitation Project*. Manila.

development and other donor assistance programs. However, the level of funding is grossly inadequate to sustain the planned investment and maintenance programs. The maintenance budget in 2002 was about 13% of the total road sector funds.⁸

86. Much of the infrastructure stock is at the end of its lifecycle and is poorly managed. Operating practices are archaic and not customer-oriented.

87. ADB has also provided technical assistance to develop safety management practices,⁹ a road investment program,¹⁰ road design standards, vehicle weights and dimensions,¹¹ and road financing options¹² to correct policies and management deficiencies, which have triggered the decline in road infrastructure. Several recommendations of ADB-funded studies have either been or are being implemented. Given the considerable volume of international freight passing through Kazakhstan, improvements to border crossing facilities are planned under the ongoing *Almaty-Bishkek Regional Road Rehabilitation Project* (ADB Loan 1774-KAZ).¹³ The cross-border agreement between Kazakhstan and Kyrgyz Republic signed in November 1999 is expected to streamline existing controls and charges on freight and passenger traffic crossing the borders.

88. Inadequate funding for maintenance and overloading have accelerated deterioration of pavement, resulting in substantial economic losses due to increased vehicle operating and travel time costs. Several measures to better manage road assets and increase the maintenance budget are being investigated by the Government. Among the measures proposed are revisions to the cost recovery formulae, in particular gasoline and heavy vehicle licensing fees, and introduction of specific road user charges (tolls). The Government has started to hire local labor to maintain state roads in several provinces, which allows cost of maintenance to be kept low. However, support is needed to train workers and upgrade equipment to improve productivity and quality of road maintenance. An integrated pavement management system is also needed to optimize repair and maintenance schedules and resource allocation.

c. Rail Sector

89. The railway system offers cheap cargo transportation services to CIS and non-CIS countries and manages relations. The arrangement and structure of the rail network, as a whole meet the internal and external transport and economic needs of the republic, but do require some improvement. Kazakhstan is interested in utilizing its transport and transit potential to develop industry and agriculture.

90. New railways now link Kazakhstan to the PRC, Iran, Central Asia, and many European countries.

91. In February 1997 the railway branch management system was reorganized. Then former divisions of the railroads were abolished and established as affiliated state-owned enterprises similar to the structural divisions of Kazakhstan Temir Zholy. Five branches were created:

⁸ Data from MOTC.

⁹ ADB. 1995. *Regional Technical Assistance for Regional Initiatives in Road Safety*. Manila.

¹⁰ ADB. 1996. *Technical Assistance to Kazakhstan for Feasibility Study of Selected Priority Road Sections*. Manila.

¹¹ ADB. 1997. *Regional Technical Assistance for a Review of Road Design and Construction Standards*. Manila.

¹² ADB. 1996. *Technical Assistance to Kazakhstan for Institutional Strengthening of the Road Sector*. Manila.

¹³ ADB. 2000. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Kazakhstan for Almaty-Bishkek Regional Road Rehabilitation Project*. Manila.

- (i) Akmola (railway management in Astana City),
- (ii) Sary-Arka (Karaganda City),
- (iii) Western (Aktyubinsk City),
- (iv) Turkestan (Shymkent City), and
- (v) Almaty (Almaty).

92. Twelve mutual relations agreements have been signed between the Government of Kazakhstan and the governments of Belarus, Tajikistan, Turkmenistan, Uzbekistan, Ukraine, Azerbaijan, Kyrgyz, Lithuania, Russian Federation, and Georgia.

93. However, the density of the railways does not satisfy the country's needs. The Government is planning to modernize the railways and start building a railway branch Kustanai-Aktiubinsk to bring Kazakh cargo to Aktau port on the Caspian Sea.

d. Sea Transport

94. Aktau is the principal gateway for Kazakhstan's international trade with Russia, Middle East, and Europe, and it lies on Transport Corridor Europe Caucasus Asia's North-South international transport corridor.

95. In 1999 the first phase of the port reconstruction was completed with financing from EBRD and the national budget. Completion of ferry terminal rehabilitation has expanded the capacity of the port to handle not only export-import cargo shipments but also transit traffic. The rehabilitated Aktau-Atyrau road will be an alternative route (north-south and east-west) to the Caspian Sea.

96. The decision to establish the national shipping fleet is not only economic but also political and strategic. Direct, non-stop transit by blended sailing ships provides an alternative to transport Caspian petroleum via Russia.

e. River Transport

97. The main shipping river, through which most freight traffic (construction, materials, timber, and coal) passes within Kazakhstan is the Irtysh, which has great transit potential due to its position. Until early 1970s the Irtysh was used to transport cargo from the PRC to Kazakhstan and further to the Russian Federation and back. An agreement is soon likely between Kazakhstan and Russia on organization and terms of cargo and passenger transportation by the countries' vessels in the Irtysh River basin.

98. There are river ports in the cities of Pavlodar, Semipalatinsk, and Ust-Kamenogorsk. The Irtysh fleet comprise 540 units. The total cargo shipped in 2000 was 263,000 tons, which is 200% more than in 1999. Preliminary data show that it is likely to increase to 500,000 tons in the next few years.

99. The unfinished Shulbinski lock hinders navigation through the Irtysh. The lack of intergovernmental agreement with the PRC prevents full use of transit opportunities of the transboundary rivers including the Ily and Black Irtysh.

f. Air Transport

100. Foreign air companies flying out between Europe and Southeast Asia benefit from flying through the country's airspace since it considerably shortens the routes. Kazakhstan's airspace, air navigation, and communication require technical improvements.

101. Extra airway corridors have been opened on the border of Kazakhstan and adjoining countries (such as the PRC, Azerbaijan, and Uzbekistan). Airway corridors providing international transit and interstate air communication increased from 56 lines in 1998 to 72 in 2000. International airways total 49,000 km and generated over \$3 million in revenue. Investment in air navigation systems should enable available capacity to be fully utilized and further revenue to be generated.

g. Development Challenges

102. Improvement of transport sector performance is critical to achieve Kazakhstan's economic and social development goals. Besides more financing, it will require further restructuring of organizations and deregulation of passenger and freight transportation markets to enable suppliers meet the demand effectively and efficiently. This, in turn, calls for legislative amendments and regulatory changes that will encourage competition, enhance accountability, establish liability, and protect consumers.

103. The transport sector goals outlined in the Indicative Plan of Socio-Economic Development of the Republic of Kazakhstan for 2003–2005 incorporate the above issues. Implementing them, however, is daunting and will require more resources and time than the plan anticipates. IFIs can help the Government prepare a pragmatic and sustainable implementation plan and secure financing.

104. While customer (shipper and traveler) expectations are rising, as evident from the concerns expressed by the Freight Forwarder's Association of Kazakhstan, only negligible, if any, improvements in transport speed, reliability, and safety can be expected with the anticipated level and schedule of investment.

h. Sector Issues

i. Financing

105. The indicative plan states that \$420 million for railways and about \$1.3 billion for roads are earmarked. The planned expenditure on road for 2001–2005 is about \$1.6 billion. Half of this has already been committed to rehabilitation projects, leaving about \$80 million per year to maintain the entire network. The investment needed to bring just the national network of roads to a satisfactory state is estimated at about \$180 million (2002 prices) per annum. Given that the Government is aiming to minimize external debt, the shortfall must be met entirely from direct user charges, of which vehicle taxes seem the most feasible source. Restructuring of the tax framework, particularly to revise taxes on heavy vehicles in accordance with the actual damage caused to pavements, is planned in 2004.

ii. Corporatization and Privatization

106. While road sector operations remain largely in public hands, the private sector is involved in some areas of the rail, aviation, and marine sectors. Under the Program on Restructuring the Railway Transport in Kazakhstan for 2002-2005, network and locomotive repairs as well as shipping activities are to be out-sourced on a competitive basis. In aviation, private sector involvement is also being planned in areas such as supply of fuel and lubricants, and aircraft fleet replacement. Creating an environment to attract private investment and private enterprises must be awarded high priority.

107. Since 2000 all routine road maintenance and construction work has been tendered on a competitive basis, allowing private contractors to participate. Steps are being taken to tender routine and other maintenance activities by the end of 2003. The major obstacle to large-scale outsourcing is still agencies' insufficient skills and tools to administer contracts.

2. Government Policy

108. The Government's transport policy focuses on creating international transport links to facilitate trade. The policy supports further restructuring of the railways, development of trucking and road passenger transport services, improvement of road infrastructure and air transportation system, and an efficient sea and river port system. The major objectives are to (i) ensure provision and maintenance of adequate infrastructure, (ii) promote competition while addressing safety and environmental concerns, and (iii) increase cost recovery. The policy aims to meet those objectives by (i) providing financial resources to rehabilitate and maintain 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 pricing and taxation. The Government's sector strategy also includes use of labor-intensive construction and maintenance, where feasible, to create jobs and thus reduce poverty reduction.

3. Asian Development Bank Sector Experience and Strategy

a. Previous Activities

109. ADB support for the transport sector has been focused on roads. National road network development has been facilitated through technical assistance and lending for institutional reform, road rehabilitation, human resource development, road safety, and road design improvements.

b. Short-Term Strategy

110. ADB's short-term strategy is to help strengthen institutional capacity to manage roads. Exposing agency staff and local contractors and consultant to international best practices in contract administration, which includes preparation of tender documents, application of new road construction and maintenance methods, bid evaluation, and quality control should be a priority. ADB technical assistance to achieve this objective should be planned in cooperation with other donor agencies.

111. ADB will also finance projects to rehabilitate the roads between Aktau and Atyrau (about \$55 million in 2003) and between Borovoe and Petropavlovsk (about \$35 million in 2005). Both roads are part of the national road network and international transit corridors. Technical assistance is proposed in association with the former project to develop a new road classification system that will form the basis to program and allocate resources.

c. Medium- to Long-Term Strategy

112. ADB's long-term transport strategy is to improve and maintain existing infrastructure and improve the transport services by supporting intermodal project development and creating competitive transport markets.

4. Activities of Other Funding Agencies

113. EBRD, Islamic Development Bank, World Bank, and JBIC are the other major funding agencies helping the transport sector. All have been engaged primarily in infrastructure projects. The World Bank has supported several urban transport projects, and EBRD has been involved in road, rail, port, and aviation. EBRD and World Bank initiatives have supported institutional strengthening and policy reforms.

5. Implementation Issues

114. The main barrier to implementation of road projects is the lack of financial and human resources of the executing agency, MOTC. Communication and coordination between MOTC, and MOEBP and Ministry of Finance may be improved to speed up project preparation and implementation.

6. Performance Monitoring

115. Performance monitoring of the transport sector requires a sound understanding of the current status. The understanding now is based on secondary data sets compiled by different sources at different times. Information available for decision making and strategy formulation is generally fragmented and dated, requiring more emphasis on developing micro (project) as well as macro (sector) databases through better coordination of TA projects, cooperation with other IFIs, as well as transport sector database project.

Table A3.6: Transport Sector Road Map

A. Sector Outcomes	Indicators				
	5 Years Ago	Current	5 Years	10 Years	15 Years
Transport Sector Management					
1. Policy and capacity to collect and manage transportation data among agencies	None	None	Pavement Management system	Asset Management system	Asset Management system
2. Transport service development and regulation	MOTC				
3. Infrastructure development and maintenance	COR	COR and Kazavtodor	COR and private sector	COR and private sector	COR and private sector

A. Sector Outcomes	Indicators					
	5 Years Ago	Current		5 Years	10 Years	15 Years
Transportation Supply						
Road network surface condition and capacity	2%	Excellent	4%	5%	10%	20%
	3%	Good	7%	10%	20%	40%
	5%	Satisfactory	9%	20%	40%	30%
	90%	Unsatisfactory	80%	65%	30%	10%
Average rail network track condition and capacity	n/a	Excellent		5%	10%	20%
	n/a	Good		10%	20%	40%
	n/a	Satisfactory		20%	40%	30%
	n/a	Unsatisfactory		65%	30%	10%
Freight transportation by road (million ton-km/year)	n/a	5,497	(2001)	20,410	75,781	122,046
Freight transportation by rail (million ton-km/year)	n/a	135,653	(2001)	173,131	220,964	282,013
Passenger transportation by road (million passenger-km/year)	n/a	5,119	(2001)	19,006	70,570	113,653
Passenger transportation by rail (million passenger-km/year)	n/a	10,384	(2001)	13,253	16,914	21,588
Number of vehicles						
- Total private passenger transport vehicles	n/a	1.0 million	(2001)	1,319,395	1,740,804	2,296,809
- Total freight transport vehicles	n/a	198,980	(2001)	240,928	291,719	384,893
- Total public passenger transport vehicles	n/a	45,666	(2001)	72,879	88,243	116,428
Number of rolling stock						
- Locomotives	n/a	2200	(2001)	2200	2,808	3,584
- Passenger wagons	n/a	3600	(2001)	3600	4,595	5,864
- Freight wagons	n/a	88000	(2001)	88,000	112,313	143,343
Road crashes	n/a	2,631	(2001)	2367.9	2,250	2,205
- Road traffic fatalities	n/a	922	(2001)	829.8	788	773
- Other road crashes (injury and property damage)	n/a	1,709	(2001)	1538.1	1,461	1,432
Total length of roads (km)	143,000	143,000				
Length of class 1 (a & b) in good to fair condition (km)	324	647		1,132	2,265	2,911
Length of class 2 and 3 roads in good to fair condition (km)	6,313	14,731		25,780	51,559	66,290
Length of class 4 and 5 roads in good to fair condition (km)	1,338	2,408		4,214	8,428	10,836

Total annual financing for roads (\$ million)		280 (2001)	451	726	927
% of annual financing for road maintenance		10% (2001)	40%	40%	40%
B. Sector Issues/Constraints					
Financing	Ability to increase user charges and transport related taxes				
Service provision	Underdeveloped legal framework, inadequate institutional capacity, entry barriers for private sector private sector				
Border problems	Political and legislative				
C. Actions/Milestones/ Investments <i>(to address above)</i>	By Issue	Schedule	By Agency (\$ million)		
			Government	ADB	External
Almaty-Bishkek Regional Road Rehabilitation Road	Road Improvement and Trade Facilitation	2003-2005	\$18.1	\$50	\$28.5
Aktau-Atyrau Road Improvement Project	Road Improvement and Trade Facilitation	2004-2007	\$139.6	\$52.1	\$119.2
Borovoe-Petropavlovsk Road Improvement Project	Road Improvement and Trade Facilitation	2004-2006	\$20	\$35	\$20

% = percent, COR = Committee on Roads, km = kilometer, MOTC = Ministry of Transport and Communication.

F. Agriculture and Rural Development

1. Overview

116. Since independence, Kazakhstan has made substantial progress in introducing market-oriented policy reforms in agriculture, including abolition of state control of prices and farm-level production decisions, easing of intervention in domestic and regional trade, dissolution of unprofitable farms and rural enterprises, and restructuring and support of private farms and enterprises. As in other transitional economies, however, agricultural output in the 1990s was drastically reduced due to (i) the termination of the goods/service exchange relations that existed under FSU, which brought an abrupt decline in demand for commodity (primarily grain) and supplies for farm inputs (machinery, spare parts) from other republics; (ii) closure of financially nonviable farms and rural enterprises, especially those in marginal lands or remote locations; and (iii) difficulties of public institutions, farmers, and emerging private sector in adjusting the new market environment. The result was shrinking employment and income in agriculture-related activities and rural services. Which, coupled with macroeconomic instability before 1998, and inadequate spending on social services, led to hardship and deeper rural poverty.

2. Sector Needs and Challenges

117. Since 1999 Kazakhstan has stabilized its economy. There have been new private sector investments in agriculture, signaling growing confidence in market-oriented reforms. However, average farm output (by volume or weight) in 1996–2001 is still less than 50% of that a decade earlier. Rural unemployment and underemployment are still widespread, and rural poverty incidence was estimated at 38% in 2001. Families continue to vacate rural settlements and company towns. Investment in agriculture remained low, at below 0.5% of GDP. The fundamental challenges are (i) weak demand and poor market access to export (e.g. grains and livestock) and domestic markets (e.g. dairy and poultry products); (ii) rural population and

production facilities that are distributed in a manner that does not support competitive agricultural production; (iii) poor water, transport, utility, and social infrastructure in rural areas; (iv) lack of farm and enterprise access to credit; (v) lack of local government support for private sector operations in rural areas; (vi) declining public sector funding for product quality and phytosanitary control; and (vii) declining funding of agricultural technology development and extension. Capacities of public central and local institutions must also be built to plan, manage, and monitor agricultural and rural development.

3. Government Policy

118. The Government's Long-Term Development Strategy 2030 and 2010 Strategic Development Plan outline the long- and medium-term vision for the agriculture and rural sectors, respectively. The long-term goal is to improve rural living standards and narrow the gap between the urban and rural population by supporting a competitive agro-industrial complex (comprising farms, support enterprises, and agro-marketing and processing) to generate sustainable employment and rural income. The strategy also seeks to diversify the rural economy in the agricultural and non-agriculture sectors as well as improve access to social services and protection. By 2010 agricultural output is envisioned to rise 50% above the current level.

119. The State Agricultural and Food Program for 2003–2005 envisions that crop yield index and irrigation efficiency will rise by 25% and 80%, respectively. Over the medium term, average cost of seeds and animal breeding stocks to farms are to be reduced by 40%, and wheat export to be stabilized at 5 million to 6 million tons per annum. To better monitor the sector, however, the Government needs to develop widely accepted indicators and targets to gauge long-term improvement in rural enterprise competitiveness and economic diversification.

120. In his Address to the nation in April 2002, the President of Kazakhstan announced that 2003–2005 would be the “years of rural revival.” The Address directed the Government to formulate a program to help rural settlements based on their potential for economic growth under the market economy. Investments will be directed to areas with high potential for growth, while more social assistance will be provided to settlements with less bright prospects.

4. Asian Development Bank Sector Experience

121. ADB has provided two loan projects of \$140 million for agriculture sector reforms, macroeconomic stabilization, environmental improvement, and irrigation rehabilitation. Eight grant-funded TAs for \$4.3 million have been provided to fund studies on agriculture reform policies, agricultural marketing, rural finance, development of irrigation institutions, pest (locust) control, and project feasibility assessments.

122. The Agriculture Sector Program (ASP) Loan¹⁴, implemented in 1995-1997, provided the fiscal budget support critically needed to stabilize the economy. The program catalyzed the adoption of 42 key policy measures to foster agricultural market development, promoting agro-enterprise competitiveness and addressing social and environmental concerns. Three grant-funded TAs for \$2.114 million were provided during the ASP. The TAs helped strengthen the Government's capacity to analyze policy, evaluate reform impacts, identify follow-up reform measures needed by the agriculture sectors, and determine actions required to develop viable

¹⁴ ADB. 1995. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grants to the Republic of Kazakhstan for the Agriculture Sector Program*. Manila.

agricultural finance institutions. Performance of the ASP and associated TAs was rated successful in 2001.

123. The Water Resource Management and Land Improvement Project (WRMLIP)¹⁵ was approved in 1998 and is being implemented. The project supports rehabilitation of irrigation and drainage infrastructure in and outside farms in southern Kazakhstan. WRMLIP also develops capacities of beneficiary organizations and water agencies to operate facilities in a sustainable manner and introduces enhanced cost-recovery mechanisms in delivery of irrigation and drainage services. An associated TA was provided for to build capacity of water resources technology and institutional development for sustainable locust management, implemented in 2002. ADB also provided a TA for participatory rural planning and development to build interagency and stakeholder collaboration in refining rural development strategy, particularly in the regional context.

124. ADB's experience in the agriculture sector and rural development is extensive, encompassing 503 loan projects for \$17.5 billion, of which 24 have been provided to Central Asian member countries for \$966 million since 1995. Areas of involvement relevant to Kazakhstan's needs are: (i) reform support in the agriculture and natural resources sectors; (ii) rehabilitation of irrigation and drainage facilities and rural infrastructure; (iii) farmers education; development of agroprocessing and SME; development of microfinance; provision of social infrastructure; and relevant institutional/beneficiary capacity building. ADB regional programs in Central Asia, particularly on regional transport development and customs harmonization, have also helped Kazakhstan improve its agriculture sector access to international markets.

5. Activities of Other Funding Agencies

125. Since Kazakhstan's independence, international and bilateral organizations have helped removed major constraints on agriculture and rural development. To create markets and increase demands for Kazakhstan's agricultural exports, EU-TACIS, FAO, and JBIC helped assess the comparative advantage of major farm products in international markets, evaluate trade barriers within the CIS countries, and establish a market information system (Kazagro-market). The World Bank through its Kazakhstan Drainage and Irrigation Project helps repair irrigation and drainage infrastructure in southern Kazakhstan and strengthen institutions' and farmers' management of irrigation facilities and water resources.

126. To help improve the farm and agro-enterprise access to credit financing, the Agricultural Post Privatization Support Project of the World Bank pilots farm business ownership restructuring, strengthens farming enterprises' management, introduces pilot farm bankruptcy processes, and helps restructured farms and enterprises access commercial bank credit. The project area—confined to the Almaty and Astana provinces—will be expanded in the coming five years. EBRD has helped SMEs by establishing credit funds for them and has helped introduce a grain warehouse receipt system to help farms finance their inter-season working capital needs. To help modernize agriculture, the Government envisages implementation of a grain storage modernization project, for possible funding by EBRD. In agricultural research, German Agency for Technical Cooperation (GTZ) and the international research institutes of the

¹⁵ ADB. 1997. *Report and Recommendation of the President to the Board of Directors on Proposed Loans and a Technical Assistance Grant to the Republic of Kazakhstan for the Water Resources Management and Land Improvement Project*. Manila.

Consultative Group for International Agricultural Research have also helped Kazakhstan sustain its crop and livestock research and breeding programs.

127. International and bilateral assistance have also been instrumental in shaping the agricultural development strategies through numerous studies of the livestock, grain, water, and rural finance subsectors.

6. Asian Development Bank Sector Strategy

128. The ADB forward program in agriculture and natural resources sectors will focus on initiatives that are in line with the Government's sector priorities and ADB experience. ADB assistance will focus on removing constraints on the medium-term goals to create competitive farms and agricultural enterprises, and diversify agricultural activities by (i) improving farm and enterprise access to domestic and international markets; (ii) promoting competition and investment in agro-support services, processing, and marketing; (iii) improving rural infrastructure (irrigation and drainage facilities, farm access roads, and rural electrification); (iv) upgrading farm technologies and extension; (v) deepening sector reforms at the local level; (vi) developing farmers' and community associations; and (vii) strengthening the capacities of sector agencies. To improve water management, the checklist of water policy actions attached to the Water Policy of ADB (ADB. 2001. *Water for All: The Water Policy of the Asian Development Bank*. Manila) will be used to improve water management.

129. Provision of rural finance services and access to social services (water supply, sanitation, health service, and education) will be enhanced and coordinated with social protection programs in areas with less potential for long-term economic growth. To achieve effective and cost-efficient rural development, ADB will also focus on building capacities of the central and local governments to plan, guide, and monitor rural settlement development, in an integrated manner, consistent with market economy principles.

7. Implementation Issues

130. Agriculture projects and TAs approved since 1995 have generally been implemented satisfactorily in Kazakhstan. However, WRMLIP implementation was slow in 1998–2001 mainly due to inadequate counterpart funds. Since WRMLIP is the first ADB investment project in the sector, unfamiliarity of the executing agency with ADB procedures caused substantial delay, particularly in procurement. With improvement in the Government's fiscal budgetary resources, the shortage of counterpart funds was resolved in 2001 and is not expected to impede future project implementation. Similarly, a growing familiarity with ADB procurement, consultant recruitment, and legal procedures has also expedited project implementation. Enhanced capacities the Ministry of Agriculture (MOA) in these areas will reduce potential project implementation delays in the future.

8. Performance Monitoring

131. MOA's Strategic Planning Department coordinates the monitoring and evaluation (M&E) of progress made in achieving the medium- and long-term objectives of the agriculture and rural sectors. The Office of the Prime Minister (Agricultural Complex), in turn, monitors performance of MOA and other concerned rural-sector agencies. M&E for the agriculture and rural sectors still needs improvement, especially to strengthen linkages between sector targets and agency accountability as well as resources provided to agencies. A mechanism should be developed to fine-tune agency goals to ensure that are achievable, in view of the budgetary and time frame

given to achieve these objectives. These challenges are being recognized and addressed, to a varying extent, at each rural sector agencies. M&E at MOA will benefit from the proposed TA to strengthen rural sector strategic planning to be associated with the proposed regional rural development project.

Table A3.7: Agriculture and Rural Development Sector Road Map

	Indicators		
	Current	2005	2010
Sector Outcome			
1. Rural Living Standard Improvement			
Rural Poverty Incidence (%)	38		27
Ratio Average Rural to Urban Household Income (%)	60		<60
Sector Outputs			
2. Agriculture Competitiveness			
Agriculture Output (% of 1990, at constant prices)	57.4		86.1
Food Export/Total Exports (%)	7		tdb
Irrigation Efficiency, Index (%)	100		180
Crop Yield Index, Index (%)	100	125	
Cost of Elite Seeds, Livestock Pedigree, Index (%)	100		60
Grain (wheat) Exports (million tons/annum)	3-4	5-6	
3. Diversification of Rural Economy			
Agriculture GDP/Total GDP (%)	8.6		40
Gross Output of Processed Farm Products, Index (%)	100	120	195
Targets are based on			
2010 Strategic Development Plan; the Industrial Innovation Strategy until 2015			
State Agriculture and Food Security Program 2003–2005; and			
4. Sector Issues/Constraints			
(i) Weak domestic demand and lack of access to international markets for agricultural products (due to inadequate quality control, transport impediments, regulatory barriers, subsidized competition)			
(ii) Poor farm access to credit (thus persistent shortages of production inputs) and undeveloped rural finance institutions (including equipment leasing and crop insurance), high existing farm indebtedness, lack of equity investment			
(iii) Lack of competition among agro-processors, commodity buyers, and input/service suppliers, which depresses farm margins			
(iv) Rural settlements and agricultural assets not geographically distributed to maximize agricultural production or to support market-competitive agriculture production			
(v) Poor condition of rural public infrastructure (access road, irrigation, drainage, electricity, water supply, social facilities)			
(vi) Inadequate capacities of the central and local agencies to plan, manage, implement, and monitor the sector development and inadequate local support in implementing sector reforms			
(vii) Inadequate agricultural support services (lack of phytosanitary control, pest monitoring, access to alternative technologies, declining seed and livestock breed quality and availability, lack of veterinary and extension services; weak support for community diversification)			

5. Actions/Milestones/Investments (to address abovementioned issues)	Schedule	By Agency		
		ADB	Other Funding Agencies	Government
A. Policies/Legislation				
Improve farm access to credit and other financial services <ul style="list-style-type: none"> • Revision of the Land Code • Laws on microfinance and credit union • Improvement of laws on bankruptcy, credit security 	2003 2003 2004–2009		WB	X X X
<ul style="list-style-type: none"> • Restructuring of farm ownership and resolution of debts • Laws on agricultural insurance Promote competition among agro-processors and input suppliers Promote market-oriented rural regional development Regional planning legislations Agricultural Support Services Cost Recovery on Agricultural Research and Extension Rural Infrastructure Improvement <ul style="list-style-type: none"> • Cost Recovery on Irrigation, Drainage, and Flood Control • Rural Water Supply Services • Revision of the Water Code 	ongoing 2004–2009 2005–2010 2004 2005–2010 2003	Ln: RRDP Ln: RRDP Ln: WRMP II PPTA: WRMP II Ln: WRMP II	WB, EBRD WB	X X X X X X
B. Capacity Building and Institutional Development				
Improve commodity demand and access to markets <ul style="list-style-type: none"> • Study on commodity comparative advantage • Study on grain marketing • Commodity quality assurance • Market information system • Custom harmonization Promote competition among agro-processors and input suppliers <ul style="list-style-type: none"> • Support of small- and medium-sized rural enterprises • Development of purchasing and marketing cooperatives Promote market-oriented rural regional development <ul style="list-style-type: none"> • Demonstration of rural regional planning • Regional planning for rural growth centers and corridors • Decentralization of planning and monitoring process Build capacity of central and local governments <ul style="list-style-type: none"> • Sector review • Water sector strategy study 	2002–2003 2002–2003 ongoing ongoing ongoing 2003–2004 2004–2009 2003 2004 2002–2003	ADB	EU, FAO JBIC EU EU USAID, EBRD PPTA: RRDP Ln: RRDP PPTA: RRDP PPTA: WRMP II WB	X X X

B. Capacity Building and Institutional Development				
<ul style="list-style-type: none"> Livestock sector study Strengthening MOA capacity in strategic planning Promote agricultural support services <ul style="list-style-type: none"> Varietal development and technology research 	2003–2004 2005	ADTA: RRDP	WB CIMMYT, GTZ	X
<ul style="list-style-type: none"> Support for farmers associations to facilitate enhanced education on farming technologies, laws, and market development 	2005–2010 2006	Ln: WRMP II ADTA: WRMP II		
C. Investment				
Improve financial services and market competition <ul style="list-style-type: none"> Credit line for farm and rural enterprise and microfinance Agriculture post-privatization support (1st and 2nd Phase) Rural credit partnership and machinery leasing program Improve rural infrastructure <ul style="list-style-type: none"> Integrated area development (irrigation, power, access roads school, health centers, drinking water) Rehabilitation of irrigation, drainage, flood control facilities <ul style="list-style-type: none"> Modernization of grain storage facilities Promote market-oriented rural regional development <ul style="list-style-type: none"> Social and relocation assistance to environmentally unsafe and economically non-promising areas 	2004–2009 2001– 2004–2009 2002–2007 2005–2010 2004–2009 2004–2009	 Ln: RRDP Ln: WRMP II Ln: RRDP	WB (APPS) WB (SNAS) EBRD	X X X X X

% = percent, ADTA = advisory technical assistance, APPS = Agriculture Post-Privatization Support Project (WB), CIMMYT = International Research Center on Maize and Wheat, EBRD = European Bank for Reconstruction and Development, EU = European Union, GDP = gross domestic product, GTZ = German Agency for Technical Cooperation, Ln = loan, MOA = Ministry of Agriculture, MOF = Ministry of Finance, Oblasts = province, PPTA = project/program preparatory technical assistance, RRDP = Regional Rural Development Project, SNAS = Syrdayia and Northern Aral Sea Project (World Bank), USAID = United States Agency for International Development, WB = World Bank, WRMP II = Second Water Resources Management Project.

G. Water Supply and Sanitation

1. Overview

132. As a result of severely reduced operational budgets, water supply and sanitation (WSS) systems are in a serious state of disrepair, particularly in rural areas, where population coverage is only about 40%. The water is also of poor quality, either because the source is of poor quality, or because treatment is insufficient and the water contaminate during transmission. Some groundwater and surface water are highly mineralized or polluted and pose significant health risks.

133. Water supply systems all over the country, especially in the south and north are deteriorating year by year. The average amount of drinking water delivered to the population falls by 3–5% each year because of the continued decline in the supply due to inadequate investment in repairing water supply schemes. New construction is very slow. These problems

are most acute in rural areas, contributing to a decline in living standards and an increase in poverty.

2. Sector Needs and Challenges

134. The reasons for the poor water supply schemes include (i) inefficiency of operation (e.g. high water losses); (ii) high operation and maintenance (O&M) costs, especially for the group water pipelines; (iii) insufficient resource allocation for maintenance and rehabilitation, due to low tariffs and low revenue collection; and (iv) ineffectiveness of operating water utilities to manage the systems.

135. Externally assisted projects have had difficulty maintaining existing sector schemes and developing new ones due to lack of ownership of WSS facilities, low accessibility of contractors, and inadequate maintenance skills of operators. These matters are partly connected to insufficient community consultation and participation in the planning and design of subprojects, and partly to sector institutional inadequacy. The institutional constraints that prevent effective sector development have to be addressed. An integrated approach to WSS sector policy coordination is needed. Capacity building of institutions in public utilities management, technical sustainability and cost recovery of operations, and responsive service delivery to customers are urgently needed.

3. Government Policy

136. Since independence, the Government has pursued a number of policies to improve the sector, including poverty reduction, decentralization, cost recovery, and private sector development. The Government also stressed the importance of the rural sector as a significant contributor to GDP.

137. The Long-Term Development Strategy 2030 envisions the country as a clean and green country with clean air and pure water, based on the premise that broad-social, political, and economic transformation has already started. The strategy places great stress on health, education, and welfare of the citizens, avoiding consumption of low-grade drinking water; and bringing ecological, sanitation, and epidemiology departments and standardization agencies to work together for achieving common objectives.

4. Asian Development Bank Experience

138. In 2000 the Government requested TA from ADB to help prepare the Rural Area Water Supply and Sanitation Sector Project. The TA was implemented and divided into two phases. Phase 1 reviewed the current situation, proposed measures to strengthen sector development policies, and prepared a sector profile paper, including an investment plan. Phase 2 developed an investment proposal and an institutional development program.

5. Activities of other Funding Agencies

139. Multilateral support to the WSS sector has been from the World Bank and EBRD. The Government of France has provided funds for the EBRD-supported WSS project in Almaty. The Kuwait Fund and the Government of Germany have also funded WSS development in rural areas.

140. As part of the Aral Sea initiatives, UNDP has supported a Remote Village Development Project in Kyzyl Orda province, which aims to supply reliable, affordable, and sustainable potable water to consumers in the project areas. The World Bank is providing TA for the proposed northeastern Kazakhstan WSS project, covering the cities of Karagandy, Kokshetau, and Temirtau. United Nations Children's Fund (UNICEF) has promoted safe sanitation and produced in 1996 *Protecting Children and Women in the Aral Sea Disaster Zone*. UNDP supports capacity building under its Capacity 21 Project, which supports irrigation and desalination for drinking water.

6. Asian Development Bank Sector Strategy

141. ADB supports government efforts to improve potable water supply through decentralized small systems. Such efforts will include combining development of local groundwater sources and rehabilitating segments of the existing pipelines, where viable, or building completely new local networks. The highly dispersed settlement patterns in some rural areas make replacement or extensive rehabilitation of the GWPs inappropriate. Management of new systems should also be decentralized to as close to the level of the users as possible.

142. ADB will focus on the following policy aspects: (i) appropriate technology, (ii) "user's pay" principle, and (iii) beneficiary participation in implementation and O&M. The water tariff system should be based on a balance between affordability and cost recovery. ADB helps the Government identify the optimum level of subsidy and its balance between central and local governments. Cost recovery may aim at O&M costs at first and gradually extend to capital cost as well. ADB also helps the Government identify optimum delineation of responsibilities for water supply between the central and local levels. ADB will also work closely with the Government on broader issues, including strengthening control of groundwater extraction, and rural wastewater collection and treatment.

7. Implementation Issues

143. Based on lessons learned and to ensure sustainability, extensive consultation with the communities is required. Decentralized institutional arrangements are needed to formalize community involvement. Accordingly, the sector development plan incorporates an institutional development program for sector agencies concerned.

8. Performance Monitoring

144. To ensure equitable access to water to poor communities, a monitoring system will be developed at the community and central administration levels. The monitoring indicators will include frequency of regular water supply, regular payment of water bill, number of poor households, women-headed households, access of the elderly and disabled to potable water, and number of cases of waterborne and skin diseases. To assess the sector program impact, the following will be examined: (i) extent to which living conditions have improved, (ii) how much drudgery of women and children has decreased and its impact in their daily activities, (iii) changes in sanitation behavior, and (iv) decrease in mortality rate from waterborne disease.

Table A3.8: Water Supply and Sanitation Sector Road Map

	1998	2001	5 years	10 years	15 years
1. Sector Population Coverage					
a. Urban Population					
Population with access to safe water (%)	55	60	70	80	90
Population with access to sanitation (%)	55	60	70	80	90
b. Rural Population					
Population with access to safe water (%)	40	40	65	70	80
Population with access to sanitation (%)	40	40	65	70	80
2. Sector Issues/Constraints	(i) Economic decline with the transition to a different government system, coupled with population decline (ii) Declining water quality and increased reliance on imported water (iii) Lack of maintenance of water supply systems and of new investments in water supply, particularly in rural areas (iv) Inappropriate long-distance pipeline systems, and the desire to rebuild these systems (v) Lack of knowledge of new technologies for small-scale modular plants for desalination and other water treatment (vi) Limited acceptance of the need to develop local groundwater sources in rural areas because of concerns about salinity and other water quality issues, and the cost and ability to pay for improvements (vii) Difficulties in recovering operation and maintenance costs, and in financing and recovering capital costs				
3. Actions/Milestones/Investments <i>(to address abovementioned issues)</i>	By Issue	Schedule	By Agency		
			ADB	Others/External	Government
	Private Sector Participation (PSP)				Sector plan
	Policies Encourage PSP development	2002	TA: RAWSSSP	Ln – IsDB	
	Institutional Development Strengthening of water resources committee	2004–2010	Ln: RAWSSSP	Ln – IsDB	
	Investments Support industry for water supply development	2004–2010	Ln: RAWSSSP Ln: 2nd RWSSSP	Ln – IsDB	
	Improving Management and Governance				
	Policies Strengthen accountability	2002			

3. Actions/Milestones/ Investments (to address abovementioned issues)	By Issue	Schedule	By Agency		
			ADB	Others/ External	Government
	Institutional Development Water resources management Investments Water supply and sanitation	1999 2004 2004–2010	 TA: 2nd Water Resources Management Ln: RWSSSP	TA: WB	
	Water Sector Reform Policies Strengthen sector development policies Sector profile preparation Institutional Development Anti-monopoly Agency, Water Resources Committee, MOF, MOA, Oblasts Water supply (Kyzyl-Orda)	2002 2004–2010 2004 2005 2002 2005 1997	TA: RAWSSSP Ln: RAWSSSP TA: 2 nd RAWSSSP Ln: RAWSSSP TA: RAWSSSP TA: 2nd RAWSSSP	Ln – IsDB Ln – IsDB Ln – IsDB TA – World Bank	Water code and sector plan
	Investments Water supply and sanitation Aral Sea Region Water Supply and Sanitation Water and Sewerage (Almaty) Water Supply and Sanitation (Atyrau)	2004–2010 2006–2011 2001 2000– 2000–	Ln: RAWSSSP Ln: 2nd RAWSSSP	Ln – IsDB Ln – IsDB Ln – Kuwait Fund Ln – EBRD (France) Ln – World Bank	
	Local Government Support Policies Strengthen sector development policies Institutional Development Oblasts	2002 2004–2010 2002–2004	TA: RAWSSSP Ln: RAWSSSP TA: RAWSSSP	Ln – IsDB Ln – IsDB	

3. Actions/Milestones/ Investments (to address abovementioned issues)	By Issue	Schedule	By Agency		
			ADB	Others/ External	Government
	Local Government Support Investments Subsidy to operation and maintenance of completed WSS schemes	Starting 2005	TA: 2nd RAWSSSP Ln: 2nd RAWSSSP	Ln – IsDB	Oblasts to include in budget allocation
% = percent, EBRD = European Bank for Reconstruction and Development, IsDB = Islamic Development Bank, Ln = loan, MOA = Ministry of Agriculture, MOF = Ministry of Finance, Oblast = province, PSP = private sector participation, RAWSSSP = Rural Area Water Supply and Sanitation Project, TA = technical assistance.					

H. Education and Training Sector

1. Overview

145. The education system is the responsibility of the Ministry of Education and Science (MOES) and is administered through a network of departments of education in the 14 provinces and two major cities (Almaty and Astana), and education officers at the district level. Basic (general secondary) education system is 11 years (grades 1–11) and compulsory, consisting of four years of primary, five years of lower secondary, and two years of upper secondary education. Technical and vocational education and training (TVET) are available after grade 9 (three years) and after grade 11 (two years). Tertiary education is provided by public and by an increasing number of private institutions. Allocations to basic education have risen from around 44% of the education budget in 1992 to over 60% in recent years. The Government has made one year of preschool education compulsory following a collapse of preschool education after independence, and is diversifying its approach to TVET, which also collapsed with the closure of many enterprises that supported TVET institutions before independence. Tertiary education has seen a sharp growth in the number of providers and diversification in financing, with strong involvement of the private sector and increasing cost recovery.

2. Sectoral Needs and Challenges

146. Kazakhstan places high priority on education development as a cornerstone for overall socioeconomic development and intends to build on the country's historically high human development base. A major interest of the Government is to meet international standards in education while enhancing its national characteristics and historical strengths within a unified education system. However, Kazakhstan's historically impressive educational achievement is threatened largely due to sharply reduced funding to the education sector following independence (from over 6% of GDP in 1991 to around 3% in 2002), ensuing economic hardships, and rapidly changing labor market needs. Analyses by the Government and nongovernment agencies indicate rising rural-urban differences and disparities across provinces in per capita funding for students, particularly at the basic education level, which is almost fully funded by local governments. A policy direction of the Government after independence has been to decentralize the education system, but this requires substantial efforts to enhance capacity at the oblast, rayon, and school levels to manage available resources, reduce disparities in resource allocation across oblasts, and enhance M&E functions of MOES to ensure that state standards are applied uniformly across all oblasts. The educational management information system (EMIS) needs to be strengthened to provide a more timely and

reliable information base essential for informed policy and strong central support for decentralization.

147. Following independence, preschool enrollment in rural areas collapsed, with coverage dropping from over 40% in 1991 to 2.5% in 1999 due to closure of many enterprises that supported most preschool institutions. This has primarily affected the poor, whose children enter schools without adequate preparation. The Government's policy of providing one-year mandatory preschool education requires significant resources, organizational effort, and innovations to sustain the effort. Enrollment in TVET also collapsed following independence due to closure of many enterprises and also due to fall in demands for traditionally narrow specializations. Companies are increasingly looking for flexible skills in the newly emerging market economy and a rapidly rising service sector. Kazakhstan's ambitious economic growth plans will largely depend on how well the education system can support the skill mix required by the economy at different levels. Access to quality basic compulsory education (grades 1–11) is threatened in rural areas due to reduced attendance rate; weak material base of rural schools (lack of science laboratories, workshops, instructional materials, library resources, and deteriorating physical conditions); and changing demography associated with the closure of many enterprises. Although tertiary education has seen dramatic growth in the number of institutions and significant diversification in financing through cost recovery and private provision in the past decade, there is an urgent need to support more equitable financing to poor but meritorious students, and for a quality control mechanism to ensure credibility and quality standards.

3. Government Policy

148. The Government has taken a number of important steps since independence to reform education. The first stage began with the adoption of Law on Education in 1992 and Law on Higher Education in 1993. The second stage started in 1995 and involved broad restructuring of general secondary education in line with the introduction of a market economy. The Government decentralized and rationalized the education sector. The third stage started with the formulation of the Long-Term Development Strategy 2030. The Government adopted the new Law on Education in 1999 and in 2000 approved the State Program on Education for the medium term (2001–2005). In 2001, to support its high economic growth plans, the Government unveiled the 2010 strategic plan for development which recognizes human development, including the education sector, as the foundation to achieve and sustain development. The Government is preparing education system development concept.

149. The Government finalized an industrial innovation strategy 2015 to support high economic growth targets. The emphasis on science, technology, research and development, and targeted skills training will largely depend on how education system is able to upgrade human resources.

150. The Government's major priorities include the following: (i) providing one year of compulsory pre-school education to prepare students, in particular the disadvantaged, for formal schooling; (ii) improving general state education standards at all levels of education; (iii) providing equal access to education at all levels; (iv) training high-quality teachers and retaining them; (v) developing information and communication technology (ICT) to support the education system; (vi) exploring the implications of extending school education from an 11- to a 12-year system; (vii) modernizing education management; (viii) training high quality teachers and improving retraining programs; (ix) introducing new funding mechanisms to make education more efficient and competitive; and (x) rationalizing the TVET system to cater to emerging

market needs through partnership with the private sector. It is important to analyze the implications of the priorities identified and to indicate how they will be implemented. The Government has already made considerable efforts to increase private participation in tertiary education through cost sharing, private provision, and student credits and grants on a competitive basis. Accreditation and quality control have been identified as the major needs to maintain quality in tertiary institutions. Poor deserving students also need loans. Policy emphasizes establishing elite universities. Emphasis on research and development in industrial policy provides opportunities to tertiary education institutions to engage in government-sponsored research.

4. Asian Development Bank Sector Experience

151. ADB has been the lead agency in education and has supported Kazakhstan with two loans and three TA grants since 1995. ADB is providing two new TAs for (i) a social sector expenditure review to provide the Government with an analytical assessment to identify how the total public resources budgeted for health and education can achieve outcomes, and (ii) an education sector development strategy to identify key sector issues and priorities and to help strengthen the education sector development strategy.

5. Activities of Other Funding Agencies

152. Donor education activities are limited. Donors do not have plans for any major program in education but intend to continue to provide limited support. Among the more active ones, GTZ and European Commission are supporting TVET, UNICEF and Soros Foundation preschool and basic education, USAID civic education and business education at the tertiary level, and the Government of Japan Japanese language.

6. Asian Development Bank Sector Strategy

153. Given that Kazakhstan is reluctant to borrow and prefers to use its own resources for the social sectors, ADB must help the Government establish a solid understanding of the sector and options for ADB engagement. Two ongoing TAs allow ADB closer interaction with key policy-makers to understand the major education reform and financial needs. Recognizing the Government's high priority on ICT and distance education, ADB is considering a pilot program under the Japan Fund for Information and Communication Technology (JFICT) to build on the support provided under the two loans, focusing on utilizing available hardware.

154. Educational outcomes must be defined and associated standards established to link investments to more clearly defined and measurable outcomes. ADB's ongoing TA will help improve policy formulation and policy dialogue with wider participation of key stakeholders at all levels. Policy priorities include (i) improving financing mechanisms; (ii) ensuring quality standards; (iii) addressing emerging labor market needs; (iv) ensuring higher participation of students from low-income families at all levels of education; (v) improving efficiency of the MOES system under decentralized financing and management; (vi) involving the nongovernment sector, including the private sector; and (vii) improving strategic planning to target investments in key priority areas of reform. The education sector development strategy TA is expected to identify investment needs, strategic options, and implementation strategies for the overall education sector development. The TA will also focus on rural education needs and analyze how education can support those associated with the emerging industrial policy. ADB will be flexible in blending policy and investment assistance to help prepare policy notes in the areas jointly identified with the Government.

7. Implementation Issues

155. Given the Government's reluctance to use loan proceeds for softer components (mainly staff development, hiring of consultants), it is critical to ensure that (i) any support to hardware is linked to a coherent policy framework that also covers essential softer components, adequate maintenance, and provision for replacement and (ii) resource needs for both hard and soft components are fully assessed with adequate financing ensured for both. Grant funds must be mobilized to support key reforms drawing from international good practice.

156. Although the Government is involved in major reforms and has undertaken several initiatives, these have not been much monitored and evaluated. A strong emphasis on M&E would benefit the Government significantly in targeting additional resources to invest in education.

157. Due to a high turnover of government officials and project staff, the system to institutionalize project management issues and implementation procedures must be enhanced.

8. Performance Monitoring

158. Kazakhstan's education sector is at a critical juncture, waiting to be transformed into a more dynamic system that uses its historical strengths and national characteristics to meet emerging domestic needs and international standards. The most urgent need is to define educational outcomes and standards to link investments to measurable outcomes and effective service delivery. To develop and monitor a dynamic education system, the weak M&E system needs to be strengthened through a modern and comprehensive EMIS that can produce timely and reliable information for strategic decision making, and a strong research base that can provide continuous feedback to adapt to and learn from rapidly evolving labor market and socioeconomic needs. The system needs to be substantially strengthened to monitor (i) student performance (national assessment, participation in international assessments); and (ii) internal efficiency, (system rationalization, transition rates, pupil-teacher ratios, attendance and drop-out rates) external efficiency (tracer studies to study transition to labor market, earning levels), and upbringing of students at all levels.

Table A3.9: Education Sector Road Map

		Indicators	
		Current ^a	2006 ^a
1. Sector Outcomes/Outputs			
Quality	Maintenance of literacy rate	99%	99%
	Students graduating from grade 9	298,600	294,500
	Students graduating from grade 11	247,000	254,000
	Students graduating from higher education	TBD	TBD
Access and Retention	Students enrolled in pre-school	141,500	156,800
	Students enrolled in grades 1–9	2,598,500	2,605,200
	Students enrolled in grades 10–11	492,000	503,000
	Gross enrollment ration in higher education (as a % of 18–22 year olds)	TBD	TBD
	Gross enrollment ratio in technical and vocational education	10, 0	10, 2
	Proportions of girls enrolled in grades 1–11	49%	50%

		Indicators			
		Current ^a	2006 ^a		
1. Sector Outcomes/Outputs					
Access and Retention	Grade 9 graduates moving to grade 10	250,800	247,400		
	Grade 11 graduates moving to higher education	113,600	116,800		
Efficiency	Reduction in dropout rates	TBD	< 5%		
	Improvement in pupil-teacher ratio in Grades 1–11	11.8	TBD		
	Transition to labor market after Grade 11	TBD	TBD		
	Transition to labor market after technical and vocational education	TBD	TBD		
	Transition to labor market after higher education	TBD	TBD		
2. Sector Issues/ Constraints:	<p>(i) Urgent need to clearly define outcomes of the education system to link investments to measurable education outcomes and effective service delivery</p> <p>(ii) Deterioration in general living conditions that especially affect poor children and has reduced coverage at the compulsory level</p> <p>(iii) Inadequate sector management strategy and inadequate financing system to increase investment for a coherent development of the education sector and to improve efficiency of resources</p> <p>(iv) Weak linkage with the labor market; need to align skills training with industrial policy; and increasing needs at the secondary, professional, and higher education system, resulting in the near collapse of primary and secondary vocational education</p> <p>(v) Absence of strategic planning, weak evaluation to determine effectiveness of programs, and weak research base to inform policy</p> <p>(vi) Inadequate resource allocation to support many important policies and programs</p> <p>(vii) Inadequate material and technical base of secondary schools: 47% without physics laboratories, 50% without chemistry laboratories, 187 needing emergency repair, 3,342 needing proper buildings, 1,783 requiring major repair, 165 running in three or four shifts</p> <p>(viii) Urgent need to retrain teachers, administrators, and managers</p>				
3 Actions/ Milestones/ Investment (to address abovementioned issues)	By Issue	Schedule	By Agency		
			Government	ADB	Others
	A. Policies				
	(i) Create a new model of education and integrate with international educational system, including exploring extension of secondary education to 12-years, curriculum renewal and student assessment	2001–2010	X	TA 3939/3988	
	(ii) Establish education standards and quality control (accreditation, assessment)	2001–2010	X		
	(iii) Provide equal access to education at all levels with focus on rural schools and children with special needs	2001–2010	X	TA 3939	
	(iv) Realign skills training with emerging market needs through partnership	2001–2010	X	TA 3939	GTZ, EU
	(v) Strengthen teachers' certification and teacher training and retraining	2001–2010	X		
	(vi) Introduce per capita financing	2001–2010	X		

3 Actions/ Milestones/ Investment (to address abovementioned issues)	By Issue	Schedule	By Agency		
			Government	ADB	Others
	B. Institutional Development				
	(i) Implement self-management at all levels and raise financial accountability of educational institutions	1998–2010	MOES, DOE, CG, LG	Loans 1420/1541/1542	
	(ii) Provide managerial, technical, and financial flexibility to educational institutions at all levels	1998–2010	MOES, DOE ed inst.	Loans 1420/1541/1542	
	(iii) Strengthen information systems and ICT capability		MOES, DOE ed inst.	TA 3939	
	(iv) create an effective system of monitoring and evaluation		MOES, DOE		
	(v) Diversify and improve mechanisms of financing (mobilization, allocation, and utilization), including the private sector, and create conditions for partnership in the educational system		MOES, DOE, CG, LG, PS stakeholders	TA 3939/3988	
	C. Investments				
	(i) Provide mandatory one-year preschool education to all children 5-6 years old	2001–2005	X		
	(ii) Develop textbooks	1996–2010		Loans 1420/1541/1542	
	(iii) Provide instructional materials and equipment	1996–2010	CG & LG	Loans 1420/1541/1542	
	(iv) Teacher and management retraining	1996–2010	MOES, TTI	Loans 1420/1541/1542	
	(v) Computerize the education system and strengthen EMIS	1997–2007	X	Loans 1420/1541/1542	
	(vi) Build and rehabilitate schools	2000–2010	CG & LG		
	(vii) Implement programs to support vulnerable groups	1997–2010	CG, LG, C	Loans 1420/1541/1542	
	(viii) Provide technical and vocational education and training	2001–2010	X		GTZ, EU
	(ix) Establish elite universities	2001–2010	X		
<p>% = percent, C = community; CG = central government, DOE = Department of Education, EMIS = educational management information system, EU = European Union, GTZ=German Technical Agency, LG = local government, MOES = Ministry of Education and Science, NA = not available, PS = private sector, TBD = to be determined, TTI = Teacher Training Institute.</p> <p>^aOfficial statistics. Ongoing ADB-funded Education Sector Development Strategy TA will update statistics and provide missing ones.</p>					

CONCEPT PAPERS FOR LENDING PRODUCTS

This appendix contains the concept papers for projected lending products.

- (i) Table A4.1: Regional Rural Development Project
(previously Rural Area Development Project)
- (ii) Table A4.2: Baravoe–Kokshetau–Petropavlovsk Road Rehabilitation
- (iii) Table A4.3: Second Water Resources Management and Land Improvement
- (iv) Table A4.4: Second Rural Water Supply and Sanitation Sector

CONCEPT PAPERS FOR LENDING PRODUCTS

**Table A4.1: Regional Rural Development Project
(previously Rural Area Development Project)
Concept Paper**

Date: 11 June 2003

<p>1. Type/modality of assistance</p> <p><input checked="" type="checkbox"/> Lending</p> <p style="padding-left: 20px;"><input checked="" type="checkbox"/> Project loan</p> <p style="padding-left: 20px;"><input type="checkbox"/> Program loan</p> <p style="padding-left: 20px;"><input type="checkbox"/> Sector loan</p> <p style="padding-left: 20px;"><input type="checkbox"/> Sector development program loan</p> <p style="padding-left: 20px;"><input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p style="padding-left: 20px;"><input type="checkbox"/> Project preparatory</p> <p style="padding-left: 20px;"><input checked="" type="checkbox"/> Other than project preparatory</p> <p style="padding-left: 40px;"><input type="checkbox"/> Economic, thematic, and sector work</p> <p style="padding-left: 40px;"><input checked="" type="checkbox"/> Institutional development</p> <p style="padding-left: 40px;"><input type="checkbox"/> Other:</p>										
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Agriculture and natural resources Subsector: Rural development</p> <p>b. For project preparatory and lending, classification</p> <p style="padding-left: 20px;"><input type="checkbox"/> Core poverty intervention</p> <p style="padding-left: 20px;"><input checked="" type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area(s)</p> <table style="width: 100%; border: none;"> <tr> <td style="padding-left: 20px;"><input checked="" type="checkbox"/> Economic growth</td> <td style="padding-left: 20px;"><input type="checkbox"/> Human development</td> </tr> <tr> <td style="padding-left: 20px;"><input type="checkbox"/> Gender and development</td> <td style="padding-left: 20px;"><input type="checkbox"/> Good governance</td> </tr> <tr> <td style="padding-left: 20px;"><input type="checkbox"/> Environmental protection</td> <td style="padding-left: 20px;"><input checked="" type="checkbox"/> Private sector development</td> </tr> <tr> <td style="padding-left: 20px;"><input type="checkbox"/> Regional cooperation</td> <td style="padding-left: 20px;"><input type="checkbox"/> Social protection</td> </tr> <tr> <td style="padding-left: 20px;"><input type="checkbox"/> Other:</td> <td></td> </tr> </table>	<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development	<input type="checkbox"/> Gender and development	<input type="checkbox"/> Good governance	<input type="checkbox"/> Environmental protection	<input checked="" type="checkbox"/> Private sector development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection	<input type="checkbox"/> Other:	
<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development									
<input type="checkbox"/> Gender and development	<input type="checkbox"/> Good governance									
<input type="checkbox"/> Environmental protection	<input checked="" type="checkbox"/> Private sector development									
<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection									
<input type="checkbox"/> Other:										
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>										
<p>4. Responsible division/department: Agriculture, Environment, and Natural Resources Division, East and Central Asia Department</p>										
<p>5. Responsible ADB officer(s): J. Whittle</p>										
<p>6. Description of assistance(s)</p> <p>a. Background/linkage to country/regional strategy: Since 1991, progress in agriculture reform has been substantial, encompassing price liberalization, reduction in trade distortions, and privatization of farms. Reform has been accompanied by a relatively stable macroeconomic environment at least in the past 3 years. However, little evidence exists of economic recovery in the sector, which has suffered more than 50% decline in output due to transitional adjustments. Rural unemployment is widespread and families continue to vacate rural settlements and company towns. Improved policy environment has not significantly raised investment in agriculture, which is estimated at a low level of 0.5% of GDP in 1999–2001.</p> <p>The Government knows that the rural economy should be revived, since the rural population accounts for 6.5 million of the 14.8 million total population. Current policy, as reflected in the Development Plan up to 2010 (Strategy 2010), calls on the state to actively help the rural sector. This message was amplified by a presidential announcement on 29 April 2002, that the upcoming 3-year budget cycle (2003–2005) should be devoted to reviving rural areas. To fully realize the Government's goal of rural economic recovery, the following are urgently required: (i) assess regional and rural planning and inter-governmental relations requirements and capacity, (ii) develop appropriate regional and rural development plans at the district and provincial levels, and (iii) identify</p>										

priority public investments and desired private sector investments. A pilot exercise in one or two oblasts is needed to explore appropriate ways of planning that will maximize the value of investments and the potential growth of rural areas.

b. Goal and purpose: The project aims to enable oblasts and districts to plan and implement integrated development measures in accordance with their roles and functions.

c. Components and outputs: The Project components will include (i) capacity building of local and central governments for regional planning; (ii) rehabilitation and construction of rural infrastructure (irrigation and drainage, farm access roads, village markets, and public facilities) in regions with economic growth potential; and (iii) assistance to environmentally unsafe or economically depressed areas. These are to be combined with deepening of reforms to promote rural private investment. The scope is tentative and to be refined during the PPTA assessment.

d. Expected results and deliverables: (i) Improved regional framework to guide oblast and district planning, based on natural regions affording market opportunities; (ii) improved regional plans in selected areas; reflecting market potential for key commodities, other investment opportunities, and service provision needs; (iii) improved regional planning practices, including stakeholder participation; and (iv) sustainable investments in selected areas

e. Social or environmental issues or concerns: To be determined during the PPTA study

f. Plans for disseminating results/deliverables: To be determined during the PPTA study

7. Proposed executing/implementing agencies: Ministry of Agriculture

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance: The project concept and tentative scope were determined through consultative dialogue between ADB and the ministries of agriculture, economy, and budget planning; farmers associations; local institutes; and the private sector during TA 3898-KAZ: Participatory Rural Planning and Development.

9. Timetable for assistance design, processing, and implementation

a. Year included in CSP, CSP update, SCSP, SCSP update, or interregional work plan: 2002

b. Expected date of submission for approval

Lending: 2004

Nonlending (project preparatory): 2003

Nonlending (other than project preparatory): 2004 (for attached ADTA)

c. Period and duration of assistance(s)

Lending: 2004–2008

Nonlending: 2004–2005 (for attached ADTA)

10. Financing Plan (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

a. For lending

Ordinary capital resources: \$50 million

Asian Development Fund: \$

Other: \$

If cofinancing is required, indicate sources, and amount sought:

If known, provide cost estimates and financing arrangement (e.g., total cost, ADB financing, other financing, and government financing):

b. For nonlending

No resources required, other than ADB staff

ADB's administrative budget: \$

Grant TA funds \$500,000 (for attached ADTA)

If cofinancing is required, indicate sources, and amount sought:

If known, provide cost estimates and financing arrangement (e.g., total cost, ADB financing, other financing, and government financing):

ADB = Asian Development Bank, ADTA = advisory technical assistance, CSP = country strategy and program, GDP = gross domestic product, PPTA = project or program preparatory technical assistance, SCSP = subregional cooperation strategy and program, TA = technical assistance.

Table A4.2: Baravoe-Kokshatau-Petropavlovsk Road Rehabilitation Project**Date: 16 July 2003**

<p>1. Type/modality of assistance</p> <p><input checked="" type="checkbox"/> Lending</p> <p><input checked="" type="checkbox"/> Project loan</p> <p><input type="checkbox"/> Program loan</p> <p><input type="checkbox"/> Sector loan</p> <p><input type="checkbox"/> Sector development program loan</p> <p><input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p><input type="checkbox"/> Project preparatory</p> <p><input checked="" type="checkbox"/> Other than project preparatory</p> <p><input type="checkbox"/> Economic, thematic, and sector work</p> <p><input checked="" type="checkbox"/> Institutional development</p> <p><input type="checkbox"/> Other: {specify}</p> <p><input type="checkbox"/> Activities financed by JFICT or JFPR</p>										
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Transport and communications Subsector: Roads</p> <p>b. For project preparatory and lending, classification</p> <p><input type="checkbox"/> Core poverty intervention</p> <p><input type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area(s)</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Economic growth</td> <td><input type="checkbox"/> Human development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input type="checkbox"/> Good governance</td> </tr> <tr> <td><input type="checkbox"/> Environmental protection</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input checked="" type="checkbox"/> Regional cooperation</td> <td><input type="checkbox"/> Social protection</td> </tr> <tr> <td><input type="checkbox"/> Other:</td> <td></td> </tr> </table>	<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development	<input type="checkbox"/> Gender and development	<input type="checkbox"/> Good governance	<input type="checkbox"/> Environmental protection	<input type="checkbox"/> Private sector development	<input checked="" type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection	<input type="checkbox"/> Other:	
<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development									
<input type="checkbox"/> Gender and development	<input type="checkbox"/> Good governance									
<input type="checkbox"/> Environmental protection	<input type="checkbox"/> Private sector development									
<input checked="" type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection									
<input type="checkbox"/> Other:										
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>										
<p>4. Responsible division/department: Transport and Communications Division, East and Central Asia Department</p>										
<p>5. Responsible ADB officer(s): P. Seneviratne</p>										
<p>6. Description of assistance(s)</p> <p>a. Background/linkage to country/regional strategy: The first internationally financed road development project in Kazakhstan, which was part of the principal north-south road from Almaty to Petropavlovsk on the Russian border, was prepared and financed by ADB in 1996. The project paved the way for more donor involvement in the road transportation sector and interest in completing the link as it is also a major thoroughfare for trade between East and Southeast Asia and Europe. Rehabilitation of many sections between Almaty and Baravoe are either complete or underway. The Government is now seeking to rehabilitate the remaining section from Baravoe to Petropavlovsk.</p> <p>b. Goal and purpose: Complete upgrading of the main north-south road corridor. Once completed, it will facilitate fast, reliable, and safe domestic and international passenger and freight transportation.</p> <p>c. Components and outputs: Upgrading and repairing about 233 km of road and related infrastructure, and providing TA to reduce nontariff barriers such as vehicle standards, access to traffic, and investment restrictions.</p> <p>d. Expected results and deliverables: Rehabilitation of the road will lower travel time and vehicle operating costs, and increase safety and security of travel. Approximately 233 km of road will be upgraded to international standards with uniform traffic control devices.</p> <p>e. Social or environmental issues or concerns: None</p> <p>f. Plans for disseminating results/deliverables: not applicable</p>										

<p>7. Proposed executing/implementing agencies: Ministry of Transport and Communications (MOTC), Committee of Roads (COR)</p>
<p>8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance: CSP Mission's discussions with MOTC, COR and Ministry of Finance.</p>
<p>9. Timetable for assistance design, processing, and implementation</p> <p>a. Year included in CSP, CSP update, SCSP, SCSP update, or interregional work plan: 2002</p> <p>b. Expected date of submission for approval Lending: 2004 Nonlending (project preparatory): Nonlending (other than project preparatory):</p> <p>c. Period and duration of assistance{s} Lending: 2004–2006 Nonlending:</p>
<p>10. Financing Plan (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)</p> <p>a. For lending <input checked="" type="checkbox"/> Ordinary capital resources: \$40 million <input type="checkbox"/> Asian Development Fund: \$ <input type="checkbox"/> Other:</p> <p>If cofinancing is required indicate sources, and amount sought: Islamic Development Bank, \$10 million If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing): Total cost \$75million;ADB \$35million; other \$20million; Government \$20million.</p> <p>b. For nonlending <input type="checkbox"/> No resources required, other than ADB staff <input type="checkbox"/> ADB's administrative budget: \$ <input checked="" type="checkbox"/> Grant TA funds <input type="checkbox"/> TA Special Fund: \$\$500,000 (attached ADTA)</p> <p>If cofinancing is required indicate sources, and amount sought: If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):</p>

ADB = Asian Development Bank, ADTA = advisory technical assistance, COR = Committee of Roads, CSP = country strategy and program, km = kilometer, MOTC = Ministry of Transport and Communications, SCSP = subregional cooperation strategy and program, TA = technical assistance.

**Table A4.3: Second Water Resources Management and Land Improvement
Concept Paper**

Date: 4 June 2003

<p>1. Type/modality of assistance</p> <p><input checked="" type="checkbox"/> Lending</p> <p><input checked="" type="checkbox"/> Project loan</p> <p><input type="checkbox"/> Program loan</p> <p><input type="checkbox"/> Sector loan</p> <p><input type="checkbox"/> Sector development program loan</p> <p><input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p><input checked="" type="checkbox"/> Project preparatory</p> <p><input type="checkbox"/> Other than project preparatory</p> <p><input type="checkbox"/> Economic, thematic, and sector work</p> <p><input type="checkbox"/> Institutional development</p> <p><input type="checkbox"/> Other:</p>										
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Agriculture and natural resources Subsector: Water resources management</p> <p>b. For project preparatory and lending, classification</p> <p><input type="checkbox"/> Core poverty intervention</p> <p><input type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area(s)</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Economic growth</td> <td><input type="checkbox"/> Human development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input type="checkbox"/> Good governance</td> </tr> <tr> <td><input checked="" type="checkbox"/> Environmental protection</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Regional cooperation</td> <td><input type="checkbox"/> Social protection</td> </tr> <tr> <td><input type="checkbox"/> Other:</td> <td></td> </tr> </table>	<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development	<input type="checkbox"/> Gender and development	<input type="checkbox"/> Good governance	<input checked="" type="checkbox"/> Environmental protection	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection	<input type="checkbox"/> Other:	
<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development									
<input type="checkbox"/> Gender and development	<input type="checkbox"/> Good governance									
<input checked="" type="checkbox"/> Environmental protection	<input type="checkbox"/> Private sector development									
<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection									
<input type="checkbox"/> Other:										
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>										
<p>4. Responsible division/department: Agriculture, Environment, and Natural Resources Division, East and Central Asia Department</p>										
<p>5. Responsible ADB officer(s): M. Ashraf Malik</p>										
<p>6. Description of assistance(s)</p> <p>a. Background/linkage to country/regional strategy: The average capital investment in agriculture and fishery in 1999–2001 was less than 1.4% of total investment. As a result, except in a few areas, irrigation and drainage facilities and the water supply system are deteriorating, shrinking service areas. Waterlogging and soil salinity have worsened in the southern and southeastern oblasts, and poor rural domestic water supply and quality increase agricultural communities' hardship.</p> <p>The Government will devote 2003–2005 to reviving rural areas, and greater resources should thus be poured into rural infrastructure rehabilitation and improvement. The Project supports ADB strategies, as reflected in the country operational strategy of 1996 and CSP for 2004–2006, which focus on aiding agriculture and rural development</p> <p>b. Goal and purpose: The objective is to raise farm productivity and profits in the irrigated farming systems to create sustainable jobs and income. The Project will also improve the environment by reducing soil salinity and raising the efficiency of irrigation water use.</p> <p>c. Components and outputs: The Project will support the rehabilitation of irrigation and drainage infrastructure in selected areas in southern Kazakhstan. Investment and technical support will be considered in coordination with oblast governments to improve rural roads and village infrastructure. Project investment will also include support for regulatory reforms, institutional development of water users associations, and improvement of irrigation and drainage services.</p> <p>d. Expected results and deliverables: To be determined during PPTA fact finding</p>										

<p>e. Social or environmental issues or concerns: To be determined during PPTA fact finding</p> <p>f. Plans for disseminating results/deliverables: To be determined during PPTA fact finding</p>
<p>7. Proposed executing/implementing agencies: Ministry of Agriculture</p>
<p>8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance: The proposed project objective, scope, and area have been discussed with the ministries of economy and trade, finance, and agriculture; and farmers in southern Kazakhstan. Wider consultations will be carried out during the PPTA reconnaissance and fact finding.</p>
<p>9. Timetable for assistance design, processing, and implementation</p> <p>a. Year included in CSP, CSP update, SCSP, SCSP update, or interregional work plan: 2003</p> <p>b. Expected date of submission for approval Lending: 2005 (Standby) Nonlending (project preparatory): 2004 Nonlending (other than project preparatory): 2005 (associated TA; standby)</p> <p>c. Period and duration of assistance(s) Lending: 2005–2010 Nonlending: 2004–2005</p>
<p>10. Financing Plan (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)</p> <p>a. For lending <input checked="" type="checkbox"/> Ordinary capital resources: \$50 million <input type="checkbox"/> Asian Development Fund: <input type="checkbox"/> Other:</p> <p>If cofinancing is required indicate sources, and amount sought: If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):</p> <p>b. For nonlending <input type="checkbox"/> No resources required, other than ADB staff <input type="checkbox"/> ADB's administrative budget: <input checked="" type="checkbox"/> Grant TA funds: \$600,000 (PPTA); \$500,000 (associated ADTA)</p> <p>If cofinancing is required indicate sources, and amount sought: If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):</p>

% = percent, ADB = Asian Development Bank, ADTA = advisory technical assistance, CSP = country strategy and program, km = kilometer, PPTA = project or program preparatory technical assistance, SCSP = subregional cooperation strategy and program, TA = technical assistance.

**Table A4.4: Second Rural Water Supply and Sanitation Sector
Concept Paper**

Date: 3 June 2003

<p>1. Type/modality of assistance</p> <p><input checked="" type="checkbox"/> Lending</p> <p><input type="checkbox"/> Project loan</p> <p><input type="checkbox"/> Program loan</p> <p><input checked="" type="checkbox"/> Sector loan</p> <p><input type="checkbox"/> Sector development program loan</p> <p><input type="checkbox"/> Other:</p> <p><input type="checkbox"/> Nonlending</p> <p><input type="checkbox"/> Project preparatory</p> <p><input type="checkbox"/> Other than project preparatory</p> <p><input type="checkbox"/> Economic, thematic, and sector work</p> <p><input type="checkbox"/> Institutional development</p> <p><input type="checkbox"/> Other:</p>
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Social sector Subsector: Water supply and sanitation</p> <p>b. For project preparatory and lending, classification</p> <p><input type="checkbox"/> Core poverty intervention</p> <p><input checked="" type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area(s)</p> <p><input type="checkbox"/> Economic growth</p> <p><input checked="" type="checkbox"/> Gender and development</p> <p><input type="checkbox"/> Environmental protection</p> <p><input type="checkbox"/> Regional cooperation</p> <p><input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Human development</p> <p><input type="checkbox"/> Good governance</p> <p><input type="checkbox"/> Private sector development</p> <p><input type="checkbox"/> Social protection</p>
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>
<p>4. Responsible division/department: Social Sectors Division, East and Central Asia Department</p>
<p>5. Responsible ADB officer(s): P. Wallum</p>
<p>6. Description of assistance(s)</p> <p>a. Background/linkage to country/regional strategy: Inadequate delivery of rural water supply and sanitation (WSS) services, due to aging infrastructure, institutional constraints, and fiscal difficulties inhibits communities from accessing basic WSS infrastructure services.</p> <p>b. Goal and purpose: The Project will improve the living and health conditions of selected rural communities, in particular for the poor, by providing basic WSS infrastructure services.</p> <p>c. Components and outputs: The Project will consist of physical infrastructure and institutional development. The subprojects will include developing and rehabilitating WSS services.</p> <p>d. Expected results and deliverables: The Project will benefit villages by providing potable quality piped water supply facilities, improved wastewater drainage facilities, school and private latrines, and public bathhouses.</p> <p>e. Social or environmental issues or concerns: The impact of the Project is expected to be positive. Households headed by poor women, as well as the elderly and disabled will have equal access to potable water. Provision of safe drinking water and proper sanitation facilities will significantly help improve the rural environment.</p> <p>f. Plans for disseminating results/deliverables: The Support for decentralized community management and capacity building will enhance the efficiency and sustainability of rural WSS services.</p>

<p>7. Proposed executing/implementing agencies: The Water Resources Committee, Ministry of Agriculture</p>
<p>8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance: The Water Resources Committee will involve at least two community-based organizations (women's committees, and elders' councils) to be associated with the project consulting services for (i) community consultation and development in subproject planning, and (ii) monitoring subprojects implementation.</p>
<p>9. Timetable for assistance design, processing, and implementation</p> <p>a. Year included in CSP: 2003</p> <p>b. Expected date of submission for approval Lending: 2006</p> <p>c. Period and duration of assistance Lending: 2007–2011</p>
<p>10. Financing Plan</p> <p>For lending</p> <p><input checked="" type="checkbox"/> Ordinary capital resources: \$50 million</p> <p><input type="checkbox"/> Asian Development Fund: \$</p> <p><input checked="" type="checkbox"/> Other: Islamic Development Bank: \$10 million</p> <p>If cofinancing is required indicate sources, and amount sought: Islamic Development Bank, \$10 million</p>

ADB = Asian Development Bank, CSP = country strategy and program, TA = technical assistance, WSS = water supply and sanitation.

CONCEPT PAPERS FOR NONLENDING PRODUCTS AND SERVICES

This appendix contains the concept papers for projected nonlending products.

- (i) Table A5.1: Improved Environmental and Natural Resource Management in KAZ
- (ii) Table A5.2: Support for Increasing Competitiveness of Domestic Enterprises
- (iii) Table A5.3: Capacity Building of National and Local Governments to Implement the Poverty Reduction Strategy, Phase II
- (iv) Table A5.4: Strengthening Core Government Capacity for Policy Development and Implementation in Kazakhstan, Phase II (previously Capacity Building for Investment Planning)
- (v) Table A5.5: Supporting the Shift from Local State Government to Local Self-Government in Kazakhstan (previously Capacity Building for Fiscal Management at the Local Level)

CONCEPT PAPERS FOR NONLENDING PRODUCTS AND SERVICES

**Table A5.1: Improved Environmental and Natural Resource Management
Concept Paper**

Date: 3 June 2003

<p>1. Type/modality of assistance</p> <p><input type="checkbox"/> Lending</p> <p style="margin-left: 20px;"><input type="checkbox"/> Project loan</p> <p style="margin-left: 20px;"><input type="checkbox"/> Program loan</p> <p style="margin-left: 20px;"><input type="checkbox"/> Sector loan</p> <p style="margin-left: 20px;"><input type="checkbox"/> Sector development program loan</p> <p style="margin-left: 20px;"><input type="checkbox"/> Other:</p> <p><input type="checkbox"/> Nonlending</p> <p style="margin-left: 20px;"><input type="checkbox"/> Project preparatory</p> <p style="margin-left: 20px;"><input type="checkbox"/> Other than project preparatory</p> <p style="margin-left: 40px;"><input checked="" type="checkbox"/> Economic, thematic, and sector work</p> <p style="margin-left: 40px;"><input type="checkbox"/> Institutional development</p> <p style="margin-left: 40px;"><input type="checkbox"/> Other:</p>		
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Agriculture and natural resources Subsector:</p> <p>b. For project preparatory and lending, classification</p> <p style="margin-left: 20px;"><input type="checkbox"/> Core poverty intervention</p> <p style="margin-left: 20px;"><input type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area(s)</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%; vertical-align: top;"> <input type="checkbox"/> Economic growth <input type="checkbox"/> Gender and development <input checked="" type="checkbox"/> Environmental protection <input type="checkbox"/> Regional cooperation <input type="checkbox"/> Other: </td> <td style="width: 50%; vertical-align: top;"> <input type="checkbox"/> Human development <input type="checkbox"/> Good governance <input type="checkbox"/> Private sector development <input type="checkbox"/> Social protection </td> </tr> </table>	<input type="checkbox"/> Economic growth <input type="checkbox"/> Gender and development <input checked="" type="checkbox"/> Environmental protection <input type="checkbox"/> Regional cooperation <input type="checkbox"/> Other:	<input type="checkbox"/> Human development <input type="checkbox"/> Good governance <input type="checkbox"/> Private sector development <input type="checkbox"/> Social protection
<input type="checkbox"/> Economic growth <input type="checkbox"/> Gender and development <input checked="" type="checkbox"/> Environmental protection <input type="checkbox"/> Regional cooperation <input type="checkbox"/> Other:	<input type="checkbox"/> Human development <input type="checkbox"/> Good governance <input type="checkbox"/> Private sector development <input type="checkbox"/> Social protection	
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input checked="" type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>		
<p>4. Responsible division/department: Agriculture, Environment, and Natural Resources Division, East and Central Asia Department</p>		
<p>5. Responsible ADB officer(s): X. Ma</p>		
<p>6. Description of assistance(s)</p> <p>a. Background/linkage to country/regional strategy: Environmental degradation in Kazakhstan has been building up since the country was part of the Union of Soviet Socialist Republic, and has not been reversed during the transition from planned to market-based economy. The country suffers increasing decline of rural land and water resources; and highly toxic, radioactive wastes and industrial urban pollution due to policy failure, inadequate laws, and lack of institutional capacity. Existing environmental policies and the legal system rely heavily on command-and-control approaches, which are often not the least-cost solution and are vulnerable to local political and economic pressures. The main constraints on the environmental management are lack of institutional capacity, especially weak organizational setting at provincial and district levels; lack of ability in information and policy analysis; and lack of capacity for environmental monitoring and enforcement.</p> <p>On the top of environmental management issues, the political will and integration of environmental consideration into economic development plans are essential to reverse environmental degradation. Political will and policy integration are weak in Kazakhstan.</p> <p>An ongoing country environmental analysis supported by ADB has identified several priority areas for ADB's intervention through nonlending activities: (i) development and/or amendment of environmental laws to meet the needs of environmental management during the transition from planned to market-based economy, (ii) mainstreaming environmental consideration into economic development through capacity building in the newly established Inter-ministerial Commission for sustainable development, (iii) improved environmental</p>		

monitoring and information management systems, and (iv) improved pollution levy system and environmental fund system.

Environmental management is multidimensional and requires a comprehensive approach to address all key issues. Initiatives in all identified areas should be supported. Flexibility should be exercised in selecting the specific TA topic and determining TA objective, scopes, expected outputs, and other related aspects for TA design at this stage given that (i) this will be a 2004 TA and the Government's priority and needs and commitment are still unclear, and (ii) ADB and the Government have not discussed the TA objective and scope.

- b. Goal and purpose:** Improved environmental and natural resources management in Kazakhstan
- c. Components and outputs:** To be decided
- d. Expected results and deliverables:** To be decided
- e. Social or environmental issues or concerns:** This TA will have environmental benefits through supporting initiatives that will solve the problems mentioned above.
- f. Plans for disseminating results/deliverables:** It is desirable to disseminate results/deliverables through websites of the government agencies.

7. Proposed executing/implementing agencies: To be decided.

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance: In-country consultation with the Government will be conducted in 2003–2004.

9. Timetable for assistance design, processing, and implementation

- a. Year included in CSP, CSP update, SCSP, SCSP update, or interregional work plan: 2003
- b. Expected date of submission for approval
 - Lending:
 - Nonlending (project preparatory):
 - Nonlending (other than project preparatory): 2004
- c. Period and duration of assistance
 - Lending:
 - Nonlending: 7 months after approval

10. Financing Plan (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

- a. For lending
 - Ordinary capital resources:
 - Asian Development Fund:
 - Other:

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

- b. For nonlending
 - No resources required, other than ADB staff
 - ADB's administrative budget:
 - Grant TA funds: \$600,000

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

ADB = Asian Development Bank, CSP = country strategy and program, SCSP = subregional cooperation strategy and program, TA = technical assistance

**Table A5.2: Strengthening Competitiveness in Kazakhstan
Concept Paper**

Date: 4 June 2003

<p>1. Type/modality of assistance</p> <p><input type="checkbox"/> Lending</p> <p> <input type="checkbox"/> Project loan</p> <p> <input type="checkbox"/> Program loan</p> <p> <input type="checkbox"/> Sector loan</p> <p> <input type="checkbox"/> Sector development program loan</p> <p> <input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p> <input type="checkbox"/> Project preparatory</p> <p> <input checked="" type="checkbox"/> Other than project preparatory</p> <p> <input type="checkbox"/> Economic, thematic, and sector work</p> <p> <input checked="" type="checkbox"/> Institutional development</p> <p> <input type="checkbox"/> Other:</p>										
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Governance and capacity building Subsector: Policy development and coordination</p> <p>b. For project preparatory and lending, classification</p> <p> <input type="checkbox"/> Core poverty intervention</p> <p> <input type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area(s)</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Economic growth</td> <td><input type="checkbox"/> Human development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input checked="" type="checkbox"/> Good governance</td> </tr> <tr> <td><input type="checkbox"/> Environmental protection</td> <td><input checked="" type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Regional cooperation</td> <td><input type="checkbox"/> Social protection</td> </tr> <tr> <td><input type="checkbox"/> Other:</td> <td></td> </tr> </table>	<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development	<input type="checkbox"/> Gender and development	<input checked="" type="checkbox"/> Good governance	<input type="checkbox"/> Environmental protection	<input checked="" type="checkbox"/> Private sector development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection	<input type="checkbox"/> Other:	
<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development									
<input type="checkbox"/> Gender and development	<input checked="" type="checkbox"/> Good governance									
<input type="checkbox"/> Environmental protection	<input checked="" type="checkbox"/> Private sector development									
<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection									
<input type="checkbox"/> Other:										
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>										
<p>4. Responsible division/department: Governance, Finance, and Trade Division, East and Central Asia Department</p>										
<p>5. Responsible ADB officer(s): to be determined</p>										
<p>6. Description of assistance(s)</p> <p>a. Background/linkage to country/regional strategy: The economy is increasingly dominated by mining, which accounted for 47% of industrial production in 2002. Minerals and metals accounted for 84% of exports in 2002. The competitiveness of most companies in other sectors has fallen over the last years, including industries where Kazakhstan is believed to have potential comparative advantages, such as food production, oil refining, petrochemical industry, or parts of machine building. With oil and gas production likely to increase substantially, and the tenge likely to appreciate due to rising commodity exports, competitiveness of enterprises in these parts of the economy will likely remain under considerable stress. This has serious implications for poverty reduction, as mining is unlikely to generate much employment and income, where large numbers of the poor and unemployed live. The Government is keen to solve this problem as reflected the Industrial Sector Development Program and to promote balanced economic development—among other things—by means of a market-oriented competition policy.</p> <p>An effective competition policy that promotes efficient allocation of resources and economic growth should enforce a regulatory framework that fights anticompetitive behavior and promotes good governance. Although Kazakhstan's overall economic policy can be considered fairly liberal and the antimonopoly legislation—including the laws on competition and limiting monopolistic activity and on unfair competition—broadly adequate, there are serious institutional weaknesses, most notably with regard to the judiciary and state bodies responsible for anti-monopoly policy and promotion of SMEs and good corporate governance standards, that prevent the laws from being enforced. Numerous barriers impede the development of a sound, transparent, and competitive business</p>										

environment. Most sectors have players that control big shares of their markets. Private and public anticompetitive practices such as consumer rights violations, and the abuse of dominant position, are widespread. Efforts to strengthen corporate governance are not coordinated efficiently, with proposed legal changes being stalled in parliamentary reviews, and existing requirements poorly enforced.

The private sector assessment and the governance assessment, both undertaken by ADB in a participatory manner to feed into CSP, identified the need to address anticompetitive structures and behavior in the economy and help the Government strengthen the institutional framework for effective policies, including promotion of SMEs and good corporate governance standards in private companies and state-controlled enterprises. This is reflected in the CSP for 2004-2006, which foresees helping the Government promote pro-poor growth by diversifying the economy, SMEs, and improving governance.

b. Goal and purpose: The goal is to efficiently allocate resources to promote high and pro-poor growth. The purpose is to strengthen policies that help ensure efficient allocation of resources by promoting fair competition and good governance, and diminishing the opportunities for rent-seeking behavior and corruption.

c. Components and outputs: (i) A comprehensive review of the legal and institutional framework for competition policies; (ii) a policy reform agenda to strengthen competition; (iii) measures to improve coordination between state bodies responsible for regulation of monopolies, SME promotion, and corporate governance; and (iv) measures to strengthen capacities of state bodies responsible for sub-areas of competition policy.

d. Expected results and deliverables: (i) A brief review of relevant legislation and regulations to identify remaining weaknesses; (ii) an assessment of institutional capacities of selected state bodies responsible for sub-areas of competition policy such as regulation of monopolies and promotion of SMEs and good corporate governance; (iii) a diagnostic study on factors impeding the enforcement of competition policies; (iv) recommendations to address legal, regulatory, and institutional weaknesses impeding enforcement of competition policies; (v) an action plan with time-bound measures to strengthen competition in selected subsectors of the economy; (vi) improved coordination between the state bodies responsible for regulation of monopolies, SME promotion, and corporate governance; and (vii) training materials, modules, and workshops.

e. Social or environmental issues or concerns: There are no concerns related to the output of this TA, but the implementation of competition policies should include compensatory measures, which should be taken into account at the programming stage.

f. Plans for disseminating results/deliverables: Diagnostic studies undertaken under the TA and policy recommendations will be disseminated to the Government and its development partners, with key recommendations provided through policy dialogue. Seminars and workshops might be replicated to train other government representatives.

7. Proposed executing/implementing agencies: Agency for the Regulation of Natural Monopolies, Competition Protection and Small Business Support; other state bodies (to be determined during fact finding) responsible for policy areas relevant for healthy competition, including promotion of SME and good corporate governance.

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance: The Government has actively participated in undertaking the governance and private sector assessments, which recommended the intervention, and requested this TA during a workshop disseminating the results of these assessments and during the CSP Mission.

9. Timetable for assistance design, processing, and implementation

- a. Year included in CSP, CSP update, SCSP, SCSP update, or interregional work plan: 2003.
- b. Expected date of submission for approval
 - Lending:
 - Nonlending (project preparatory):
 - Nonlending (other than project preparatory): 2004
- c. Period and duration of assistance(s)
 - Lending:
 - Nonlending: 2004–2005

10. Financing Plan (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

a. For lending

- Ordinary capital resources:
- Asian Development Fund:
- Other:

If cofinancing is required, indicate sources, and amount sought:

If known, provide cost estimates and financing arrangement (e.g., total cost, ADB financing, other financing, and government financing):

b. For nonlending

- No resources required, other than ADB staff
- ADB's administrative budget:
- Grant TA funds: US\$600,000

% = percent, ADB=Asian Development Bank, CSP=country strategy and program, SMEs = small- and medium-sized enterprises, SCSP=subregional cooperation strategy and program, TA=technical assistance.

Table A5.3: Capacity Building of National and Local Governments to Implement the Poverty Reduction Strategy, Phase II Concept Paper

Date: 4 June 2003

<p>1. Type/modality of assistance</p> <p><input type="checkbox"/> Lending</p> <p><input type="checkbox"/> Project loan</p> <p><input type="checkbox"/> Program loan</p> <p><input type="checkbox"/> Sector loan</p> <p><input type="checkbox"/> Sector development program loan</p> <p><input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p><input type="checkbox"/> Project preparatory</p> <p><input checked="" type="checkbox"/> Other than project preparatory</p> <p><input type="checkbox"/> Economic, thematic, and sector work</p> <p><input checked="" type="checkbox"/> Institutional development</p> <p><input type="checkbox"/> Other:</p>
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Governance and capacity building Subsector: Policy development and coordination</p> <p>b. For project preparatory and lending, classification</p> <p><input type="checkbox"/> Core poverty intervention</p> <p><input type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area(s)</p> <p><input type="checkbox"/> Economic growth</p> <p><input type="checkbox"/> Gender and development</p> <p><input type="checkbox"/> Environmental protection</p> <p><input type="checkbox"/> Regional cooperation</p> <p><input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Human development</p> <p><input checked="" type="checkbox"/> Good governance</p> <p><input type="checkbox"/> Private sector development</p> <p><input type="checkbox"/> Social protection</p>
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>
<p>4. Responsible division/department: Agriculture, Environment, and Natural Resources Division, East and Central Asia Department</p>
<p>5. Responsible ADB officer(s): to be determined</p>
<p>6. Description of assistance(s)</p> <p>a. Background/linkage to country/regional strategy: Key lessons learned from ADB's almost 10 years work in Kazakhstan particularly in developing and carrying out CSPs, are as follows: (i) lack of financing from public and private sectors does not constrain implementing an accelerated pro-poor development strategy. However, weak national and local institutional and strategic-planning appear to be major impediments to ensuring effective and efficient implementation of pro-poor policy reforms, programs, and projects. (ii) For a country with a per capita income of above \$1,500 and recent high growth rates, it has been lackluster in achieving the MDGs particularly health-related targets and, to a lesser degree, income poverty reduction. ADB and the Government are committed to achieving the MDGs, as highlighted in the Government's Poverty Reduction Strategy Program for 2003–2005, and the socioeconomic development plan, as well in ADB's Poverty Reduction Strategy. Weak governance is due to (i) lack of coordination between national and local levels of government and among different agencies and authorities; (ii) lack of transparency and accountability in the provision and delivery of social services; and (iii) low technical capacities in strategic planning, pro-poor budgeting, and monitoring and evaluation. Weak governance has hindered the public sector from ensuring that the poor and vulnerable groups have fair and equal access to income and job opportunities and vital social services. (iii) The private sector must be encouraged to develop the non-oil sectors, and civil society to actively participate development. Institutional constraints as well as limited skills must be addressed, and behavior reformed to encourage competition and national and local participation of the private sector and civil society.</p> <p>The CSP for 2004–2006 and the MOU between the Government and the CSP Mission last April 2003 on</p>

preparing the CSP recognize these institutional and capacity weaknesses of national and local governments, especially in implementing the Government's Poverty Reduction Strategy Sector Program. A TA is being implemented to pilot-test at two provinces an M&E system and feedback and advocacy mechanism to implement poverty reduction programs, projects, and policies. Similarly, an SSTA for the social expenditure review is also under way and will shed light on governance-related problems and constraints on efficient and effective provision and delivery of social services (health and education). The TA will benefit from and build on the lessons learned in the pilot-testing TA and social expenditure review assessment to develop a nationwide M&E system and a feedback and advocacy mechanism on implementing the poverty reduction sector program. The TA has been included in the MOU and draft CSP, emphasizing inclusive growth and human development through, among others, good governance. It will be achieved by (i) improving the technical skills and capacities of local and national governments to implement poverty reduction programs in a more efficient, transparent, and accountable manner; and (ii) broadening the nature and scope of involvement of civil society in M&E of these programs.

b. Goal and purpose: Make government implementation of poverty reduction measures efficient, transparent, and accountable, and thereby reduce income and non-income poverty.

c. Components and outputs: The outputs are: (i) M&E system, (ii) feedback and advocacy mechanism, and (iii) enhanced government analytical M&E skills.

d. Expected results and deliverables: At the end of the TA, the Government will implement an effective and efficient M&E system as well as a feedback and advocacy mechanism to track the Government's implementation of the poverty reduction program.

e. Social or environmental issues or concerns: Despite its recent high per capita income and positive growth rates, the country failed dismally to attain the MDGs, especially those related to health, education, and income poverty.

f. Plans for disseminating results/deliverables: Websites, media advocacy modalities, more involvement of civil society in assessment surveys on poverty reduction measures

7. Proposed executing/implementing agencies: Ministry of Economy and Budget Planning

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance: The TA builds on previous advisory TAs such as that to develop the Poverty Reduction Strategy Program to pilot-test the project's M&E and feedback and advocacy mechanism, and the SSTA social sector expenditure review. Each past and current TA was developed with participation and feedback mechanisms from Government and private sector and civil society. The proposed TA will fill an identified gap in the poverty reduction strategy program and was conceptualized using an inductive approach by first trying out the province M&E mechanisms and a specific sector (social sector). The TA will build on the strengths and address the weaknesses of micro-level TAs.

9. Timetable for assistance design, processing, and implementation

- a. Year included in CSP, CSP update, SCSP, SCSP update, or interregional work plan: 2003.
- b. Expected date of submission for approval
 - Lending:
 - Nonlending (project preparatory):
 - Nonlending (other than project preparatory): 2005
- c. Period and duration of assistance(s)
 - Lending:
 - Nonlending: 2005–2006

10. Financing Plan (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

a. For lending

- Ordinary capital resources:
- Asian Development Fund:
- Other:

If cofinancing is required, indicate sources, and amount sought:

If known, provide cost estimates and financing arrangement (e.g., total cost, ADB financing, other financing, and government financing):

b. For nonlending

- No resources required, other than ADB staff
- ADB's administrative budget:
- Grant TA funds: US\$500,000

ADB = Asian Development Bank, CSP = country strategy and program, M&E = monitoring and evaluation, MDGs = millennium development goals, MOU = memorandum of understanding, SCSP = subregional cooperation strategy and program, SSTA = small-scale technical assistance, TA = technical assistance.

**Table A5.4: Strengthening Core Government Capacity for Policy Development and Implementation in Kazakhstan, Phase II
(previously Capacity Building for Investment Planning)
Concept Paper**

Date: 30 May 2003

<p>1. Type/modality of assistance</p> <p><input type="checkbox"/> Lending</p> <p><input type="checkbox"/> Project loan</p> <p><input type="checkbox"/> Program loan</p> <p><input type="checkbox"/> Sector loan</p> <p><input type="checkbox"/> Sector development program loan</p> <p><input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p><input type="checkbox"/> Project preparatory</p> <p><input checked="" type="checkbox"/> Other than project preparatory</p> <p><input type="checkbox"/> Economic, thematic, and sector work</p> <p><input checked="" type="checkbox"/> Institutional development</p> <p><input type="checkbox"/> Other:</p>
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Governance and capacity building Subsector: Policy development and coordination</p> <p>b. For project preparatory and lending, classification</p> <p><input type="checkbox"/> Core poverty intervention</p> <p><input type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area(s)</p> <p><input checked="" type="checkbox"/> Economic growth</p> <p><input type="checkbox"/> Gender and development</p> <p><input type="checkbox"/> Environmental protection</p> <p><input type="checkbox"/> Regional cooperation</p> <p><input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Human development</p> <p><input checked="" type="checkbox"/> Good governance</p> <p><input type="checkbox"/> Private sector development</p> <p><input type="checkbox"/> Social protection</p>
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>
<p>4. Responsible division/department: Governance, Finance, and Trade Division, East and Central Asia Department</p>
<p>5. Responsible ADB officer(s): to be determined</p>
<p>6. Description of assistance(s)</p> <p>a. Background/linkage to country/regional strategy: The core executive branch of the Government, which is responsible for key policy-making, and policy coordination and implementation, is dominated by a strong President supported by his administration presidential administration (PA) but also comprises the prime minister and his office, the Chancellery, albeit with limited power. Bodies such as the Ministry of Finance or the Agency for Strategic Planning, formally under the presidential administration, are also important in policy development and coordination. No single central agency advises the core executive and coordinates with ministries and Parliament. As a result, the relationship and interplay between the government bodies involved in core policy development, coordination, and monitoring, and between the core government and other ministries and government bodies are not clearly defined and appear dysfunctional. Line ministries also often lack the expertise and capacity to develop policy.</p> <p>These factors significantly reduce the efficiency and effectiveness of policy development and implementation in general, and overshadow the implementation of Kazakhstan 2030, the Strategic Plan of Development of the Republic of Kazakhstan until 2010, and other programs such as the Indicative Plan of Socio-economic Development of the Republic of Kazakhstan for 2003–2005 in particular.</p> <p>The governance assessment study being undertaken by ADB in cooperation with the Government to feed into the CSP has proposed to address the above issues in two phases. The first, supported by ADB with a \$200,000</p>

grant, will be launched in 2003 to comprehensively review the policymaking and strategic planning process of the core Government with focus on the presidential administration, the Chancellery and MEBP; (ii) provide advice to clarify and simplify policy coordination functions and strategic planning processes of the core government; (iii) support capacity building through training to improve the government machinery's policy development, strategic planning, and coordination functions.

The second phase will focus on (i) strengthening the links between the core Government and line ministries, (ii) developing capacity within line ministries for policy development, and (iii) delegating responsibility for policy development down the line once capacities have been strengthened. Ideally, the ministries should be the main source of expertise and ideas in their sectors, while the core Government should focus on overall coherence and on consistency of policy proposals with strategic and operational plans.

Phase II will build on a TA to strengthen government program performance, to be processed in 2003 and supported by ADB and the Government of Canada with a \$200,000 grant to enhance performance of central government programs by introducing a performance measurement system, and to complement RETA 6096, approved in March 2003, to improve the capacity of selected sector organizations in selected developing member countries including Kazakhstan, to implement sector-wide approaches using results-based management.

b. Goal and purpose: The goal of the TA is to foster strong and pro-poor growth. The objective is to strengthen the policymaking, strategic planning, and policy coordination capabilities of the Government, to build an enabling environment for poverty reduction.

c. Components and outputs:

- (i) Strengthen the interplay between core government agencies and selected line ministries.
- (ii) Build capacity for policy development within selected line ministries.
- (iii) Support management reform within selected line ministries.
- (iv) Strengthen horizontal consultation and coordination between ministries.
- (v) Establish mechanisms for policy development in areas that affect several ministries, such as public administration reform, decentralization, and strategic planning.

d. Expected results and deliverables: The TA will help develop mechanisms and frameworks for policy development within the Government, involving core government agencies and selected line ministries. The deliverables will include (i) a comprehensive assessment of the current system; (ii) recommendations to improve policy development and strategic planning; (iii) build capacity of specific ministries; (iv) develop training materials, modules, and workshops.

e. Social or environmental issues or concerns: None

f. Plans for disseminating results/deliverables: The overall report will be disseminated to the executing agencies, with the more sensitive recommendations reinforced through policy dialogue. Training materials will be made available during seminars and workshops, which are expected to be replicated in line ministries and government agencies not participating in TA implementation.

7. Proposed executing/implementing agencies: Chancellery of the Prime Minister of Kazakhstan, Presidential Administration, Ministry of Economy and Budget Planning, and selected line ministries

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance: The governance assessment was undertaken in a participatory manner and has explicitly expressed the need for this TA. Discussions with different government officials, including representatives of the Chancellery and MEBP, were also undertaken to prepare the drafting of this TA.

9. Timetable for assistance design, processing, and implementation

- a. Year included in CSP, CSP update, SCSP, SCSP update, or interregional work plan: 2003.
- b. Expected date of submission for approval
 - Lending:
 - Nonlending (project preparatory):
 - Nonlending (other than project preparatory): 2005
- c. Period and duration of assistance(s)
 - Lending:
 - Nonlending: 2005–2006

10. Financing Plan (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

- a. For lending
- Ordinary capital resources:
 - Asian Development Fund:
 - Other:

If cofinancing is required, indicate sources, and amount sought:

If known, provide cost estimates and financing arrangement (e.g., total cost, ADB financing, other financing, and government financing):

- b. For nonlending
- No resources required, other than ADB staff
 - ADB's administrative budget:
 - Grant TA funds: \$500,000

ADB = Asian Development Bank, CSP = country strategy and program, KAZ = Kazakhstan, MEBP = Ministry of Economy and Budget Planning, RETA = regional technical assistance, SCSP = subregional cooperation strategy and program, TA = technical assistance.

Table A5.5: Supporting the Shift from Local State Government to Local Self-Government in Kazakhstan, Phase II (previously Capacity Building for Fiscal Management at the Local Level) Concept Paper

Date: 2 June 2003

<p>1. Type/modality of assistance</p> <p><input type="checkbox"/> Lending</p> <p><input type="checkbox"/> Project loan</p> <p><input type="checkbox"/> Program loan</p> <p><input type="checkbox"/> Sector loan</p> <p><input type="checkbox"/> Sector development program loan</p> <p><input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p><input type="checkbox"/> Project preparatory</p> <p><input type="checkbox"/> Other than project preparatory</p> <p><input checked="" type="checkbox"/> Economic, thematic, and sector work</p> <p><input type="checkbox"/> Institutional development</p> <p><input type="checkbox"/> Other: {specify}</p>										
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Others Subsector: Others</p> <p>b. For project preparatory and lending, classification</p> <p><input type="checkbox"/> Core poverty intervention</p> <p><input checked="" type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area(s)</p> <table> <tr> <td><input type="checkbox"/> Economic growth</td> <td><input checked="" type="checkbox"/> Human development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input checked="" type="checkbox"/> Good governance</td> </tr> <tr> <td><input type="checkbox"/> Environmental protection</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Regional cooperation</td> <td><input checked="" type="checkbox"/> Social protection</td> </tr> <tr> <td><input type="checkbox"/> Other: {specify}</td> <td></td> </tr> </table>	<input type="checkbox"/> Economic growth	<input checked="" type="checkbox"/> Human development	<input type="checkbox"/> Gender and development	<input checked="" type="checkbox"/> Good governance	<input type="checkbox"/> Environmental protection	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Regional cooperation	<input checked="" type="checkbox"/> Social protection	<input type="checkbox"/> Other: {specify}	
<input type="checkbox"/> Economic growth	<input checked="" type="checkbox"/> Human development									
<input type="checkbox"/> Gender and development	<input checked="" type="checkbox"/> Good governance									
<input type="checkbox"/> Environmental protection	<input type="checkbox"/> Private sector development									
<input type="checkbox"/> Regional cooperation	<input checked="" type="checkbox"/> Social protection									
<input type="checkbox"/> Other: {specify}										
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>										
<p>4. Responsible division/department: Governance, Finance, and Trade Division, East and Central Asia Department</p>										
<p>5. Responsible ADB officer(s): to be determined</p>										
<p>6. Description of assistance(s):</p> <p>a. Background/linkage to country/regional strategy: With the adoption of the laws on the budget system, local state government, and government-guaranteed borrowing, financial relations between local and central governments have been somewhat formalized in recent years. However, the budget system is still centralized, and local governments have little real autonomy over their budgets. Local governments are administrative arms of the central Government, and the accountability of local civil servants is with higher levels of government. Lack of legal and financial autonomy, coupled with lack of local accountability, has a negative impact on public service delivery.</p> <p>The governance assessment conducted under TA3747-KAZ proposes a key role for ADB assistance in reforming local government. The first phase of this assistance will be launched in 2003. The TA will (i) develop a model for streamlining local government administration for effective delivery of social services, (ii) identify changes in taxation and revenue-sharing arrangements to establish local self-government, and (iii) develop a roadmap for the transition from local state government to local self-government.</p> <p>Phase II will help the Government implement reforms and recommendations arising from phase I, including codifying into law the legal status of lower levels of government, developing revenue-sharing arrangements between various levels of government, reforming the administration of local tax collection units, and building institutional capacity of expenditure control units.</p>										

<p>b. Goal and purpose: The goal of the TA is to continue ADB efforts in helping Kazakhstan develop an effective governance framework that will enhance service delivery and accelerate poverty reduction. The purpose is to support the transition from local state government to local self-governance whereby local governments will have legal and financial autonomy.</p> <p>c. Components and outputs: (i) Local government act codifying the legal status of lower levels of government, the basis for interaction between these levels and the center, and the taxation powers of each level; (ii) detailed revenue-sharing arrangements between various levels of government; (iii) administrative and legal changes needed to accommodate changes to the status of local taxes and the reassignment of collection responsibility; and (iv) local level institutional capacity building in expenditure management</p> <p>d. Expected results and deliverables: The deliverables will include the following:</p> <ul style="list-style-type: none"> (i) manuals on revenue sharing and financial transfers between various levels of government; (ii) detailed guidelines for taxation and expenditure management at the local level; and (iii) training workshops in selected local expenditure units, focusing on budget preparation, and management, procurement, and audit management. <p>e. Social or environmental issues or concerns: not applicable</p> <p>f. Plans for disseminating results/deliverables: A participatory workshop and publication of manuals, guidelines, and training materials. Results and deliverables will also feed into the annual review of the poverty reduction partnership agreement between the Government and ADB.</p>
<p>7. Proposed executing/implementing agencies: Ministry of Finance, selected local governments, State Commission for Delineation of Powers between Various Levels of Government and Improvement of Inter-fiscal Relations.</p>
<p>8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance: Consultations have been held with the Ministry of Finance, Ministry of Economy and Trade, and the Presidential Administration. The governance assessment jointly undertaken by the Government and ADB, and the draft poverty reduction partnership agreement reflect mutual understanding on issues and approach of this TA.</p>
<p>9. Timetable for assistance design, processing, and implementation</p> <ul style="list-style-type: none"> a. Year included in CSP, CSP update, SCSP, SCSP update, or interregional work plan: 2003 b. Expected date of submission for approval <ul style="list-style-type: none"> Lending: Nonlending (project preparatory): Nonlending (other than project preparatory): 2006 c. Period and duration of assistance(s) <ul style="list-style-type: none"> Lending Nonlending: 2006–2007
<p>10. Financing Plan (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)</p> <ul style="list-style-type: none"> a. For lending <ul style="list-style-type: none"> <input type="checkbox"/> Ordinary capital resources: <input type="checkbox"/> Asian Development Fund: <input type="checkbox"/> Other: <p>If cofinancing is required, indicate sources, and amount sought: If known, provide cost estimates and financing arrangement (e.g., total cost, ADB financing, other financing, and government financing):</p> b. For nonlending <ul style="list-style-type: none"> <input type="checkbox"/> No resources required, other than ADB staff <input type="checkbox"/> ADB's administrative budget: <input checked="" type="checkbox"/> Grant TA funds: \$500,000

ADB = Asian Development Bank, CSP = country strategy and program, KAZ = Kazakhstan, SCSP = subregional cooperation strategy and program, TA = technical assistance.