

ASIAN DEVELOPMENT BANK

**COUNTRY STRATEGY AND PROGRAM UPDATE
2006–2008**

KAZAKHSTAN

September 2005

CURRENCY EQUIVALENTS

(as of 9 August 2005)

Currency Unit	–	tenge (T)
T1.00	=	\$0.0073662
\$1.00	=	T135.75

ABBREVIATIONS

ADB	–	Asian Development Bank
GDP	–	gross domestic product
CSP	–	country strategy and program
EBRD	–	European Bank for Reconstruction and Development
GDP	–	gross domestic product
JBIC	–	Japan Bank for International Cooperation
km	–	kilometer
MDG	–	Millennium Development Goal
SME	–	small and medium-sized enterprise
TA	–	technical assistance
UNDP	–	United Nations Development Programme
USAID	–	United States Agency for International Development

NOTES

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

CONTENTS

	Page
I. CURRENT DEVELOPMENT TRENDS AND ISSUES	1
A. Recent Political and Social Developments	1
B. Economic Assessment and Outlook	1
C. Implications for Country Strategy and Program	2
II. IMPLEMENTATION OF THE COUNTRY STRATEGY AND PROGRAM	2
A. Progress in Poverty Reduction	2
B. Progress in the Country Strategy and Program Focus Areas	3
C. Highlights in Coordination of External Funding and Partnership Arrangements	7
III. PORTFOLIO MANAGEMENT ISSUES	7
A. Portfolio Performance	7
B. Performance Monitoring and Evaluation	7
IV. COUNTRY PERFORMANCE AND ASSISTANCE LEVELS	8
A. Proposed Lending Level	8
B. Nonlending Program	8
C. Summary of Changes to Lending and Nonlending Program	8
APPENDIXES	
1. Country and Portfolio Indicators, and Assistance Pipeline	9
Table A1.1: Progress Toward the Millennium Development Goals and Targets	9
Table A1.2: Country Economic Indicators	11
Table A1.3: Country Poverty and Social Indicators	12
Table A1.4: Country Environment Indicators	13
Table A1.5: Development Coordination Matrix	14
Table A1.6: Portfolio Indicators—Portfolio Amounts and Ratings	18
Table A1.7: Portfolio Indicators—Disbursements and Net Transfers of Resources	19
Table A1.8: Portfolio Indicators—Evaluation Rating by Sector	20
Table A1.9: Portfolio Implementation Status	21
Table A1.10: Assistance Pipeline for Lending Products, 2006–2008	23
Table A1.11: Assistance Pipeline for Nonlending Products and Services, 2006–2008	24
2. Concept Papers for 2006 Lending Products	26
3. Concept Papers for 2006 Nonlending Products and Services	33
4. Assistance Program for 2005	46
Table A4.1: Assistance Program for Nonlending Products and Services, 2005	

I. CURRENT DEVELOPMENT TRENDS AND ISSUES

A. Recent Political and Social Developments

1. The pro-presidential party won a majority in the Lower House (Majilis) elections on 19 September 2004. The Upper House (Senate) elections are scheduled in late 2005. The President will run in the next presidential election in December 2005. If reelected, he will remain in office until 2014.

2. Continuing growth, job creation in the private sector, and pro-poor growth have raised living standards. In 2004, real per capita incomes rose by 13%. The percentage of people living below the subsistence minimum¹ fell from 19.8% in 2003 to 15.0% in 2004. Unemployment declined from 8.8% in 2003 to 8.4% in 2004. Reducing rural-urban disparities is now a key challenge and the Government has priority programs to develop rural areas. Progress toward the Millennium Development Goals (MDGs) and targets is shown in Appendix 1, Table A1.1.

B. Economic Assessment and Outlook

3. High oil prices, foreign investment, and good macroeconomic management underlie the continuing economic boom in this oil-rich export economy. Gross domestic product (GDP) growth, led by the oil sector, averaged 9.5% in 2002–2004 and 9.1% in the first quarter of 2005. Furthermore, with 65% of GDP, the private sector is increasingly driving growth in the economy.² A windfall in oil revenue has meant that the general government budget recorded a surplus of 2.3% of GDP in 2004. The cautious fiscal stance helped restrain aggregate demand and mitigate inflationary pressures in the context of large current and capital foreign exchange inflows during the year.³ Public development spending in the medium term is projected at 4–5% of GDP, which is essential for achieving development objectives. Total external debt was \$32 billion at end 2004. Public external debt remained stable at about \$3.4 billion (8% of GDP) at end 2004.

4. In 2004, monetary policy was expansionary in response to rapid growth. Inflation rose to 6.9% in 2004 at the limit of the Government target of 5.6–7.0%. The tenge appreciated against the dollar, driven by large export earnings and foreign exchange inflows from increased private external borrowing and foreign investment. The current account remained in surplus (1.3% of GDP), reflecting higher oil export earnings and moderate growth in imports. Gross international reserves including the assets of the national fund rose to \$14.3 billion at the end of 2004. The country economic indicators are in Appendix 1, Table A1.2.

5. The medium-term outlook is positive assuming buoyant oil prices, foreign direct investment inflows, continuation of economic diversification, good macroeconomic management, and political stability. GDP is projected to grow at around 9% over the medium term. Implementation of the industrial innovation strategy to 2015 and prudent macroeconomic management were priorities in 2004. Actions include the first medium-term fiscal policy, financial

¹ The subsistence minimum is a measure of poverty. Calculated by the State Statistics Agency, it comprises the cost of a basket of 70% food items and 30% goods and services. The poverty line is established as a fixed percentage of the subsistence minimum, and used for determining the social assistance allowances and eligibility of households for such assistance. In 2004 the subsistence minimum was T5,427 or equivalent to \$40 a month.

² European Bank for Reconstruction and Development estimate. This is up from 55% of GDP in 1998.

³ The National Fund of Kazakhstan was created in 2001 to accumulate a part of the Government's oil and mineral revenues for stabilization purposes and savings for future generations.

sector development (e.g., an independent financial supervision agency), and streamlining of small and medium-sized enterprise (SME) start-up procedures. The Government policy priorities for the medium term are to diversify the economy and pursue balanced and equitable development.⁴ It has set a medium-term development target of doubling per capita GDP to \$5,800 (up from \$2,700 in 2004). The overarching program for economic diversification is the cluster development initiative, which seeks to encourage the creation of priority sectors (such as food, textiles, metallurgy, construction materials, tourism, transport and logistical services, and downstream oil and gas activities). To support economic diversification and ensure balanced and equitable development the Government is also emphasizing social security, education, health care, housing, agriculture, and financial and private sector development. Infrastructure development, which includes both energy and transport, is vital for private-sector-led growth; the Government aims to improve labor productivity and lower resource utilization to make its products competitive in the international markets. A key priority for the financial sector is the development of Almaty as a financial hub for Central Asia.

C. Implications for the Country Strategy and Program

6. The resource windfall from higher oil prices has increased the Government's own resources significantly. Accordingly, the need for external borrowing for financing investment priorities is reduced; this trend seems set to continue in the medium term. The Government has formulated an ambitious policy agenda that includes infrastructure investments and economic diversification. In May 2005, it approved an expansionary medium-term fiscal policy for 2006–2008, which targets a budget deficit of 1.7–1.9% of GDP in 2005–2007; and has emphasized domestic public and private sector resources as major means to deliver priority development programs. The Government's capacity to develop sound investment programs and ensure sound management of public assets needs to match the availability of domestic funds. Significant knowledge transfer in products and services from development partners is needed to facilitate the process. The medium-term program of the Asian Development Bank (ADB) must be responsive to such needs.

7. The country strategy and program (CSP)⁵ remains in line with the Government's medium-term priorities. Private sector operations, which began in 2005, will be at the forefront of future ADB operations in the country. Such operations will gradually expand over time and focus on infrastructure and the financial sector. This new thrust toward private sector operations will be supported by public sector technical assistance (TA) and investments to create an enabling environment for the private sector, and selected, flexible public sector lending programs in rural development and water supply aimed at poverty reduction.

II. IMPLEMENTATION OF THE COUNTRY STRATEGY AND PROGRAM

A. Progress in Poverty Reduction

8. Kazakhstan made significant progress in poverty reduction during 2004. According to official statistics, the percentage of population living below the subsistence minimum fell to 15% in 2004. Furthermore, the United Nations Development Programme's latest update of the *Human Development Report for Kazakhstan 2004* indicates that expenditures on health and education increased during 2004 and that the country is on course to meet the MDG target on income poverty by 2015 as well as several nonpoverty MDG targets (Appendix 1). A noteworthy

⁴ As set out in the President's national address in February 2005.

⁵ ADB. 2003. *Country and Strategy Program (2004–2006): Kazakhstan*. Manila.

achievement is the attainment of the MDG target on promoting gender equality and empowerment of women.

B. Progress in the Country Strategy and Program Focus Areas

9. The CSP focal areas continue to be private sector development for inclusive growth, human development, environmentally sustainable development, and regional cooperation. The recent commencement of private sector operations means that future ADB efforts are focusing more on developing this area with public sector operations playing an important supporting role. The rapid development of this oil-rich export economy led to this inevitable shift in its development priorities.

1. Inclusive Growth through Private Sector Development

10. In view of the Government's medium-term targets for 2010, the development of a vibrant and competitive private sector is vital to ensure economic diversification as well as balanced and equitable development. The Government has put in place a business-friendly policy environment based on the following key elements: (i) macroeconomic stability with relatively low inflation and responsible fiscal policy as indicated by the expansionary medium-term fiscal policy for 2006–2008; (ii) plans for streamlining procedures for SME start-up and operation in 2004–2005; (iii) emphasis on financial sector deepening and development, including setting up a financial supervision agency and plans to develop Almaty as an international financial center in 2004–2005; and (iv) establishing new state bodies to support private sector development in 2003, including investment vehicles (investment fund and innovation fund) and complementary facilities (export insurance corporation, technology transfer center, and marketing research center). The ADB program on private sector development seeks to complement the Government's efforts through activities in two key areas: (i) private sector operations and (ii) development of an enabling environment for the private sector.

a. Private Sector Operations

11. In October 2004, the Government signed the Framework Agreement signaling the start of ADB private sector operations in Kazakhstan. ADB's Private Sector Operations Department is analyzing potential investments in financial institutions and infrastructure sector. Given the department's late start in Kazakhstan vis-à-vis other multilateral development institutions, such as the European Bank for Reconstruction and Development (EBRD), ADB must either collaborate closely with such institutions, or provide financial support in areas where current exposure limits have been reached.

12. Bolstering financial markets and supporting infrastructure development are principal objectives of ADB private sector operations in Central Asia. This will play a critical role in helping Central Asia members achieve CSP strategic objectives and accords with the governments' emphasis on nonsovereign borrowing by the private sector and certain state-owned enterprises.

13. ADB private sector operations in financial markets will focus on projects where government ownership is limited or nonexistent; and may offer a combination of equity, debt, and/or partial credit or political risk guarantees. In the near term, ADB's private sector operations will focus on establishing a private equity fund as well as providing trade finance partial credit guarantees in collaboration with EBRD's Trade Finance Facilitation Program. In Kazakhstan, two banks have already undergone due diligence. Furthermore, its efforts to work

with private groups in Azerbaijan, Kazakhstan, and Uzbekistan to establish a private equity fund should see progress at the end of 2005 or early 2006. The fund's focus is likely to be equity or quasi-equity investments in small and medium-sized infrastructure projects and service companies whose activities support Central Asia's natural resource industries. Kazakhstan currently has the best enabling environment and attracts the greatest amount of private sector investment.

14. Other indicative financial sector projects that ADB might consider include (i) equity investments in one or more local banks, as well as loans in the form of tier 2 capital or designated credit lines; (ii) equity investments or provision of credit lines to leasing companies or other nonbank financial institutions; (iii) credit enhancement for securitization of mortgages and leases or other capital markets transactions; and (iv) equity in investment funds.

15. The Government policy emphasizes SME development to create jobs. The Government needs to implement the policy and develop institutional capacity. ADB could assist by providing credit to SMEs via domestic banks. ADB can also help domestic banks enlarge credit portfolios and strengthen their capacities for credit appraisal and risk management. A proposed local currency swap will help develop alternative financing for the private sector

16. ADB's private sector operations in infrastructure will focus on water, wastewater, solid waste, power, airports, toll roads, rail, ports, and oil and gas operations. The power sector has already been unbundled. Ownership of power generation and distribution is now in the private sector. A new concession law under development for private road and other urban infrastructure projects is intended to bring the legal framework for private infrastructure investment in line with international standards and to allow new forms of private sector participation such as operating concessions and build-operate-transfer. Should such legislation finally be adopted in line with international standards, ADB would support pilot projects to test the adequacy of such laws. ADB also recognizes the need to improve the quality and effectiveness of companies involved in infrastructure development and would support firms with requisite commercial and technical expertise in relevant infrastructure sectors. ADB will explore means of supporting subsovereign infrastructure companies with demonstrated ability to act in a commercially viable manner. To raise effective long-term finance for infrastructure projects, ADB recognizes the importance of developing the market for infrastructure bonds and other similar bond instruments. For this market to develop effectively, major pension funds must be able to purchase long-term maturity bonds. ADB is willing to consider risk sharing with pension funds through its partial credit guarantee programs.

b. Enabling Environment for the Private Sector

17. In 2003, the Government started to explore a holistic and integrated transport development strategy. The strategic importance of international transit corridors (north–south and east–west) to address regional linkages remains unchanged. Railroads have emerged as a key modality, along with road transport. For road transport, rural roads have become a priority development need as feeder links from rural areas to trunk routes. ADB has supported this planning process through a small-scale TA.⁶ Following the cessation of processing in 2004 for two proposed road rehabilitation projects due to the Government's decision to finance them from their own resources, ADB activities in the transport sector will focus on knowledge transfer and the exploration of possibilities for private sector investment.

⁶ ADB. 2004. *Technical Assistance to Kazakhstan for Formulation of the State Roads Development Plan*. Manila (TA 4462-KAZ).

18. Economic growth in the non-oil and gas sectors in the western provinces requires considerable improvement in the power supply for new industry to develop electrification of the major railway routes to lower transportation costs. The existing power supply is unreliable and dependent on ad hoc arrangements with the Russian utility. Strengthening transmission interconnections will address these problems in the medium term, and over the long term will create new opportunities for private sector power plants to be located in the gas-rich western region, which could sell power to the national power grid.

19. Rural development remains a key Government priority program. In 2003, the Government developed the State Rural Development Program for 2004–2010. ADB helped prepare the program by developing a methodology to assess the growth potential of rural districts. In 2003, ADB provided a follow-on TA to help develop a regional rural development project to explore appropriate ways of planning to maximize the value of investments and the potential growth of rural areas by pilot-testing an approach to regional planning and development in one or two oblasts. The investment project is now scheduled for ADB approval in 2006. ADB's operational focus is on rural poverty reduction and activities with regional impact. Rural poverty reduction will be supported with rural water supply, rural development, natural resource management, SME support, and rural education. Timely delivery of program results is of particular importance for its development impact on rural poverty reduction in the medium term: (i) rural unemployment reduction; (ii) SME development; (iii) diversification of the economy; and (iv) social infrastructure investments, such as water, power, education, and health.

20. With the policy emphasis on developing Almaty as a financial center, support for financial sector development remains important. The first phase of a regional TA for financial sector development will introduce international accounting standards, international principles for corporate governance, and international standards for risk management in the banking system. The three financial sector TAs phased over 2004–2006 will provide complementary assistance. These efforts will enhance the potential for ADB private sector operations in infrastructure projects in sectors such as water, wastewater, transportation, power, and oil- and gas-related services.

2. Human Development

a. Rural Water Supply

21. The Government continued implementation of the 2002–2010 program for drinking water and expanded the coverage of the population (particularly in rural areas) with access to safe drinking water. ADB assistance will help the Government to that end. In its program, one follow-up loan on rural water supply and sanitation was added for 2006. The proposed schedule will allow sharing of lessons learned from the first project to help implement the follow-on project.

b. Education

22. The Government continued to make progress in education in 2004. It approved the state program for education sector development in 2004. The Government's major priorities under the planned education reform include (i) providing 1 year of compulsory preschool education to better prepare students, especially disadvantaged ones, for formal schooling; (ii) improving education standards; (iii) providing equal access to education at all levels; (iv) developing information and communication technologies to support the education system; (v) extending school education from 11 years to 12 years; (vi) modernizing education management; and (vii)

rationalizing the vocational and technical education system through partnership with the private sector to cater to the needs of SMEs. The Government has restated its interest in ADB TA for (i) rural education through distance learning, (ii) special vocational and technical training, and (iii) learning international best practices in education. The Government will finance education projects from its own resources. The CSP update includes a staff study on rural education through distance learning for 2005.

c. Governance

23. ADB continues to focus on supporting sector institutions and improving financial sector governance (including building capacity for integrated financial sector supervision, strengthening banking supervision to protect depositors, regulation and management of official reserves, and risk management). ADB provided support for implementation of the poverty reduction strategy by introducing effective monitoring and evaluation of poverty interventions; and is supporting local government reforms and strengthening government and sector program performance.

3. Environmentally Sustainable Development

24. Mainstreaming environmental considerations has been a major strategic focus of the Government's efforts toward environmentally sustainable development. The Government document, *Concept of Ecological Security 2004–2015*,⁷ recognizes the need for an intersectoral approach to implementing policies and programs aimed at, among others, curbing environmental degradation. Land degradation (desertification) is seen as one of the most significant, responsible for total annual economic loss of T93 billion (\$6.2 billion). Excessive development of irrigation networks, poor management and use of water resources, and inadequate drainage are the main causes of serious and rapid degradation of the dryland ecosystem, which comprises nearly two thirds of the country's physical area. The Central Asia Countries Initiative on Land Management (CACILM), being supported through ADB TA 5941–REG⁸ and TA 6236–REG⁹ with cofinancing from the Global Environment Facility, is helping Kazakhstan develop a comprehensive national programming framework to combat desertification and land degradation, by mainstreaming sustainable land management with a more comprehensive and integrated development framework, and creating synergies with other environmental concerns.

4. Regional Cooperation

25. Kazakhstan continues to be a strong proponent of regional cooperation, and is intensifying its efforts to promote regional cooperation through various groups including the Shanghai Cooperation Organization, Central Asia Cooperation Organization, Commonwealth of Independent States, Special Programme for the Economies of Central Asia (a joint program of the United Nations Economic Commission for Europe and United Nations Economic and Social Commission for Asia and the Pacific), and Eurasian Economic Community.¹⁰ Kazakhstan, an active participant in the Central Asia Regional Economic Cooperation, hosted the 3rd Ministerial Conference in Astana in November 2004 and is actively involved in sector coordinating committees and working groups on transport, trade policy, customs cooperation, and energy. Kazakhstan is also an active participant in the Central Asia Regional Economic Cooperation's Electricity Regulators Forum, which provides a venue for sharing experience and ideas on

⁷ Kazakhstan. 2005. *The Program on Combating Desertification in the Republic of Kazakhstan, 2005–2015*. Astana.

⁸ ADB. 2000. *Technical Assistance for Combating Desertification in Asia*. Manila.

⁹ ADB. 2005. *Technical Assistance for Central Asian Countries Initiative for Land Management*. Manila.

¹⁰ Regional cooperation is among the priorities outlined in the Strategic Development Plan to 2010 and 2030 vision.

electricity sector reform and improved regulation. In addition, a number of ongoing and scheduled regional TAs promote regional cooperation in financial sector reform, management of natural resources and the environment, education management and information and communication technology, and private sector development.

C. Highlights in Coordination of External Funding and Partnership Arrangements

26. ADB continues to coordinate and undertake activities with Kazakhstan's other development partners. The CSP is based on a shared diagnostic analysis with the World Bank. Monthly development partner consultations help establish a common understanding of the country's development needs, and ensure coordinated and complementary assistance. Ongoing and proposed loan projects are either cofinanced with other development banks,¹¹ or implemented in conjunction with complementary projects financed by these banks.¹² Furthermore, ADB plans to collaborate with the Islamic Development Bank on the Second Rural Water Supply and Sanitation Sector Project. ADB will also work with the World Bank and United Nations Development Programme on the development of a joint information center. The activities of the major funding agencies are updated in Table A1.5. ADB will continue to pursue cofinancing for important thematic priorities for Kazakhstan and maintain its dialogue with the Government.

III. PORTFOLIO MANAGEMENT ISSUES

A. Portfolio Performance

27. As of 31 December 2004, ADB had approved 12 loans for nine projects for a total of \$501.6 million (of which \$441.6 million was from ordinary capital resources and \$60.0 million from the Asian Development Fund). Four of the 12 loans were active at the end of 2004. In addition, ADB approved 4 TA grants totaling \$1.7 million in 2004. Since 1994 when Kazakhstan joined ADB, ADB has provided 55 TAs for a total of \$25.06 million.

28. Contract awards in 2004 totaled \$6.9 million, bringing the cumulative total for ongoing projects to \$79.5 million. The 2004 contract awards ratio was 15.6%, compared with the ADB average of 17.4%. Disbursements during the year totaled \$30.0 million, bringing cumulative disbursements for ongoing projects to \$51.8 million. The 2004 disbursement ratio was 47.9%, compared with the ADB average of 17.7%. Portfolio performance indicators and the implementation status are in Appendix 1, Table A1.6–A1.9.

B. Performance Monitoring and Evaluation

29. In 2003, ADB started conducting a joint country portfolio review with the World Bank. ADB's portfolio performance has been generally satisfactory. However, the need to systematize the work process has been an issue. The 2003 country portfolio review helped initiate the identification of work processes in a structured manner.

¹¹ The Almaty-Bishkek Road Rehabilitation Project with EBRD and Rural Area Water Supply and Sanitation Sector Project with the Islamic Development Bank.

¹² The Water Resources Management and Land Improvement Project is being implemented in conjunction with a similar World Bank project; also the proposed Regional Rural Development Project with complementary World Bank projects.

IV. COUNTRY PERFORMANCE AND ASSISTANCE LEVELS

A. Proposed Lending Level

30. The Government has indicated a willingness to borrow for public sector projects that entail significant knowledge transfer. Government borrowing is thus likely to remain highly selective. Strong development impact and/or innovative approach, in particular, the kind that will help mobilize central Government funds for local investment needs, will be key to realizing the willingness to borrow. The lending level will remain low and is likely to decrease over the medium term even under the expansionary medium-term fiscal policy for 2006–2008. The average loan size of \$50 million, as envisioned in the CSP, will remain the target. Uncertainties remain, however, with regard to the volume of public sector lending in future years. Private sector operations are being emphasized as the main vehicle for future ADB operations in the country and will gradually increase over time.

B. Nonlending Program

31. The nonlending program will continue to be an important instrument for ADB operations. ADB will provide \$1.5 million a year for the TA program. The Government will increase TA cost sharing to maximize the development impact and national ownership. Following the formula agreed in 2004, TA cost sharing will be (i) 40% Government and 60% ADB in 2006, and (iii) 50% each for the Government and ADB in 2007–2008. The TA program for 2006–2008 includes seven TAs totaling \$2.9 million (Appendix 1, Table A1.11). They include project preparatory and advisory TAs, and economic, thematic, and sector work.

C. Summary of Changes to Lending and Nonlending Program

32. Changes from the CSP are mainly schedule adjustments to meet developments since the CSP was finalized.¹³ Nonlending programs have been adjusted to the revised lending programs. Proposed loans for Regional Rural Development, Second Rural Area Water Supply and Sanitation, and Second Water Resources Management and Land Improvement projects, and associated TAs, are among such cases. Details of the lending and nonlending programs for 2006–2008 are in Appendix 1, tables A1.10 and A1.11, respectively, while those for 2004 are in Appendix 4, tables A4.1 and A4.2, respectively. The concept papers for 2006 lending and nonlending products are in appendixes 2 and 3, respectively.

¹³ The years in the proposed program denote years of ADB approvals.

COUNTRY AND PORTFOLIO INDICATORS, AND ASSISTANCE PIPELINE

Table A1.1: Progress Toward the Millennium Development Goals and Targets^a

(Status is based on the 2005 United Nations Development Programme Assessment Report for Millennium Development Goals)

Goals and Targets	Country Status
<p>Goal 1: Eradicate Extreme Poverty and Hunger^b Target 1: Halve, between 1996 and 2015, the proportion of people whose income is below officially defined subsistence level.</p> <p>Target 2: Halve between 1997 and 2015, the number of people lacking balanced nutrition.</p>	<p>Official data show that the proportion of people living below the subsistence minimum decreased from 35% in 1996 (27% in 2002) to 15% in 2004, beyond the targets of reducing the number of poor by 2005 to 20% of the total population set up by the Sector Program for Poverty Reduction (2003–2005) ^c. Status: Probably</p> <p>No direct evidence exists of hunger, but prevalence of micronutrient deficiencies (hidden hunger) is high. The proportion of people with income below food-basket cost was reduced from 12.7% in 1997 (8.9% in 2002, 6.3% in 2003) to 4.3% in 2004. Status: Probably</p>
<p>Goal 2: Achieve Universal Primary Education 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>Official rates of enrollment remain nearly universal. Equal access is ensured to girls and boys. Status: Achieved</p>
<p>Goal 3: Promote Gender Equality and Empower Women 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>The right to free secondary education in public educational institutions regardless of gender is guaranteed by the Constitution. Secondary education is compulsory. Status: Achieved</p>
<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 14.0^d per 1,000 live births in 2004. However, the child mortality rate would be higher if the international definition was used. Status: Probably</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 data shows that the maternal mortality rate has been declining since 1998, from 77.5 per 100,000 live births in 1998 to 39.1 in 2004. Status: probably</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>Target 8: Have halted by 2015, and begin to reverse, the incidence of malaria and other major diseases.</p>	<p>As of 1 May 2005, the country had 4,931 people registered as HIV-positive, compared with 2,648 at 31 March 2002, and 100 in 1996. Status: unlikely</p> <p>Malaria is not a problem. The reemergence of tuberculosis presents a serious threat, with 59.7 cases per 100,000 population in 1994, and 160.4 in 2003. However, in 2004 the number of cases declined to 154.3. The Sector Program on Poverty Reduction for 2003–2005 sets the following goals: (i) reduce tuberculosis mortality from 26.4 per 100,000 in 2002 to 23.2 by 2005, and (ii) halt the increase in tuberculosis incidence by 2005 to 160 per 100,000. Status: Unlikely</p>
<p>Goal 7: Ensure Environmental Sustainability Target 9: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources.</p>	<p>The Government is implementing measures to integrate the principles of sustainable development in its national policies—eight documents^e have been prepared to lay the legal foundation to address environmental challenges. However, no official</p>

Goals and Targets	Country Status
	<p>program is specifically aimed at conservation and rational use of resources and achievement of sustainable development.</p> <p>Status: Unlikely</p>
<p>Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water.</p>	<p>The proportion of population without sustainable access to an improved water source, urban and rural, has decreased from 15% and 27% in 2000 to 5% and 20% in 2004, respectively. The country strategy for achieving the MDGs for water supply and sanitation is being prepared.</p> <p>Status: Potentially</p>
<p>Target 11: By 2020, achieve a significant improvement in the lives of the rural population^f.</p>	<p>Rural housing conditions improved during 2000–2004. The Government has adopted several programs on rural revival and rural housing, and allocated substantial funds.</p>

HIV/AIDS = human immunodeficiency virus/acquired immunodeficiency syndrome.

^a Based on UNDP. 2002. *Millenium Development Goals in Kazakhstan*. Almaty, Taimas Print House, the draft UNDP report as of May 2005, staff studies, and estimates.

^b Targets 1 and 2 were modified considering data availability and the specific circumstances in Kazakhstan. The modification adopted by the United Nations in the 2002 assessment of the Millennium Development Goals in Kazakhstan was also adopted in ADB. 2003. *Country Strategy and Program (2004–2006): Kazakhstan*. Manila.

^c The country strategy and program uses the poverty incidence figures consistent with the poverty partnership agreement signed with the Government in July 2003.

^d The infant mortality rate in 2004 is already lower than the 2005 target (18.6 per 1,000 live births) determined by the Sector Program for Poverty Reduction for 2003–2005, and is one of the program's main performance indicators.

^e 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 "Drinking Water" (2002–2010).

^f Target 11 was modified considering data availability and Kazakhstan's specific circumstances. The modification adopted by the United Nations in the 2002 assessment of the Millennium Development Goals in Kazakhstan was adopted in the country strategy and program.

Sources: United Nations Development Programme. 2002. *United Nations Development Programme Millennium Development Goals in Kazakhstan*. Almaty, Taimas Print House; 2005. *Millennium Development Goals in Kazakhstan*. (Almaty, Pilot TC; 2004. *Human Development Report – KAZ*. Almaty, Pilot TC.

Table A1.2: Country Economic Indicators

Item	2000	2001	2002	2003	2004
A. Income and Growth					
1. GDP per Capita (\$, current)	1,229.2	1,490.9	1,658.1	2,068.1	2,714.0
2. GDP Growth (% , in constant prices)	9.8	13.5	9.8	9.2	9.4
a. Agriculture	(3.2)	17.1	3.4	1.4	0.1
b. Industry	15.5	13.5	10.4	9.1	10.1
c. Services	8.7	13.0	10.9	10.4	10.8
B. Saving and Investment (current prices, % of GDP)					
1. Gross Fixed Capital Formation	17.3	24.6	24.0	24.0	29.1
2. Gross National Saving	20.1	23.5	21.7	25.3	33.0
C. Money and Inflation					
1. Consumer Prices (annual average; % change)	13.2	8.4	5.9	6.4	6.9
2. Consumer Prices (end of period; % change)	9.8	6.4	6.6	6.8	6.7
3. Liquidity (M3) growth (% change)	45.0	45.1	32.8	27.0	37.4
D. Government Finance					
1. Revenue (% of GDP)	22.0	22.6	21.4	22.2	23.5
2. Expenditure (% of GDP)	22.8	23.0	21.7	23.2	23.8
3. Overall Fiscal Surplus (deficit)	(0.1)	(0.4)	(0.3)	(1.0)	(0.3)
4. Overall Fiscal Surplus incl. National Fund	—	1.6	1.5	3.0	2.3
E. Balance of Payments					
1. Exports of Goods and Services (\$ million)	10,341	10,188	11,567	14,945	22,604
2. Imports of Goods and Services (\$ million)	8,870	10,579	11,578	13,306	18,805
3. Current Account Balance (% of GDP)	2.0	(6.3)	(4.2)	(0.9)	1.3
F. External Payments Indicators					
1. International Official Reserves (\$ million, end of period)	2,096	2,508	3,141	4,962	9,280
Months of Imports of Goods & Services In % of Stock of Short-Term Debt	2.8	2.9	3.2	4.4	4.5
2. National Fund of the Republic of Kazakhstan (end of period, \$ million)	—	1,270	1,915	3,663	5,065.6
3. Public and Publicly Guaranteed External Debt (% of GDP)	21.8	17.4	14.3	12.4	12.1
G. Memorandum Items					
GDP (current prices, T billion)	2,599.9	3,250.6	3,747.2	4,612.0	5,543
Exchange rate (annual average; T per \$)	142.3	146.7	153.3	149.6	136.0
Population (million)	14.8	14.8	14.8	14.9	15.1

— = not available, GDP = gross domestic product, T = tenge.

Sources: Agency on Statistics of the Republic of Kazakhstan. Available:

<http://www.stat.kz/stat/index.aspx?sl=news&l=en>; Ministry of Finance. Available: <http://www.minfin.kz>; National Bank. Available: <http://www.nationalbank.kz>; ADO. 2004, *Asian Development Outlook 2005*. Manila.; World Bank WDI Online. Available: <http://www.devdata.worldbank.org/dataonline>; IMF Country Report No. 05/239. Available: <http://www.imf.org/external/pubs/cat/congres.cfm?sk=18417.0>.

Table A1.3: Country Poverty and Social Indicators

Item	1990	1995	2000	Latest year	
A. Population Indicators					
1 Total Population (million)	16.4	15.7	14.9	15.1	(2005)
2 Rural Population (%)	43.2	44.3	43.7	42.8	(2005)
3 Annual Population Growth Rate (% change)	0.2	(0.1)	0.0	0.7	(2004)
B. Social Indicators					
1 Total Fertility Rate (births per woman)	3.0	3.0	1.8	2.0	(2003)
2 Maternal Mortality Rate (per 100,000 live births)	55.0	69.4 (1996)	60.9	39.1	(2004)
3 Infant Mortality Rate (below 1 year; per '000 live births) ^a	26.4	27.0 (1993)	18.8	14.0	(2004)
4 Life Expectancy at Birth (years)	68.1	63.5	65.4	66.9	(2004)
a. Female	72.7	73.1 (1991)	71.3	72.0	(2004)
b. Male	63.2	63.5 (1991)	59.8	60.6	(2004)
5 Adult Literacy (%)	97.8	98.7	99.5	99.6	(2004)
a. Female	98.0	99.0	99.5		(2002)
b. Male	99.0	99.5	99.5		(2002)
6 School Enrollment for All Levels (% of children aged 6–24)	65.8 (1994)	65.6 (1994)	70.7	76.9	(2003)
7 Child Malnutrition (% below 5 years) ^b	1.0	4.2	4.0	4.2	(2002)
Rural Households with Access to Safe Water (%)					
Rural Households with Access to Sanitation (%)					
Public Education Expenditure (% of GDP)	5.7	5.7	3.3	3.0	(2004)
Public Health Expenditure (% of GDP)	3.3	3.0	1.9	2.0	(2004)
Social Security Expenditure (% of GDP)	0.7	0.8	6.6	4.0	(2004)
Human Development Index	0.776	0.726	0.743	0.772	(2003)
Human Development Ranking	54/173	93/173	83/173	78/173	(2002)
C. Poverty Indicators					
1 Poverty Incidence (%)	15.5	34.6 (1996)	31.8	15.0	(2004)
2 Percent of Poor to Total Population					
a. Akmola	—	—	16.4	14.0	(2004)
b. Aktobe	—	—	19.0	14.3	(2004)
c. Almaty	—	—	25.3	15.2	(2004)
d. Atyrau	—	—	32.7	29.1	(2004)
e. East Kazakhstan	—	—	16.9	14.9	(2004)
f. Jambyl	—	—	30.0	18.3	(2004)
g. West Kazakhstan	—	—	17.1	14.4	(2004)
h. Karaganda	—	—	15.1	13.5	(2004)
i. Kostanai	—	—	21.0	19.0	(2004)
j. Kyzylorda	—	—	27.1	26.5	(2004)
k. Mangistau	—	—	26.0	21.0	(2004)
l. Pavlodar	—	—	17.1	14.5	(2004)
m. North Kazakhstan	—	—	11.9	12.0	(2004)
n. South Kazakhstan	—	—	26.1	23.0	(2004)
o. Astana City	—	—	2.1	1.1	(2004)
p. Almaty City	—	—	3.9	2.8	(2004)
3 Poverty Gap	—	11.4 (1996)	4.6	3.3	(2004)
4 Poverty Severity Index	—	5.2 (1996)	1.6	1.0	(2004)
5 Income Inequality (% top decile over bottom decile)	—	11.3 (1998)	8.9	7.9	(2004)
6 Human Poverty Index	24.0	31.2 (1998)	23.9		

— = not available, GDP = gross domestic product.

^a As of 1 May 2005. Official data are based on definitions used in the former 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: Agency on Statistics of the Republic of Kazakhstan. 2004. *Statistical Yearbook of Kazakhstan*. Almaty; *Regions of Kazakhstan in 2004*. Almaty; *Publication in Support of the MDGs. Living Standards and Poverty in Kazakhstan*. Almaty; *Ecological Statistics*. Almaty; United Nations Development Programme. 2003-2004. *Human Development Report—KAZ 2003-2004*; 2004; World Bank. 2004. *Poverty in Kazakhstan: Causes and Cures*. Almaty; *Kazakhstan Dimensions of Poverty in Kazakhstan, Volume I, II*. Washington; *World Development Indicators 2004 - 2005*. Washington.

Table A1.4: Country Environment Indicators

Indicator	1990	1995	2000	Latest year		
A. Energy Efficiency of Emissions						
1. GDP/Unit of Energy Use (PPP\$/kgoe)	0.9	1.8	1998	2.2	1.8	(2002)
2. Traditional Fuel Use (% of total energy use)	—	0.1	1996	—	0.2	(2001)
3. Carbon Dioxide Emissions						
a. Tons	252.7	123.0	1997	121.3	121.3	(2001)
b. Tons per Capita	15.3	10.5		7.4	8.1	(2002)
hou						
B. Water Pollution: Water and Sanitation						
1. % Urban Population with Access to Safe Water	85.0	76.7	1999	85.0	95.0	(2004)
2. % Rural Population with Access to Safe Water	72.0	—		61.0	80.0	(2004)
3. % Urban Population with Access to Sanitation	87.0	—		68.2	91.0	(2004)
C. Land Use and Deforestation						
1. Forest Area (million hectares)	12.1	10.9		26.5	26.2	(2004)
2. Average Annual Deforestation (km ²)	4.9	4.2	1998	4.9	2.8	(2003)
	—					
3. Rural Population Density (people/km ² of arable land)	20.0		21.0	31.0	30.0	(2004)
4. Arable Land (% of total land)	12.4	11.7	11.7	7.8	8.4	(2002)
5. Permanent Cropland (% of total land)	—	0.1	1996	0.1	0.1	(2002)
D. Biodiversity and Protected Areas						
1. Nationally Protected Area						
a. Million hectares	0.8	0.9		1.2	2.7	(2004)
b. % of total land	0.3	0.3		0.5	1.0	(2004)
2. Mammals (number of threatened species)	40.0	40.0		40.0	15.0	(2004)
3. Birds (number of threatened species)	56.0	56.0		56.0	15.0	(2004)
4. Higher Plants (number of threatened species)	—	—		—	36.0	(2004)
5. Reptiles (number of threatened species)	13.0	13.0		13.0	1.0	(2004)
6. Amphibians (number of threatened species)	16.0	16.0		16.0	5.0	(2004)
E. Urban Areas						
1. Urban Population						
a. Million	9.3	8.9		8.36	8.6	(2005)
b. % of total population	57.1	55.7		56.1	57.2	(2005)
2. Per Capita Water Use (liters/day)	227.4	213.7		115.1	109.6	(2003)
3. Wastewater Treated (%)	74.6	100.0		100.0	100.0	(2003)
4. Solid Waste Generated per Capita (kg/day)	—	—		—	—	

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

Sources: Agency on Statistics of the Republic of Kazakhstan. 2004. *Statistical Yearbook of Kazakhstan, 2000–2004*. Almaty.; *Publication in Support of the Millennium Development Goals. Living Standards and Poverty in Kazakhstan*. Almaty.; 2004. *Ecological Statistics*. Almaty. Ecological Information-Analytical Center of Ministry of Environmental Protection of Kazakhstan.; World Bank. 2004. *World Development Indicators'04*. Washington.; World Bank. 2005. *World Development Indicators'05*. Washington.

Table A1.5: Development Coordination Matrix

Sector/ Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
<p>Agriculture and Natural Resources</p>	<p>Support consolidation of past and ongoing agriculture reforms for the transition to a market economy, particularly by assisting the Government in developing an enabling environment for promoting private sector investments in the rural sector.</p> <p>Support the Government's program for rural development, including diversification of rural industry, infrastructure rehabilitation, and enhancement of social service provision.</p> <p>Rehabilitate irrigation and drainage infrastructure, within a holistic, sound, and sustainable land and water management framework, based on demand-driven and user-led operation and management.</p> <p>Support the combating of desertification and land degradation through mainstreaming sustainable land management by implementing a comprehensive and integrated development framework, and creating synergies with other environmental concerns.</p>	<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. • Japan International Cooperation (JICA): Support (i) environmental monitoring of Balkash Lake and watershed, and (ii) water quality analysis and monitoring. • Swiss Agency for Development and Cooperation: Support a program for sustainable mountain development in Central Asia including Kazakhstan. • United Nations Environmental Programme and United Nations Development Programme (UNDP): Supported the Government to prepare for the Environment Summit, Johannesburg, August 2002. With the World Bank, helped the Government prepare the national environmental action plan. Thirty-two projects were implemented; several are in the pipeline. • United States Agency for International Development (USAID): Includes consideration of environmental issues in all projects in the area of energy and water management. • 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 resource management. Under the joint economic research program, a livestock sector study is close to completion. 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 (TA) to the Commonwealth of Independent States, helped draft the water code. 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 United Nations Environmental Program, the World Bank has helped the Government prepare and implement the national environmental action plan. • 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. • The World Bank is implementing (i) an investment project (\$5.3 million) to improve the use and sustainability of rangelands and protect biodiversity; and (ii) a project (\$40 million) to clean up mercury pollution and improve water quality and management of the Nura River ecosystem.
<p>Education</p>	<ul style="list-style-type: none"> • A staff study will be undertaken on rural education through distance learning. Dialogue is ongoing with the Government and World Bank on possible approaches. 	<ul style="list-style-type: none"> • World Bank: Under the Joint Economic Research Program, prepare the policy paper on education strategy.

Sector/ Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
Energy	<ul style="list-style-type: none"> • Improve power supply in the western region to enable private-sector-led growth in the non-oil and gas sectors. 	<ul style="list-style-type: none"> • EBRD: Support rehabilitation of the national power transmission system in northern and southern regions. Support implementation of the long-term tariff methodology for power distribution companies. • World Bank: Support market reforms, enhanced role of the private sector, and rehabilitation of oil fields and national power transmission systems in northern and southern regions.
Finance	<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 extending credit lines to small and medium-sized enterprises (SMEs), on a non-sovereign-guaranteed basis. Regional TA on financial sector development is being implemented; the second phase is expected in 2005. 	<ul style="list-style-type: none"> • EBRD: (See private sector development) • World Bank: (See private sector development)
Health, Nutrition, and Social Protection	<ul style="list-style-type: none"> • Through a regional Japanese Fund for Poverty Reduction grant, address micronutrient deficiencies in children and mothers through fortification of wheat flour and salt iodization. • 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 country strategy and program implementation. ADB and the Government signed the poverty partnership agreement. • 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 project on Improving Nutrition for Poor Mothers and Children in Asian Countries in Transition was funded by a grant from the Japan Fund for Poverty Reduction and focused on gender and development. The ongoing first and proposed second Rural Water Supply and Sanitation projects address gender and development issues. Regional TA is being processed to study gender issues. 	<ul style="list-style-type: none"> • JICA: Improve the health care system in Semipalatinsk, east Kazakhstan, which has heavy radiation pollution, by providing training equipment; and provide medical equipment to Kyzylorda region and Astana city. • UNDP: UNDP is actively engaged in poverty work with two ongoing projects: (i) Poverty Outreach helping government agencies and nongovernment organizations to understand poverty-related issues, and (ii) Linking Poverty and the Millennium Development Goals to monitor performance of poverty indicators. UNDP has prepared a number of reports including Poverty in Kazakhstan: Causes and Cures and Monitoring Poverty Indicators in Kazakhstan. • World Bank: Provide extensive support for 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. Prepared the report on dimensions of poverty in Kazakhstan. • Appendix 3 of the CSP 2004–2006 describes the focus of other development partners.
Law and Public Sector Management	<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 future program will focus on infrastructure, rural development, and policy and institutional reforms to foster private sector development; 	<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. Medium-term syndicated loans were approved to Kazakhstan's two largest banks. EBRD held its first equity investment in a Kazakh insurance company. • European Union-Technical Assistance to Commonwealth of

Sector/ Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
	<p>promote SME development, including 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.</p> <ul style="list-style-type: none"> • ADB strategy has focused on sector governance issues (such as policy and institutional reforms and capacity building) through lending and TA, and investment project programming and aid coordination. On the basis of recommendations of the country, a governance assessment was completed in 2003, and TAs for Supporting Local Government Reform and Strengthening Government Program Performance were processed and approved in 2003. Follow-up TAs are proposed. A TA is envisaged to strengthen financial sector governance. 	<p>Independent States: Assistance to implement the civil service law, establish a regional civil service training center, promote decentralization, and encourage the participation of civil society.</p> <ul style="list-style-type: none"> • International Finance Corporation: Approved 34 non-sovereign-guaranteed operations totaling \$241 million in energy, finance, manufacturing, mining, tourism, and trade, including support for SME development. • International Monetary Fund: Provide assistance with formulating tax policy and reforms for local customs agencies; and modernize the treasury, (this in collaboration with the World Bank). • JICA: Enhance strategic planning capacity, specifically in economic and industrial policy formulation. • UNDP: Provide a broad range of support, including to strengthen strategic planning capacity, train parliamentarians in drafting laws, introduce international accounting standards, advise on decentralization and functional reviews of ministries and local authorities, and empower nongovernment organizations. • USAID: Support, primarily at the local level, introduction of democratic practices and empowerment of civil society; and at the central and local levels, public sector fiscal reform, including intergovernmental fiscal transfers and capacity building to improve budget formulation. • World Bank: Offer a broad range of assistance: (i) management of state assets, including privatization; (ii) measures to improve the business environment, through regulatory reforms and delicensing; (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. 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 working closely with USAID to develop the new budget code.
Multisector	<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 TA to the central Government for changes in interbudgetary relations. Work jointly with the Government to support lending to local governments for rehabilitation of municipal infrastructure and provide urban transport infrastructure upgrades in Astana. • JBIC: Rehabilitate water supply and sanitation systems in 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.

Sector/ Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
Transport and Communications	<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. • Significant ADB involvement in information and communications technology is not envisaged. It will be considered based on the Government's strategy, which is being prepared with EBRD support. 	<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 commercializing the railway corporation, and rehabilitation of the track network; (iii) renovation and modernization of Aktau seaport; and (iv) construction of a new runway and institutional strengthening of Atyrau International Airport. • Islamic Development Bank: 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 rehabilitation of highway segments in west Kazakhstan, and determination 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. • EBRD: Provide TA to develop an information and communications technology 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 Supply, Sanitation, and Waste Management	<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 operation and maintenance capabilities 	<ul style="list-style-type: none"> • Islamic Development Bank: In collaboration with ADB, help provide water to rural Karagandy, promoting a common strategic approach. • JICA: Provide materials and equipment for rural water supply in north Kazakhstan. • Kreditanstalt für Wiederaufbau and Islamic Development Bank: Collaborate with ADB to implement the Second Rural Water Supply and Sanitation Project.

Table A1.6: Portfolio Indicators—Portfolio Amounts and Ratings
(public sector loans, as of 31 December 2004)

Sector	Net Loan Amount		Total		Rating ^a											
					Highly Satisfactory		Satisfactory		Partly Satisfactory		Unsatisfactory		Potential Problem ^b		At Risk ^c	
	\$ million	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	(%)
Agriculture and Natural Resources	32.5	27.3	2	50.0	—	—	2	100.0	—	—	—	—	—	—	—	—
Education	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Energy	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Finance	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Health, Nutrition, and Social Protection	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Industry and Trade	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Law, Economic Mgmt and Public Policy	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transport and Communications	52.0	43.7	1	25.0	—	—	1	100.0	—	—	—	—	—	—	—	—
Water Supply, Sanitation and Waste Mgmt	34.6	29.1	1	25.0	—	—	—	—	—	—	1	100.0	—	—	1	100.0
Multisector	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total	119.1	100.0	4	100.0	—	—	3	75.0	—	—	1	25.0	—	—	1	25.0

— = not available, % = percent, Mgmt = management, 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 2004)

Disbursements and Transfers	OCR	ADF	Total
Disbursements			
Total Funds Available for Withdrawal (\$ million)	77.8	6.7	84.5
Disbursed Amount (\$ million, cumulative)	46.2	5.6	51.8
Percentage Disbursed (disbursed amount/total available)	59.4	84.0	61.4
Disbursements (\$ million, latest year)	29.2	0.8	30.0
Disbursement Ratio (%) ^a	48.1	42.0	47.9
Net Transfer of Resources (\$ million)			
2000	0.7	3.9	4.7
2001	(17.3)	2.2	(15.1)
2002	(27.0)	0.5	(26.5)
2003	(19.7)	0.2	(19.6)
2004	(85.7)	0.2	(85.5)

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

^a 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
(1996–2004)

Sector	Highly Successful		Successful		Partly Successful		Unsuccessful		No Rating		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Agriculture and Natural Resources	—	—	1	100	—	—	—	—	—	—	1	100
Energy	—	—	—	—	—	—	—	—	—	—	—	—
Finance	—	—	1	100	—	—	—	—	—	—	1	100
Industry and Nonfuel Minerals	—	—	—	—	—	—	—	—	—	—	—	—
Multisector	—	—	1	100	—	—	—	—	—	—	1	100
Others	—	—	—	—	—	—	—	—	—	—	—	—
Social Infrastructure	—	—	—	—	—	—	—	—	—	—	—	—
Transport and Communications	—	—	—	—	—	—	—	—	—	—	—	—
Total	—	—	3	100	—	—	—	—	—	—	3	100

— = not available, No. = number.

Source: Asian Development Bank project (program) audit reports.

Table A1.9: Portfolio Implementation Status
(public sector loans, as of 31 December 2004)

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.	AG	1592		Water Resources Management and Land Improvement	25.8	—	17 Dec 97	11 Aug 98	30 Jun 03	30 Jun 05	77%
2.	AG	1593		Water Resources Management and Land Improvement	—	6.7	17 Dec 97	11 Aug 98	30 Jun 03	30 Jun 05	77%
3.	TC	1774		Almaty–Bishkek Regional Road Rehabilitation	52.0	—	31 Oct 00	31 May 02	30 Jun 05	—	51%
4.	WS	2006		Rural Area Water Supply and Sanitation Project	34.6	—	29 Sep 03	—	30 Jun 10	—	0.0
Total					112.4	6.7					

— = not available, 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.	AG	1592		Water Resources Management and Land Improvement	24.6	18.6	S	S	No	No
2.	AG	1593		Water Resources Management and Land Improvement	6.0	5.6	S	S	No	No
3.	TC	1774		Almaty–Bishkek Regional Road Rehabilitation	48.9	27.6	S	S	No	No
4.	WS	2006		Rural Area Water Supply and Sanitation Project	—	—	U	HS	No	Yes
Total					79.5	51.8				

— = 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 A 1.10: Assistance Pipeline for Lending Products, 2006–2008

Sector Project/Program Name	Targeting Classifi- cation	Thematic Priority	Division	Year of Project Preparatory Assistance	Total	Cost (\$ million)				
						ADB		Gov't	Co- financing	
						OCR	ADF			Total
2006 Firm Loan										
Agriculture and Natural Resources										
1. Regional Rural Development	PI	ECG/PSD	ECAE	2004 - 2005	tbd	50.0	0.0	50.0	tbd	tbd
Total						50.0	0.0	50.0	tbd	tbd
2006 Standby Loan										
Water Supply, Sanitation, and Waste Management										
2. Second Rural Water Supply and Sanitation Sector	PI	ISD/GAD	ECSS	2005	tbd	50.0	0.0	50.0	tbd	10.0 KfW/IDB
Total						50.0	0.0	50.0	tbd	tbd
2007 Firm Loan										
Water Supply, Sanitation, and Waste Management										
1. Second Rural Water Supply and Sanitation Sector	PI	ISD/GAD	ECSS	2005	tbd	50.0	0.0	50.0	tbd	10.0 KfW/IDB
Total						50.0	0.0	50.0	tbd	tbd
2008 Firm Loan										
Agriculture and Rural Development										
1. Second Water Resources Management and Land Improvement	OTH	ECG/ENV	ECAE	2006	tbd	50.0	0.0	50.0	tbd	tbd
Total						50.0	0.0	50.0	tbd	tbd

ECAE = Agriculture, Environment and Natural Resources, ECG = sustainable economic growth, ECSS = Social Sectors Division East, ECTC = Transport and Communications Division, ENV = environmental sustainability, GAD = gender and development, IDB = Islamic Development Bank, ISD = inclusive social development, KfW = KfW Development Bank, OCR = ordinary capital resources, OTH = others, PI = poverty intervention, tbd = to be determined.
Source: Kazakhstan Country Programming Mission Memorandum of Understanding (MoU), July 2005.

Table A1.11: Assistance Pipeline for Nonlending Products and Services, 2006–2008

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
2006 Firm							
Agriculture and Natural Resources							
1. Strengthening Rural/Regional Planning (attached to Regional Rural Development)	ECAE	AOTA	TASF	500.0		0.0	500.0
2. Second Water Resources Management and Land Improvement	ECAE	PPTA	TASF	600.0		0.0	600.0
Subtotal				1,100.0		0.0	1,100.0
Finance							
3. Financial Sector Governance, Phase III	ECGF	AOTA	TASF	500.0		0.0	500.0
4. Development of Regional Financial Center in Almaty	ECGF	AOTA	TASF	300.0		0.0	300.0
Subtotal				800.0		0.0	800.0
Total				1,900.0		0.0	1,900.0
2006 Standby							
Water Supply, Sanitation, and Waste Management							
5. Institutional Strengthening for Rural Water Supply and Sanitation Sector, Phase II (attached to the Second Rural Water Supply and Sanitation Sector Project)	ECSS	AOTA	TASF	500.0		0.0	500.0
Total				500.0		0.0	500.0
2007 Firm							
Water Supply, Sanitation, and Waste Management							
1. Institutional Strengthening for Rural Water Supply and Sanitation Sector, Phase II (attached to the Second Rural Water Supply and Sanitation Sector Project)	ECSS	AOTA	TASF	500.0		0.0	500.0
Total				500.0		0.0	500.0
2007 Standby							
Water Supply, Sanitation, and Waste Management							
2. Third Rural Water Supply and Sanitation Sector	ECSS	PPTA	TASF	600.0		0.0	600.0
Total				600.0		0.0	600.0
2008							
Agriculture and Natural Resources							
1. Institutional and Technological Strengthening for Water Resources Management and Land Improvement (attached to the Second Water Resources Management and Land	ECAE	AOTA	TASF	500.0		0.0	500.0
Total				500.0		0.0	500.0

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
Regional TAs							
2006							
Transport and Communication							
1. Regional Railway Development, Phase I (KAZ, KGZ, PRC, TAJ, TKM, UZB)	ECTC	RETA	TASF	850			850
2. Harmonization of Cross-Border Initiatives for Transport Sector in Central Asia (AZE, KAZ, KGZ, PRC, TAJ, TKM, UZB)	ECTC	RETA	TASF	850			850
3. Regional Road Development, Phase I (KAZ, KGZ, TAJ, TKM, UZB)	ECTC	RETA	TASF	600			600
Subtotal				2,300			2,300
Energy							
4. Regional Gas Transmission Improvement Project in CARs, Phase II (KAZ, KGZ, TAJ, TKM, UZB)	ECEN	RETA	TASF	800			800
5. Regional Power Transmission Modernization Project in CARs, Phase II (KAZ, KGZ, TAJ, TKM, UZB)	ECEN	RETA	TASF	800			800
Subtotal				1,600			1,600
Agriculture and Natural Resources							
6. Central Asian Republics: Monitoring and Evaluation of Central Asian Countries Initiative for Land Management Implementation (KAZ, KGZ, TAJ, TKM, UZB)	ECAE	RETA	JSF	800			800
Subtotal				800			800
Law, Economic Management, and Public Policy							
7. Support for Regional Economic Cooperation in Central Asia (AZE, KAZ, KGZ, MON, PRC, TAJ, UZB)	ECOC	RETA	TASF	950			950
Subtotal				950			950
2007							
Transport and Communication							
1. Policy Reforms in the Transport Sector in Central Asia	ECTC	RETA	TASF	600			600
Subtotal				600			600

ADB = Asian Development Bank, AOTA = advisory technical assistance, AZE = Azerbaijan, CARs = Central Asian republics, ECAE = Agriculture Environment and Natural Resources Division, ECEN = Energy Division, ECGF = Governance, Finance, and Trade Division, ECOC = Operations Coordination Division, ECSS = Social Sectors Division, ECTC = Transport and Communications Division, JSF = Japan Special Fund, KAZ = Kazakhstan, KGZ = Kyrgyz Republic, MON = Mongolia, PPTA = project preparatory technical assistance, PRC = People's Republic of China, RETA = regional technical assistance, TAJ = Tajikistan, TASF = technical assistance special fund, TKM = Turkmenistan, UZB = Uzbekistan.

Source: Kazakhstan Country Programming Mission Memorandum of Understanding (MoU), July 2005.

CONCEPT PAPERS FOR 2006 LENDING PRODUCTS

This appendix contains the concept papers for the following lending products:

- (i) Table A2.1: Regional Rural Development Project
- (ii) Table A2.2: Second Rural Water Supply and Sanitation Sector

**Table A2.1: Regional Rural Development Project
Concept Paper**

Date: 9 August 2005

<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"/> ADF grant-financed</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: Agriculture and natural resources Subsector: Agriculture sector development</p> <p>b. Targeting classification</p> <p><input type="checkbox"/> Targeted intervention</p> <p><input checked="" type="checkbox"/> General intervention</p> <p>c. Key thematic areas</p> <p>Themes:</p> <table> <tr> <td><input checked="" type="checkbox"/> Sustainable economic growth</td> <td><input type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input type="checkbox"/> Inclusive social development</td> <td><input type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input type="checkbox"/> Governance</td> <td><input checked="" type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input checked="" type="checkbox"/> Capacity development</td> </tr> </table> <p>Subthemes: Fostering physical infrastructure development, developing rural areas, private sector investment, and capacity development</p>	<input checked="" type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability	<input type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Governance	<input checked="" type="checkbox"/> Private sector development	<input type="checkbox"/> Gender and development	<input checked="" type="checkbox"/> Capacity development
<input checked="" type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability							
<input type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation							
<input type="checkbox"/> Governance	<input checked="" type="checkbox"/> Private sector development							
<input type="checkbox"/> Gender and development	<input checked="" type="checkbox"/> Capacity development							
<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: John Whittle, Principal Project Economist</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 and in recent years accompanied by a relatively stable macroeconomic environment. However, economic recovery of the sector has been limited primarily due to transitional adjustments. Rural unemployment is widespread, and families continue to vacate rural settlements and company towns. The improved policy environment has not significantly raised investment in agriculture, which is estimated at a low level of 0.5% of</p>								

GDP. Agriculture contributes about 9% to GDP.

The Government recognizes that the rural economy should be revived, with about 43% of the population (14.9 million in 2003) living and working in rural areas. Current policy, as reflected in the Development Plan up to 2010 (Strategy 2010), calls on the state to actively help the rural sector. This strategy was amplified by both a presidential announcement in April 2002 indicating that 2003–2005 would be devoted to reviving rural areas, and the 2003 National Rural Development Program, which sets out a 10-year program to improve rural settlements, household incomes, and the quality of life of rural residents.

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. Specifically the goal (impact) is to increase local economic development in north and south Kazakhstan. The purpose (outcome) is to improve services and business opportunities.

c. Components and outputs: The project components include (i) capacity building of local and central governments for regional planning; (ii) comprehensive upgrading of physical and social infrastructure in selected settlements; (iii) a business support program of loans and advisory services; and (iv) project management.

d. Expected results and deliverables: (i) Improved regional framework to guide oblast and district planning; (ii) preparation of regional spatial strategies and settlement plans for priority settlements; (iii) improved planning skills and establishment of regional planning program at a national university; (iv) upgrading of physical and social infrastructure in 60–80 selected settlements; (v) improved rural-urban linkages; (vi) new and expanded small and medium-sized enterprises; and (vii) sustained access to finance.

e. Social or environmental issues or concerns: The main social concerns are the Government's proposed approach to settlements considered to be of no or low development potential, whereby households are anticipated to voluntarily move to settlements of higher development potential, which will be supported under the Project with physical and social infrastructure. In addition, the new land code, not yet approved, could introduce measures requiring landowners to pay or lease land at substantial prices. This could influence continued access to land, particularly by poorer people.

f. Plans for disseminating results/deliverables:

For TA, method(s) of TA output dissemination:

- A conference/workshop/brown bag
- Publication of article(s) in external journals or books
- External press release to news agencies, including www.adb.org
- Internal press release in *ADB Today*
- Others (specify) _____

7. Proposed executing/implementing agency or agencies: The Ministry of Economy and Budget Planning will be the Executing Agency and the Ministry of Agriculture the Implementing Agency.

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance: An extensive series of workshops, focus groups, and formal working groups comprised national and local government representatives as well as community, farming, and private sector participants. In addition, surveys of small businesses were conducted in selected regions.

9. Timetable for assistance design, processing, and implementation

- a. Year included in CSP, CSP Update, RCSP, RCSP Update, or interregional work plan: 2002
- b. Expected date of submission for approval
 - Lending: 2006
 - Nonlending (project preparatory):
 - Nonlending (other than project preparatory): 2006
- c. Period and duration of assistance
 - Lending: 2007–2011
 - Nonlending: 2007–2008

10. Financing Plan

- a. For lending
- Ordinary capital resources: \$50 million
 - Asian Development Fund (loan): \$
 - Asian Development Fund (grant): \$
 - Other:\$

If cofinancing is required, indicate amount and sources sought: \$____, from _____.

Source	Amount (\$ million)
ADB Financing	50.0
Government Financing	25.5
Other Financing	1.5
Total Cost	77.0

Source: Asian Development Bank estimates.

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

If cofinancing is required, indicate amount and sources sought: \$____, from _____.

ADB = Asian Development Bank, CSP = country strategy and program, RCSP = regional cooperation strategy and program, TA = technical assistance.

**Table A2.2: Second Rural Water Supply and Sanitation Sector Project
Concept Paper**

Date: 8 August 2005

<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"/> ADF grant-financed</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: Water supply, sanitation, and waste management Subsector: Water supply and sanitation</p> <p>b. Targeting classification</p> <p><input checked="" type="checkbox"/> Targeted intervention</p> <p><input type="checkbox"/> General intervention</p> <p>c. Key thematic areas</p> <p>Themes:</p> <table border="0"> <tr> <td><input type="checkbox"/> Sustainable economic growth</td> <td><input checked="" type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input checked="" type="checkbox"/> Inclusive social development</td> <td><input type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input type="checkbox"/> Governance</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input type="checkbox"/> Capacity development</td> </tr> </table> <p>Subthemes: Human development, natural resources conservation</p>	<input type="checkbox"/> Sustainable economic growth	<input checked="" type="checkbox"/> Environmental sustainability	<input checked="" type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Gender and development	<input type="checkbox"/> Capacity development
<input type="checkbox"/> Sustainable economic growth	<input checked="" type="checkbox"/> Environmental sustainability							
<input checked="" type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation							
<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development							
<input type="checkbox"/> Gender and development	<input type="checkbox"/> Capacity development							
<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: E. Honda, Urban Development Specialist</p>								
<p>6. Description of assistances</p> <p>a. Background/linkage to country/regional strategy: The Government has accorded high priority to ensuring access of the population to safe drinking water that meets international standards. One third of the rural population lacks access to safe drinking water. Water supply services in rural areas especially need improvements, both in terms of quantity and quality. Much of the existing rural water supply systems are gradually becoming inoperative due to outdated technology as well as limited maintenance and repair work. Rural areas have few working wastewater collection systems or any acceptable level of human waste disposal. In 2003, ADB approved the Rural Area Water Supply and Sanitation Sector Project to help improve living and health conditions for more than a half million people in rural Kazakhstan by providing basic water supply and sanitation infrastructure. ADB also approved small-scale technical assistance for Institutional Strengthening of the Committee of Water Resources (CWR) and for Strengthening the Water Supply Sector Program in 2004 and</p>								

2005 respectively.

b. Goal and purpose: The Project will help improve the living and health conditions of selected rural settlements in the project area covering the oblasts of East Kazakhstan, Pavlodar, and Almaty. The Project will fulfill the immediate demand for drinking water supply and safe sanitation services in the project area by (i) upgrading water supply infrastructure and services; (ii) providing adequate sanitation services including wastewater drainage facilities, school and hospital latrines, and bathhouses; (iii) improving the capacity of the CWR and local communities to manage and operate water supply and sanitation facilities; and (iv) increasing awareness on hygiene and sanitation.

c. Components and outputs: The project scope will be determined after the completion of the project preparatory TA. Tentatively, the Project is expected to comprise two parts: A: physical infrastructure and B: institutional development. Part A will include development and rehabilitation of water supply systems, wastewater facilities, school and hospital latrines, and bathhouses. Part B will include capacity building and education programs.

d. Expected results and deliverables: Expected results and deliverables will include (i) improved access of rural population to potable water supply, (ii) improved health conditions, (iii) infrastructure suitable for the development of local industries, (iv) efficient and sustainable water supply and sanitation services, (v) increased rural employment and rural incomes, and (vi) reduced outflow of population from rural area to urban centers.

e. Social or environmental issues or concerns: To be determined.

f. Plans for disseminating results/deliverables: Project results/deliverables will be disseminated to rural areas not covered by the Project.

For TA, method(s) of TA output dissemination:

- A conference/workshop/brown bag
- Publication of article(s) in external journals or books
- External press release to news agencies, including www.adb.org
- Internal press release in *ADB Today*
- Others (specify) _____

7. Proposed executing/implementing agency or agencies: The Ministry of Agriculture will be the Executing Agency and CWR will be the Implementing Agency.

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance: The investment components will be prioritized through community consultation.

9. Timetable for assistance design, processing, and implementation

- a. Year included in CSP, CSP Update, RCSP, RCSP Update, or interregional work plan: 2004
- b. Expected date of submission for approval
 - Lending: 2006
 - Nonlending (project preparatory): 2005
 - Nonlending (other than project preparatory):
- c. Period and duration of assistances
 - Lending: 5 years, 2006–2010
 - Nonlending: 6 months, 2005–2006

10. Financing Plan

- a. For lending
 - Ordinary capital resources: \$50 million
 - Asian Development Fund (loan):
 - Asian Development Fund (grant):
 - Other: \$10 million from Islamic Development Bank (IDB)
€22 million from Kreditanstalt für Weideraufbau of the Government of Germany

If cofinancing is required, indicate amount and sources sought:

If known, provide cost estimates and financing arrangements in the table below.

Source	Amount (\$)
ADB Financing	
Government Financing	
Other Financing	
Total Cost	

Source:

b. For nonlending

- No resources required, other than ADB staff
- ADB's administrative budget:
- Grant TA funds:
- Other: \$650,000

If cofinancing is required, indicate amount and sources sought: \$____, from _____.

If known, provide cost estimates and financing arrangements in the table below. If not known, delete the table below.

Source	Amount (\$)
ADB Financing	650,000
Government Financing	280,000
Other Financing	
Total Cost	930,000

Source: Asian Development Bank estimates.

ADB = Asian Development Bank, CSP = country strategy and program, RCSP = regional cooperation strategy and program, TA = technical assistance.

CONCEPT PAPERS FOR 2006 NONLENDING PRODUCTS AND SERVICES

This appendix contains the concept papers for the projected nonlending products:

- (i) Table A3.1: Second Water Resources Management and Land Improvement Project
- (ii) Table A3.2: Institutional Strengthening for the Rural Water Supply and Sanitation Sector, Phase II (attached to Second Rural Water Supply and Sanitation Sector Project)
- (iii) Table A3.3: Financial Sector Governance, Phase III
- (iv) Table A3.4: Development of Regional Financial Center in Almaty

**Table A3.1: Second Water Resources Management and Land Improvement Project
Concept Paper**

Date: August 2005

<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"/> ADF grant-financed</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 resource management, environment and biodiversity</p> <p>b. Targeting classification</p> <p><input type="checkbox"/> Targeted intervention</p> <p><input checked="" type="checkbox"/> General intervention</p> <p>c. Key thematic areas</p> <p>Themes:</p> <table> <tr> <td><input checked="" type="checkbox"/> Sustainable economic growth</td> <td><input checked="" type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input type="checkbox"/> Inclusive social development</td> <td><input type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input type="checkbox"/> Governance</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input type="checkbox"/> Capacity development</td> </tr> </table> <p>Subthemes: Promoting economic efficiency and enabling markets, developing rural areas, and natural resources conservation</p>	<input checked="" type="checkbox"/> Sustainable economic growth	<input checked="" type="checkbox"/> Environmental sustainability	<input type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Gender and development	<input type="checkbox"/> Capacity development
<input checked="" type="checkbox"/> Sustainable economic growth	<input checked="" type="checkbox"/> Environmental sustainability							
<input type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation							
<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development							
<input type="checkbox"/> Gender and development	<input type="checkbox"/> Capacity development							
<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: John Whittle, Principal Project Economist</p>								
<p>6. Description of assistances</p> <p>a. Background/linkage to country/regional strategy: The ongoing Water Resources Management Project is expected to be completed in 2006. The midterm review in May 2004 confirmed initial benefits, and projected significant benefits upon completion: rehabilitating drainage and irrigation systems, improving water management primarily through water user associations, improving cost-recovery measures for investment and operation and maintenance, and increasing farm incomes. The Government has requested the adaptation of this</p>								

approach to other regions and to expand its scope to address land degradation aspects.

Mainstreaming environmental considerations has been a major strategic focus of the Government's efforts and The Concept of Ecological Security 2004–2015¹ recognizes the need for an intersectoral approach to implement policies and programs aimed at, among others, curbing environmental degradation. Land degradation (desertification) is seen as one of the most significant, responsible for total annual economic loss of T93 billion (\$6.2 billion). Excessive development of irrigation networks, poor management and use of water resources, and inadequate drainage are main causes for serious and rapid degradation of Kazakhstan's dryland ecosystem, which comprises nearly two thirds of the country's physical area.

Under the Central Asia Countries Initiative on Land Management, being supported through ADB TA 5941–REG² and TA 6236–REG³ with cofinancing from the Global Environment Facility, Kazakhstan is being helped to develop a comprehensive national programming framework to combat desertification and land degradation, by mainstreaming sustainable land management through a more comprehensive and integrated development framework, and creation of synergies across other environmental concerns.

The Project supports ADB strategies as reflected in the CSP 2005–2007 and the CSPU for 2006–2008.

b. Goal and purpose: The TA's goal (impact) is to increase and sustain farm incomes. The purpose (outcome) is to improve integrated land and water management.

c. Components and outputs: The Project will support (i) the integration of land and water management, including policy, legal, and institutional aspects; (ii) rehabilitation of drainage and irrigation systems; and (iii) capacity development of national and local government and nongovernment institutions (e.g., water user associations).

d. Expected results and deliverables: To be determined during the project preparatory TA.

e. Social or environmental issues or concerns: To be determined during project preparatory TA.

f. Plans for disseminating results/deliverables:

For TA, method(s) of TA output dissemination: To be determined during project preparatory TA fact-finding.

- A conference/workshop/brown bag
- Publication of article(s) in external journals or books
- External press release to news agencies, including www.adb.org
- Internal press release in *ADB Today*
- Others (specify) _____

7. Proposed executing/implementing agency or agencies: To be determined during project preparatory TA fact-finding.

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:

Extensive consultations were conducted during implementation of the first Water Resources Management Project, particularly during the midterm review. The proposed Project was discussed with the ministries of economy and budget planning, agriculture, and environmental protection. Further discussion will take place during the project preparatory TA fact-finding.

9. Timetable for assistance design, processing, and implementation

- a. Year included in CSP, CSP Update, RCSP, RCSP Update, or interregional work plan: 2005
- b. Expected date of submission for approval
 - Lending: 2008
 - Nonlending (project preparatory): 2006
 - Nonlending (other than project preparatory): 2008
- c. Period and duration of assistance

¹ Kazakhstan. 2005. *The Program on Combating Desertification in the Republic of Kazakhstan, 2005–2015*. Astana.

² ADB. 2000. *Technical Assistance for Combating Desertification in Asia*. Manila.

³ ADB. 2005. *Technical Assistance for Central Asian Countries Initiative for Land Management*. Manila.

Lending: 2008–2012
Nonlending: 2008–2009

10. Financing Plan

a. For lending

- Ordinary capital resources: \$50 million
- Asian Development Fund (loan): \$
- Asian Development Fund (grant): \$
- Other: \$

If cofinancing is required, indicate amount and sources sought: \$ Global Environment Facility (amount to be determined).

b. For nonlending

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

If cofinancing is required, indicate amount and sources sought: Global Environment Facility (amount to be determined).

ADB = Asian Development Bank, CSP = country strategy and program, RCSP = regional cooperation strategy and program, TA = technical assistance.

**Table A3.2: Institutional Strengthening for the Rural Water Supply and Sanitation Sector,
Phase II
Concept Paper**

Date: 8 August 2005

<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"/> ADF grant-financed</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: Water supply, sanitation, and waste management Subsector: Water supply and sanitation</p> <p>b. Targeting classification</p> <p><input checked="" type="checkbox"/> Targeted intervention</p> <p><input type="checkbox"/> General intervention</p> <p>c. Key thematic areas</p> <p>Themes:</p> <table> <tr> <td><input type="checkbox"/> Sustainable economic growth</td> <td><input checked="" type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input checked="" type="checkbox"/> Inclusive social development</td> <td><input type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input type="checkbox"/> Governance</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input type="checkbox"/> Capacity development</td> </tr> </table> <p>Subthemes: Human development, natural resources conservation</p>	<input type="checkbox"/> Sustainable economic growth	<input checked="" type="checkbox"/> Environmental sustainability	<input checked="" type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Gender and development	<input type="checkbox"/> Capacity development
<input type="checkbox"/> Sustainable economic growth	<input checked="" type="checkbox"/> Environmental sustainability							
<input checked="" type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation							
<input type="checkbox"/> Governance	<input type="checkbox"/> Private sector development							
<input type="checkbox"/> Gender and development	<input type="checkbox"/> Capacity development							
<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: E. Honda, Urban Development Specialist</p>								
<p>6. Description of assistance(s)</p> <p>a. Background/linkage to country/regional strategy: The Government accords high priority to ensuring access of the population to safe drinking water that meets international standards. One third of the rural population lacks access to safe drinking water. Water supply service in rural areas especially needs improvement in terms of quantity and quality. Much of the existing rural water supply systems gradually become inoperative due to outdated technology as well as limited maintenance and repair work. Rural areas have few working wastewater collection systems or any acceptable level of human waste disposal. In 2003, ADB</p>								

approved the Rural Area Water Supply and Sanitation Sector Project to help improve living and health conditions for more than a half million people in rural Kazakhstan by providing basic water supply and sanitation infrastructure. ADB also approved small-scale TA for Institutional Strengthening of the Committee of Water Resources (CWR) and Strengthening the Water Supply Sector Program in 2004 and 2005 respectively.

b. Goal and purpose: The TA will be provided in conjunction with the Second Rural Water Supply and Sanitation Sector Project to help strengthen sector institutions and create the appropriate management systems.

c. Components and outputs: The TA will focus on (i) preparing and implementing an institutional strengthening program for local governments; and (ii) helping village governments and communities improve their organizational structures and capacities.

d. Expected results and deliverables: Expected results and deliverables are strengthened capacity of local governments and communities in managing water supply and sanitation facilities.

e. Social or environmental issues or concerns: To be determined.

f. Plans for disseminating results/deliverables: Results/deliverables can be disseminated to other rural areas that are not covered by the Project.

For TA, method(s) of TA output dissemination:

- A conference/workshop/brown bag
 Publication of article(s) in external journals or books
 External press release to news agencies, including www.adb.org
 Internal press release in *ADB Today*
 Others (specify) _____

7. Proposed executing/implementing agency or agencies: The Executing Agency will be the Ministry of Agriculture and the CWR will be the implementing agency.

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance: Related government agencies and communities will be consulted in developing institutional strengthening programs.

9. Timetable for assistance design, processing, and implementation

- a. Year included in CSP, CSP Update, RCSP, RCSP Update, or interregional work plan: {Year}
- b. Expected date of submission for approval
 Lending:
 Nonlending (project preparatory):
 Nonlending (other than project preparatory): 2006
- c. Period and duration of assistance
 Lending:
 Nonlending: 7 months, 2006–2007

10. Financing Plan

- a. For lending
 Ordinary capital resources: \$
 Asian Development Fund (loan): \$
 Asian Development Fund (grant): \$
 Other: \$

If cofinancing is required, indicate amount and sources sought: \$____, from _____.

Source	Amount (\$)
ADB Financing	
Government Financing	
Other Financing	
Total Cost	
Source:	

b. For nonlending

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

If cofinancing is required, indicate amount and sources sought: \$____, from _____.

Source	Amount (\$)
ADB Financing	
Government Financing	
Other Financing	
Total Cost	

Source:

ADB = Asian Development Bank, CSP = country strategy and program, RCSP = regional cooperation strategy and program, TA = technical assistance.

**Table A3.3: Financial Sector Governance Phase III
Concept Paper**

Date: August 2005

<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 checked="" 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: Finance Subsector: Finance sector development and reforms</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> <input checked="" type="checkbox"/> Others</p> <p>c. Key thematic areas</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Sustainable economic growth</td> <td><input type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input type="checkbox"/> Inclusive social development</td> <td><input type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input checked="" type="checkbox"/> Governance</td> <td><input checked="" type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td></td> </tr> </table> <p>Subtheme(s): {**Please provide info, if any.**}</p>	<input checked="" type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability	<input type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation	<input checked="" type="checkbox"/> Governance	<input checked="" type="checkbox"/> Private sector development	<input type="checkbox"/> Gender and development	
<input checked="" type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability							
<input type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation							
<input checked="" type="checkbox"/> Governance	<input checked="" type="checkbox"/> Private sector development							
<input type="checkbox"/> Gender and development								
<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: M. Tanabe, Banking Sector Specialist</p>								
<p>6. Description of assistance</p> <p>Background/linkage to country/regional strategy: The Kazakhstan financial sector has grown rapidly in recent years. At the same time, the Government has embarked on significant reforms in the financial sector. A key measure in this direction was the establishment of an independent financial sector regulator and supervisor for bank and nonbank financial institutions, i.e., the Agency on Regulation and Supervision of Financial Markets and Financial Institutions (FSAK) in January 2004. The infrastructure for domestic equity and bond markets has also been established. Since the establishment of the defined contribution pension system modeled after Chile's in 1998, the Kazakhstan private pension system has grown steadily. The 2004 update of the joint Financial Sector Assessment Program (FSAP) by the International Monetary Fund and the World Bank concluded that the core legal framework for the financial sector (banking, securities market, insurance) was in place, and that compliance with the international standards (Basel Core Principles for Effective Banking Supervision, International Organization of Securities Commissions Principles on Securities Regulation, and International Association of Insurance Supervisors Insurance Principles) has substantially improved since the 2000 FSAP.</p>								

However, the recent gains achieved were the improvement from a relatively low base; the rapid and uneven growth of the financial sector poses risks. The financial sector is heavily bank-dominated, with banking system assets accounting for almost 50% of gross domestic product (GDP); and the rest (insurance companies, pension funds, equities, and nonbanks) for only about 14% of GDP. The domestic securities market has yet to become a relevant source of financing for the enterprise sector. In 2003, corporate bond and equity issuance together amounted to only 0.8% of GDP. With limited domestic investment opportunities, an increasing proportion of funds accumulated under contractual savings schemes are invested internationally. On the other hand, bank lending has grown rapidly with increasing dependence on external borrowing, which creates risks of currency and maturity mismatches. To minimize the vulnerability of the financial system, the Government needs to promote balanced development of the financial sector. The Government also urgently needs to strengthen the capacity of the supervisory body, FSAK, to effectively manage the increasing risks from rapid sector development.

The legal framework for the financial sector has substantially improved. However, because the laws and regulations were only recently established, focusing on implementation is critical and enforcement needs strengthening. The 2004 FSAP update also points out that implementation and enforcement practices need to be strengthened.

Phase I of the TA for Financial Sector Governance was designed to strengthen the monetary policy framework by developing the inflation-targeting regime and to strengthen governance for financial assets managed by the National Bank of Kazakhstan (NBK). Phase II was designed to upgrade the capacity of on-site banking inspectors and to strengthen the regulation of pension funds. As a continuation of phases I and II, phase III will focus on supervision of securities markets. Although the securities market is still relatively small, it is expected to develop rapidly in the coming years given the numerous efforts to promote its development and provide investment opportunities for rapidly growing accumulative pension funds.

b. Goal and purpose: As a continuation of phases I and II, goal of the TA is to support the development of a diversified and stable financial sector in Kazakhstan. The purpose is to assist the Government in strengthening regulation and supervision of equity and bond markets.

c. Components and outputs: The TA will (i) assess the current regulatory framework and practices as well as the practices of market transactions, and identify weaknesses in regulation and supervision; (ii) based on this assessment, recommend measures to fill the regulatory gaps and strengthen the supervision of bond and equity markets to improve public confidence; (iii) based on the recommendations, draft new or amended regulations and implementation guidelines and manuals for the supervisors; and (iv) train supervisory staff to effectively implement the strengthened regulatory framework.

d. Expected results and deliverables: Draft new or amended regulations, guidelines, and manuals for implementing the upgraded regulations, and well-trained supervisory staff.

e. Social or environmental issues or concerns: None.

f. Plans for disseminating results/deliverables: Training/workshops.

7. Proposed executing/implementing agencies: FSAK, NBK, and Ministry of Finance (MOF)

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance: The Government, FSAK, and NBK have requested TA in all areas covered by this TA. FSAK and NBK have actively participated in the FSAP and identified the weaknesses and development objectives mentioned. MOF is the working organ of the interministerial working group established to elaborate a strategy for developing the financial sector.

9. Timetable for assistance design, processing, and implementation

a. Year included in CSP, CSP update, RCSP, RCSP update, or interregional work plan: 2006

b. Expected date of submission for approval

Lending:

Nonlending (project preparatory):

Nonlending (other than project preparatory): 2006

c. Period and duration of assistance

Lending:

Nonlending: 2 years

10. Financing Plan

- a. For lending
- Ordinary capital resources:
 - Government/community contribution:
 - Global Environmental Facility:
- b. For nonlending
- No resources required, other than ADB staff
 - ADB's administrative budget:
 - Grant TA funds: \$500,000
 - Other:

Source	Amount (\$)
ADB Financing	500,000
Government Financing	
Other Financing	
Total Cost	500,000

Source: Asian Development Bank estimates.

ADB = Asian Development Bank, CSP = country strategy and program, RCSP = regional cooperation strategy and program, TA = technical assistance.

**Table A3.4: Development of Regional Financial Center in Almaty
Concept Paper**

Date: August 2005

<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 checked="" 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: Finance Subsector: Finance sector development and reforms</p> <p>b. For project preparatory and lending, classification</p> <p> <input type="checkbox"/> Core poverty intervention <input checked="" type="checkbox"/> Others</p> <p> <input type="checkbox"/> Poverty intervention</p> <p>c. Key thematic areas</p> <p> <input checked="" type="checkbox"/> Sustainable economic growth <input type="checkbox"/> Environmental sustainability</p> <p> <input type="checkbox"/> Inclusive social development <input type="checkbox"/> Regional cooperation</p> <p> <input checked="" type="checkbox"/> Governance <input checked="" type="checkbox"/> Private sector development</p> <p> <input type="checkbox"/> Gender and development</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: M. Tanabe, Banking Sector Specialist</p>
<p>6. Description of assistance:</p> <p>a. Background/linkage to country/regional strategy: The Kazakhstan financial sector has grown rapidly and in recent years has been the fastest-growing sector after oil. The development of the financial sector can create jobs and contribute to gross domestic product (GDP) growth, and also promote the development of the real sector by effectively mobilizing domestic and foreign resources and channeling them to productive investment. Therefore, the Government is focusing on promoting the development of financial markets, which are mainly based in Almaty.</p> <p>The Kazakhstan financial sector has several strongholds compared with that of other Central Asian and Commonwealth of Independent States countries. First, the size of the sector relative to GDP is significantly larger than that of other Central Asian countries. The ratio of bank credit to GDP reached 27% in 2004, roughly twice as high as that in Kyrgyz Republic, Tajikistan, and Uzbekistan. Second, the steadily growing accumulative pension funds provide a sufficient supply of long-term funds, which are lacking in most emerging markets, including many other former Central Asian and CIS countries. Third, as a result of the Financial Sector Assessment Program of the International Monetary Fund and World Bank in 2000 and its update in 2004, the core legal framework for the financial sector is already in place. With these strongholds in its financial market, the Government intends to develop Almaty as a regional financial center. In line with this, the cross-border</p>

activities of financial institutions are rapidly expanding. Foreign banks make up about one third of banking assets in Kazakhstan. Kazakhstan banks extend 14% of their outstanding loans in foreign countries, mostly in other CIS countries such as the Kyrgyz Republic, Russian Federation, and Ukraine. At the same time, the net external liabilities of Kazakhstan banks constitute about 35% of their total assets.

Despite the increasing role of the Kazakhstan financial sector in the country's economy and the Central Asian and CIS's financial markets, many constraints and weaknesses remain if the Kazakhstan financial sector is to become a regional financial center. Despite the relatively sound legal framework, operational capacity of the Agency on Regulation and Supervision of Financial Markets and Financial Institutions (FSAK) and the implementation and enforcement of the laws and regulations need improvements. Some of the necessary infrastructure for the development of financial markets, such as rating agencies, is still lacking. The capital markets are not yet an important source of financing for the enterprise sector.

The development of a financial center as a regional financial center poses both chances and challenges for Kazakhstan. It will bring in more sophisticated financial techniques and also create jobs in the city of Almaty. However, it will increase the risk of financial crises and difficulty of supervision if the capacity of supervisors does not keep up with the development of the markets. To maximize the benefits and mitigate the risk, strengthening of the FSAK especially for supervision of cross-border financial activities is urgently needed.

ADB is providing three-phased TAs for Financial Sector Governance. Phase I was designed to strengthen the monetary policy framework by developing an inflation-targeting regime, and to strengthen governance for financial assets managed by the National Bank of Kazakhstan (NBK). Phase II was designed to upgrade the capacity of on-site banking inspectors and to strengthen the regulation of pension funds. Phase III, which will proceed in parallel with this TA, is proposed to focus on strengthening regulation and supervision of the capital market, including both equity and bond markets.

b. Goal and purpose: The goal of the TA is to support the development of the market, policy, and regulatory infrastructure for the development of the financial markets in Almaty as a regional financial center. The purpose is to assist the Government in identifying and addressing the weaknesses and constraints for developing the financial markets in Almaty as a regional financial center.

c. Components and outputs: The TA will (i) strengthen FSAK's capacity in supervising foreign financial institutions operating in Almaty and domestic financial institutions with foreign operations; (ii) assess market infrastructure for the financial markets including clearing and settlement facilities, rating agencies, and accounting and auditing professions; and identify the weaknesses and constraints for developing the financial markets as a regional financial center; (iii) assess the policy environment for the financial markets, including tax impediments and regulatory gaps and costs, and identify the weaknesses and constraints for developing the financial markets as a regional financial center; and (iv) recommend a time-sequenced plan for implementing policy measures to address the weaknesses and constraints identified in (i)–(iii).

d. Expected results and deliverables: Draft new or amended regulations, guidelines, and manuals for strengthening supervision of cross-border activities of financial institutions, assessment of market infrastructure and policy environments for developing Almaty financial markets as a regional financial center, and recommendations for a time-sequenced plan for implementing policy measures to address the weaknesses and constraints.

e. Social or environmental issues or concerns: None.

f. Plans for disseminating results/deliverables: Training/workshops.

7. Proposed executing/implementing agencies: Ministry of Economy and Budget Planning (MEBP), FSAK, NBK, Ministry of Finance (MOF)

8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance: The Government has requested TA to develop a regional financial center in Almaty. FSAK and NBK have actively participated in the preparation of the three-phased TA for Financial Sector Governance to identify and address the weaknesses in the financial sector. The TA will be designed on the basis of the three TAs for Financial Sector Governance. MOF is the working organ of the interministerial working group established to elaborate a strategy for development of the financial sector.

9. Timetable for assistance design, processing, and implementation

a. Year included in CSP, CSP update, RCSP, RCSP update, or interregional work plan: 2006

<p>b. Expected date of submission for approval Lending: Nonlending (project preparatory): Nonlending (other than project preparatory): 2006</p> <p>c. Period and duration of assistance Lending: Nonlending: 2 years</p>										
<p>10. Financing Plan</p> <p>a. For lending <input type="checkbox"/> Ordinary capital resources: <input type="checkbox"/> Government/community contribution: <input type="checkbox"/> Global Environmental Facility:</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: \$300,000 <input type="checkbox"/> Other:</p> <table border="1"> <thead> <tr> <th>Source</th> <th>Amount (\$)</th> </tr> </thead> <tbody> <tr> <td>ADB Financing</td> <td></td> </tr> <tr> <td>Government Financing</td> <td></td> </tr> <tr> <td>Other Financing</td> <td></td> </tr> <tr> <td>Total Cost</td> <td></td> </tr> </tbody> </table> <p>Source: Asian Development Bank estimates.</p>	Source	Amount (\$)	ADB Financing		Government Financing		Other Financing		Total Cost	
Source	Amount (\$)									
ADB Financing										
Government Financing										
Other Financing										
Total Cost										

ADB = Asian Development Bank, CSP = country strategy and program, RCSP = regional cooperation strategy and program, TA = technical assistance.

ASSISTANCE PROGRAM FOR 2005

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
Finance							
1. Financial Sector Governance, Phase II	ECGF	AOTA	TASF	500.0		0.0	500.0
Subtotal				500.0		0.0	500.0
Water Supply, Sanitation, and Waste Management							
1. Second Rural Water Supply and Sanitation Sector	ECSS	PPTA	TASF	600.0		0.0	600.0
Subtotal				600.0		0.0	600.0
Total				1,100.0		0.0	1,100.0
Regional TAs							
Transport and Communication							
1. Regional Traffic Enhancement Project (KAZ, TAJ, TKM, UZB)	ECTC	RETA	TASF	600			600
Subtotal				600			600
Energy							
1. Establishment of the CAREC Members' Electricity Regulatory Forum	ECEN	RETA	TASF	500			500
Subtotal				500			500
Industry and Trade							
1. Enhancing Financial Disclosure Standards in Transitional Economies	ECGF	RETA	TASF	500			500
Subtotal				500			500
Education							
1. Information and Communication Technology in Education	ECSS	RETA	TASF	600			600
Subtotal				600			600
Law, Economic Management, and Public Policy							
1. Greater Silk Road Initiative 2006 (AZE, KAZ, KGZ, MON, PRC, TAJ, UZB)	ECOC	RETA	TASF	900			900
2. Capacity Building for Regional Cooperation under the CAREC Program	ECOC	RETA			PRCF	400	400
Subtotal				900		400	1,300

ADB = Asian Development Bank, AOTA = advisory technical assistance, AZE = Azerbaijan, CAREC = Central Asia Regional Economic Cooperation, ECAE = Agriculture Environment and Natural Resources Division, ECEN = Energy Division, ECGF = Governance, Finance, and Trade Division, ECOC = Operations Coordination Division, ECSS = Social Sectors Division, ECTC = Transport and Communications Division, JSF = Japan Special Fund, KAZ = Kazakhstan, KGZ = Kyrgyz Republic, MON = Mongolia, PPTA = project preparatory technical assistance, PRC = People's Republic of China, RETA = regional technical assistance, TAJ = Tajikistan TASF = technical assistance special fund, TKM = Turkmenistan, UZB = Uzbekistan.

Source: Kazakhstan Country Programming Mission Memorandum of Understanding (MoU), July 2005. .