

DEVELOPMENT COORDINATION

A. Major Development Partners: Strategic Focus and Key Activities

i. COVID-19 Crisis Response.

1. Development partner coordination has been open and effective, but informal in nature given the unexpected circumstances (see para 6 below). The creation of an Asian Development Bank (ADB)-led Solidarity Fund, jointly with the Government, United Nations Development Programme (UNDP) and World Bank, is now at its final stages (see para 3 below).

2. **Targeted Health Sector Support.** All donors are engaged with the World Health Organization (WHO) as lead adviser. Following government request, in April 2020, ADB in close coordination with UNDP has approved \$910,000 grant resources to the Ministry of Health for procurement of protective personal equipment for medical staff, including more than 150,000 respiratory masks, 150,000 medical goggles and 25,000 coveralls.¹ ADB and UNDP have also committed \$250,000 in technical assistance resources to the Ministry of Health and Ministry of Ecology for institutional support and procurement of equipment required for treatment of COVID-19 related medical waste.² The World Bank is providing additional support to the Ministry of Health by allocating \$27.0 million for procurement of 707 artificial pulmonary ventilators under its \$80.0 million Social Health Insurance Project, approved in 2016. As of end of April, the Ministry of Health has already installed 359 ventilators using these resources in major healthcare facilities across Kazakhstan. Furthermore, the United States Government, through the U.S. Agency for International Development (USAID), has committed an additional \$800,000 to mitigate the spread of the COVID-19 outbreak in Kazakhstan. With this additional commitment, the United States has provided more than \$1.6 million to help Kazakhstan respond to the COVID-19 outbreak.³

3. **Solidarity Fund.** Recognizing increasing needs for social cohesion and post-COVID recovery, the government has approached ADB with a request to establish a joint platform to provide immediate food and medical relief and longer-term skills development and business advisory support services for people and SMEs, which are impacted by COVID-19 related social distancing measures. In April 2020, ADB has approved \$1.0 million technical assistance resources to support the platform, which is called Solidarity Fund. Following ADB's lead, UNDP has immediately committed \$200,000 to support the platform; the World Bank plans to reallocate \$5.0 million from its Skills and Jobs Project towards the Solidarity Fund. The Solidarity Fund is expected to become operational by end of May 2020.

4. **General Macroeconomic Dialogue.** The frequency of consultations on macroeconomic surveillance between ADB, International Monetary Fund (IMF) and World Bank has increased, and the dialogue with the government and Central Bank is well coordinated, frank and productive. Although the IMF is not involved in the financing side of the government's countercyclical support

¹ The resources are provided from dedicated COVID-19 TASF pool, managed by ADB's SDCC.

² ADB support is focused on institutional support and formulation of operational standards, and is provided under joint ADB-Government of Kazakhstan Knowledge and Experience Exchange Program.

³ U.S. technical specialists from the Center for Disease Control and USAID continue to share expertise and work closely with Kazakhstan experts on a day-to-day basis to combat the COVID-19 outbreak. Through this assistance, USAID is focused on helping to strengthen Kazakhstan's own ability to fight the disease and to support the following priority areas: infection prevention and control; preparing laboratory systems for large-scale testing; and communicating with the public on steps they can take to prevent and respond to the spread of the virus. Over the last 20 years, the United States has provided more than \$86 million in health assistance to Kazakhstan.

efforts,⁴ it is actively engaged with the government across all the key areas related to macroeconomic surveillance, fiscal risks, financial sector stability, and also on-going work in financial supervision and monetary policy efforts. In March 2020, the IMF held a series of comprehensive consultations with the Ministry of National Economy and Ministry of Finance on revised macroeconomic outlook, fiscal projections and government's crisis response measures. As a result, IMF and the government have agreed on macroeconomic framework and key parameters of government's fiscal response to COVID-19, reflected in updated projections of IMF. Current ADB discussions with the IMF team have focused on macroeconomic and fiscal projections, as well as on key risks to the current outlook.⁵

5. **Fiscal Support for 2020.** With all the on-budget anti-crisis measures reflected in the recently approved revisions to the government budget—combining automatic and discretionary reductions in tax revenue in the amount of about \$3.9 billion and new expenditures (net of cuts and some expenditure rationalizations) of about \$3.1 billion—the overall anti-crisis response (and net new financing needs) of the government are around \$7.0 billion. From the funding side, additional transfers from the National Fund of the Republic of Kazakhstan (NFRK) will be able to close this gap by close to \$4.7 billion. The remaining \$2.3 billion will need to come from a combination of changes in domestic debt issuance plans for 2020, and significant external debt borrowing. The government has correspondingly requested Asian Development Bank, World Bank, and Asian Infrastructure Investment Bank for budget financing support. In response to the request, ADB is proposing a countercyclical support facility (CSF)-COVID-19 Pandemic Response Option (CPRO) financial assistance of \$1.0 billion. The ADB team is also closely working with an Asian Infrastructure Investment Bank (AIIB) team to help their internal processing of additional co-financing for \$750 million of budget support. The World Bank is planning to respond to government request of \$1.0 billion by proposing development policy loan to be approved in 2020 and, subject to further government request, additional budget support in 2021.⁶

ii. Pre-COVID-19 Development Partners' General Focus

6. The broad division of development assistance and primary focus areas of development partners' is presented in the table below.

Development Partner Activities

Topic	Lead Donors
Macroeconomic Policy Reforms	IMF and WB
Fiscal Management and Trade Policy	IMF, WB, EC, USAID, IFC
Non-oil Export and Employment Promotion	USAID, ADB, WB, EBRD and IFC
Financial Sector Stability and Recovery	IMF, IFC and WB
Housing Finance	ADB and IFC
Skills Development in the Real Economy	EC and GIZ
Agriculture Technology, Commercialization and Competitiveness	ADB, IFC, GIZ and WB
Inclusive Energy	EBRD, USAID, EC and UNDP
Energy Efficiency	ADB, EBRD, SECO and WB
Transport Infrastructure and Connectivity	ADB, EBRD and IFC
Strengthening Budget Accounting and Institutions	EC, UNDP, GIZ and USAID
Social Protection	WB

⁴ By law, the Government of Kazakhstan is now allowed to seek IMF fiscal financing (budget support). By law, the Government of Kazakhstan can only seek budget support from development institutions like ADB or WB. By law, IMF financing can only be sought by the NBK (as the issuer of liabilities) and for balance-of-payments reasons.

⁵ ADB discussions with the IMF have been frequent and productive. In January, the IMF conducted an Article IV consultation, and post-Covid the macroeconomic projections were revised and discussed in detail with the ADB team.

⁶ Discussions with the WB are also frequent on this particular issue. WB budget support for 2020 is still uncertain due to the challenges of designing a meaningful policy-based loan that could still be disbursed in 2020.

Topic	Lead Donors
Health Sector Reforms	WHO, USAID and UNICEF
Sustainable Municipal Services	ADB and EBRD
Water Resources Management	ADB, EBRD and IsDB

ADB = Asian Development Bank, CDTA = capacity development technical assistance, EBRD = European Bank for Reconstruction and Development, EU = European Union, GIZ = Deutsche Gesellschaft für Internationale Zusammenarbeit, IDP = internally displaced person, IFC = International Finance Corporation, IMF = International Monetary Fund, IsDB = Islamic Development Bank, SECO = (Swiss) State Secretariat for Economic Affairs, SME = small and medium-sized enterprises, TA = technical assistance, UNDP = United Nations Development Programme, UNICEF = United Nations Children's Fund, USAID = United States Agency for International Development, WB = World Bank, WHO = World Health Organization.

Source: Asian Development Bank estimates.

B. Institutional Arrangements and Processes for Development Coordination

7. In 2014, the government has launched a dedicated development coordination platform and signed Partnership Framework Agreements (PFA) with five international financial institutions (IFIs); ADB, the European Bank for Reconstruction and Development (EBRD), the European Investment Bank, the Islamic Development Bank (IsDB) and the World Bank. Under the PFA mechanism, the government has established PFA Coordination Council, chaired by Prime Minister and tasked with joint review and approval of all projects financed and supported by these five IFIs. The government has also established sector-level working groups, led by sectoral ministries and agencies, which are tasked with discussion of sectoral development priorities, identification of corresponding financing needs and formulation of sectoral project pipelines with IFIs. Currently, these working groups are established in agriculture, energy, finance, healthcare, social, and urban services sectors. All IFIs projects are discussed jointly at the regular meetings of the working groups.

8. Under the PFA, the Ministry of National Economy leads a separate joint IFIs task force on review and streamlining of the government's project approval and implementation processes. The task force has recently made notable progress in addressing several impediments related to the implementation of (i) PPP transactions in healthcare sector; and (ii) sovereign-guaranteed financing of state-owned enterprises. For example, in late 2019, through the task force, ADB and the government have agreed to introduce several amendments to the Budget Code to improve the implementation of projects with state-owned enterprises in agriculture and finance sectors. These changes are expected to be completed by July 2020.

9. The government also conducts annual strategic brainstorming sessions with the World Bank, Organization for Cooperation and Development, and Asian Development Bank to discuss long-term development challenges and macroeconomic reforms. The first brainstorming session with ADB was organized in 2019 and was jointly chaired by the Prime Minister and ADB President. Finally, the National Bank of Kazakhstan and recently established Agency for Development and Regulation of Financial Markets have established separate working groups with IMF, ADB and World Bank dedicated to financial sector reforms, banking supervision and development of non-banking financial institutions.

10. In addition to PFA, in 1998 the government and EBRD have established Foreign Investors Council (FIC). FIC is the main forum for direct dialogue between the authorities and foreign investors to discuss critical issues related to the country's investment activities and business climate. It is chaired by the President of the Republic of Kazakhstan and includes, on the government side, the Prime Minister, Chairman of National Bank and several key ministries. Foreign investors are represented by high-level officers from the banking sector, energy,

manufacturing, telecommunications, legal and consulting companies and IFIs (EBRD, ADB, Eurasian Development Bank, and more recently WB). In recent years, the FIC has succeeded in pushing several policy recommendations to encourage economic modernization and local development, to improve qualifications of local staff and to simplify tax and administration procedures.

C. Achievements and Issues

8. Development partner coordination in Kazakhstan is generally effective, and this is rooted in both government leadership but also active knowledge sharing and joint work by the different stakeholders. For example, continuous engagement by the Government and other development institutions, primarily ADB, EBRD, and International Finance Corporation (IFC), facilitated the development of the Almaty Ring Road PPP Project, which complement Central Asia Regional Economic Cooperation Program (CAREC)'s related transport corridor networks.

9. Another example of coordination, in the areas of urban development and housing finance promotion is also noteworthy, and is summarized here. Research studies and reviews on Kazakhstan's housing sector conducted by development partners had provided a comprehensive assessment of the country's housing policies and programs, as seen through multiple lenses, including economic, social and environmental. The World Bank's report "Urbanization in Kazakhstan: Desirable cities, unaffordable housing and the missing rental market" highlighted the role of housing and urban sector development, enabling cities to grow, supporting the welfare of rural population in achieving goals of the national Strategy 2050. This report also raised important policy questions on issues such as unaffordable housing prices, constrained supply with high unmet demand, regulatory hurdles and other impediments to construction and investment. The UN's Country profile on Kazakhstan's housing sector then highlighted market gaps and sector challenges, including issues of governance, institutional capacity and lack of coordination at the central and regional levels.⁷ In 2018, the Housing Construction and Saving Bank of Kazakhstan (HCSBK)⁸ engaged IFC Advisory services team to perform an analysis of its existing mortgage products, assessing the domestic mortgage market and formulating new products. IFC reviewed HCSBK's lending and deposit products, its existing customer's profile, along with internal business process and provided initial recommendations to HCSBK management for further consideration. IFC's initial reports and summary of finding has been shared by HCSBK with ADB and its recommendations were then incorporated in the design of the ADB housing finance development program approved in 2019. EBRD then also initiated the processing of mortgage loan of up to EUR 50 million equivalent in tenge for the provision of residential green mortgage loans through the HCSBK. ADB, EBRD and IFC held frequent consultations to better help HCSBK address the unmet but growing demand for long-term, fixed-rate mortgage credit in local currency. This is a success development partner coordination story. To date development assistance is mostly coordinated by HCSBK. Both ADB and HCSBK, are in close coordination with key government counterparts, such as Ministry of National Economy, Ministry for Industry and Infrastructure Development and Ministry of Finance, National Holding Baiterek for further exchange in sector updates and developments.

⁷ This study provided a detailed overview of existing state housing programs, underlining government strategies, legal and regulatory framework and implementing agencies. The OECD's Urban Policy Reviews conducted by the OECD Regional Development Policy Committee provides an overview of policy perspectives of the housing and urban development sectors in Kazakhstan and set of specific policy recommendations to improve.

⁸ <https://hcsbk.kz/>.