

ASIAN DEVELOPMENT BANK & KAZAKHSTAN

www.adb.org/kazakhstan

A F A C T S H E E T

High prices for Kazakhstan's oil and gas exports, ambitious structural changes, foreign investment, and political stability have spurred the economy and improved living standards in the Central Asian country in recent years. The challenge is to ensure that development spreads the benefits more equitably. This will require an increased resilience to external economic shocks, largely by diversifying sources of growth beyond fossil fuels. Expanding manufacturing outside the oil sector, raising productivity in agriculture, and extending the reach of small- and medium-sized enterprises (SMEs) offer potential. One warning light flashes, however: rising inflation and rapid exchange rate appreciation have tracked robust growth, and sound economic management is needed to prevent overheating and encourage the private sector.

Notable progress has been made in achieving Millennium Development Goals (MDGs)—the internationally agreed targets for reducing poverty—related to primary education and gender, while health and environment objectives may not be reached by the 2015 target date. Reducing the gap between rural and urban areas is also a challenge.

After successful implementation of the state poverty reduction program for 2002–2005, the Government is mainly focusing on social assistance and the promotion of SMEs to create more jobs. Improvements in public services and greater accountability for budgetary processes, especially at the local government level, are among the priorities for reducing poverty.

Relationship with ADB

Kazakhstan has received \$527.97 million in total assistance since joining the Asian Development Bank (ADB) in 1994. It is the 21st largest borrower.

The windfall from higher world oil prices has increased government resources significantly and, therefore, reduced external borrowing needs for financing investment priorities.

In 2005, three loans were active and no new lending was approved. The Country Strategy and Program (CSP) through the end of 2006 was anchored on the MDGs and aimed to help Kazakhstan's long-term developmental

Table 1. Kazakhstan: Development Indicators

• Population	15.1 million (2005) -0.51% growth per annum (1990–2005)
• National poverty rate	27.9% (2002)
• Population living on less than \$1 a day	0.0% (2003)
• Under-5 mortality rate per 1,000 live births	73 (2004) 63 (1990)
• Adult literacy rate	99.5% (2000–2004)* 99% (1995)
• Population in urban areas	57.5% (2005) 55.7% (1995)
• Population with access to improved drinking water sources	86% (2002) 86% (1990)

* No single-year data is available. Data taken from UNESCO Institute for Statistics website.
Sources: ADB, 2006. *Basic Statistics 2006*. Manila. ADB Statistical Database System.

Table 2. Kazakhstan: Economic Indicators, 2001–2005

Economic Indicator	2001	2002	2003	2004	2005
Per capita GNI (\$)	1,350	1,520	1,810	2,260	...
GDP growth (% change per year)	13.5	9.8	9.2	9.4	9.4
CPI (% change per year)	8.4	5.9	6.6	6.9	7.6
Unemployment rate (%)	10.4	9.4	8.8	8.4	7.8
Fiscal balance (% of GDP)	-0.4	-0.3	-1.0	-0.3	0.6
Export growth (% change per year)	-3.9	12.3	31.6	55.5	40.0
Import growth (% change per year)	11.1	1.6	16.9	53.0	37.0
Current account (% of GDP)	-5.6	-2.4	-0.2	1.3	1.0
External debt (% of GNI)	70.9	73.3	81.2

... = data not available, CPI = consumer price index, GDP = gross domestic product, GNI = gross national income.
Sources: ADB, 2006. *Asian Development Outlook 2006*. Manila. ADB Statistical Database System.

Figure 1. Kazakhstan: Loans and Disbursements, 1995–2005



Cumulative Lending (as of Dec 2005) \$501.6 million

Cumulative Disbursements (as of Dec 2005) \$432.6 million

Figure 2. Kazakhstan: Technical Assistance and Loans, 1994–2005

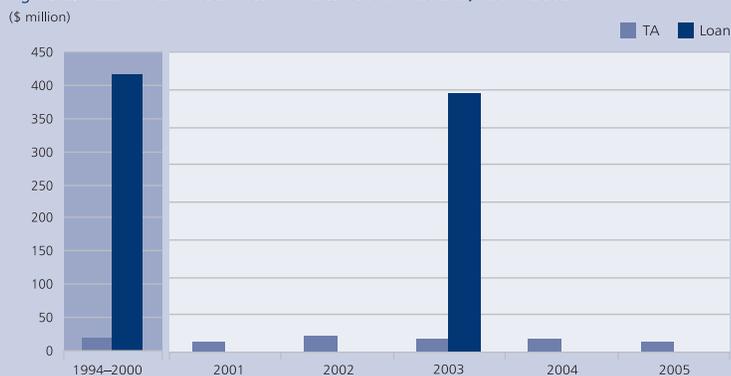
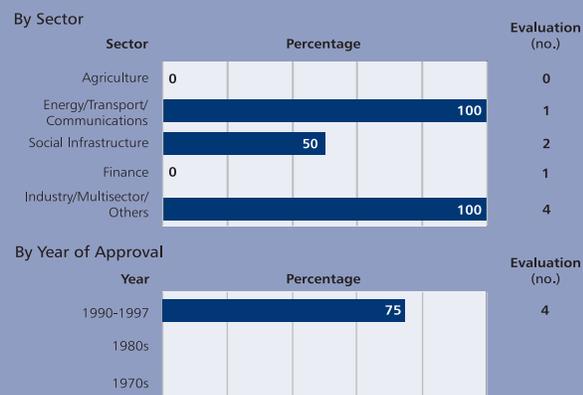


Table 3. Kazakhstan: Cumulative ADB Lending as of 31 December 2005

	Loans (no.)	Amount (\$ million)	Sector %
Agriculture and Natural Resources	3	140.0	27.9
Transport and Communications	2	102.0	20.3
Finance	1	100.0	19.9
Education	3	65.0	13.0
Multisector	2	60.0	12.0
Water Supply, Sanitation, and Waste Management	1	34.6	6.9
TOTAL^a	12	501.6	100.0

^a Includes loan component of a regional project in Kazakhstan.

Figure 3. Kazakhstan: Project Success Rates^a



^a Includes highly successful and successful projects.

Cumulative Assistance: \$527.97 million*

* Includes loans and technical assistance (as of 31 December 2005).

objective of diversifying a resource-based economy through private sector and human development, environmental sustainability, and regional cooperation. Knowledge transfer is the basis of collaboration. A Country Strategy and Program Update (CSPU) for 2006–2008 has retained the same approach, but sharpened the focus on support for rural areas and sectors such as finance and transport, which benefit regional development. The CSPs for 2004–2006 and for 2006–2008 can be found at www.adb.org/Documents/CSPs.

Impact of Assistance

A \$40 million project loan (effective in 1998) intended for water resource management and land improvements helped raise incomes by improving the reliability of irrigation to 39,200 hectares of land. About 54,000 people—of whom 21.2% were classified as poor—benefited. Had water resources been left to deteriorate, it is estimated that the resultant decrease in farm incomes would have raised poverty incidence to 36%. Instead, irrigation water supplied by the project improved agricultural productivity, which reduced poverty rate from 21.2% to 11.6% in the project area. The loan closed on 30 June 2005.

Two ADB loans totaling \$8.85 million led to improvements in nutrition by supporting projects to fortify food. Iodine-deficiency disorders and iron-deficiency anemia

were reduced significantly. Before the project, 29% of the country's population consumed iodized salt and 52.2%–65% of women in pilot regions were registered as iodine deficient. In just 2 years, there was a three-fold increase (to about 86%) in iodized salt consumption and legislation was passed to support the project. The number of children and women suffering from anemia has been reduced to 40%. About 30% of domestically consumed flour will also be fortified by the time the project ends in mid-2007.

While a third of Kazakhstan's population—about 5.5 million people—lived below the subsistence level in 1996, this share had fallen to 13.5% by 2005. Transport investment has improved access to markets and, therefore, has played an important role in stimulating economic growth in Kazakhstan. A \$52 million loan declared effective in 2002 to help rehabilitate the Almaty to Bishkek road improved 245 kilometers of road and custom facilities at the Akzhol–Chu border, and procured maintenance equipment. The road has had a major impact on creating employment, improving access from rural areas to cities, and making trade easier. About 4.5 million people in the project area benefited. The loan is due to close in December 2006.

In 2005, three technical assistance (TA) projects were approved. One, financed by a \$650,000 grant from the Japan Special Fund, will help prepare a rural water supply and

sanitation project to improve conditions in selected rural communities. A subsequent loan project is expected to meet demands for potable water supplies and sanitation. A \$500,000 TA, again grant-financed by the Japan Special Fund, was approved for financial sector governance. It is aimed at strengthening the supervision of banks, pension funds, and asset management companies.

Future Directions

Private sector operations will be the main vehicle for future ADB operations in the country and are set to gradually increase, with a focus on SME support, infrastructure, water, power supplies, and the financial sector.

Public sector TA and investments will create an enabling environment for the private sector, with selected public sector lending programs in rural development and improving water supplies. Two loans are planned for 2007–2008. A water supply, sanitation, and waste management project in 2007 will give more people access to drinking water. A project for agriculture and natural resources in 2008 will support the Government's efforts to achieve environmentally sustainable development, and ensure long-term benefits from higher farm incomes and the development of water service institutions. ADB plans to process \$50 million in loans a year for government consideration.

The nonlending program will continue to be an important instrument for ADB operations, with ADB providing about \$1.5 million a year. The Government will increase its share of funding for TA projects to 50% in 2007–2008, cutting ADB's contribution from 60% at present. TAs over the period will cover preparatory and advisory work, and economic, thematic, and sector projects.

The selection of ADB interventions is guided by the Government's priorities, performance of the portfolio, the institutional framework, and will also take into account the activities of other development partners.

Figure 4. Private Sector Operations Portfolio Distribution by Top Countries, 1983–2005 (\$ million)



Total: \$4.9 billion

Table 4. Kazakhstan: Improvement in Portfolio Quality Indicators, 2004 and 2005

Portfolio Quality Indicator	2004	2005
Disbursement ratio (%)		
All loans	37.5	38.8
Project loans	37.5	38.8
Implied average implementation period for project loans (years) ^a	6.6	7.8
Undisbursed loan balance (\$ million)	67.2	41.1
Active loans (no.)	4	4
Projects at risk—(no.) ^b	1	1
% of loans in portfolio	25.0	25.0

^a Based on approval to revised closing date. Excludes program loans only.

^b Refers to the number of loans.

Operational Challenges

The major challenge for Kazakhstan is to ensure broad-based, balanced, and pro-poor growth to reduce poverty. In response to recent rapid growth, income poverty has declined, but not adequately enough to be called pro-poor. Poverty in rural areas remains high, and regional disparities continue to widen. Ironically, the oil-rich western and agricultural southern regions, which have benefited little from the rapid economic growth, are the poorest. Environmental degradation, closely related to poverty, is rapidly constraining inclusive growth. While the bulk of private sector investment is still concentrated in the oil sector, a challenge remains to promote SMEs and improve the climate in the non-oil sectors. The private sector can play a vital role in pro-poor growth and poverty reduction. Institutional constraints, inadequate infrastructure, and poor access to long-term financing need to be addressed.

Partnership

ADB has closely coordinated with Kazakhstan's other development partners. Consultations helped establish a common understanding of the country's development needs, ensuring complementary assistance. Ongoing and proposed loan projects are either cofinanced with other development partners or implemented in conjunction with complementary projects.

ADB cooperates with civil society organizations (CSOs) in Kazakhstan to strengthen the effectiveness, quality, and sustainability of the services it provides. CSO representatives were among those participating in an ADB-financed multistakeholder workshop held in Astana in December 2005 organized to propose ways of strengthening the Committee for Water Resources (CWR). With a recently expanded mandate to administer water resources development and management, CWR needs a stronger status and more capacity to ensure effective and timely performance of its functions.

Cofinancing and Procurement

For every US dollar lent by ADB in Asia and the Pacific during 2005, cofinancing operations brought in an additional \$1.27. ADB's cofinancing operations enable its development partners—governments or their agencies, multilateral financing institutions, commercial organizations, and export credit agencies—to join ADB in financing its lending to developing members. Such additional funds are provided in varying forms of grants, guarantees, or loans.

A summary of loan projects with cofinancing is available at www.adb.org/Documents/Fact_Sheets/Kazakhstan/cofinancing/asp.

A summary of procurement contracts awarded to companies and consultants from Kazakhstan for goods and related services, civil works, and consulting services can be found at www.adb.org/Documents/Fact_Sheets/Kazakhstan/procurement.asp.

About Kazakhstan and ADB

Kazakhstan is the 14th largest shareholder among regional members and the 21st largest overall.

ADB Membership

Joined	1994
Shares held	28,536 (0.807%)
Votes	41,923 (0.949%)

Sibtain Fazal Halim is the Executive Director and **Marita Magpili-Jimenez** is the Alternate Executive Director representing Kazakhstan on the ADB Board of Directors.

Kazuhiko Higuchi is the ADB Country Director for Kazakhstan. The Kazakhstan Resident Mission (KARM) was opened in 1998 and provides the primary operational link between ADB and the government, private-sector, and civil-society stakeholders in its activities. KARM engages in policy dialogue and acts as a knowledge base on development issues in Kazakhstan.

The Kazakhstan government agency handling ADB affairs is the Ministry of Finance.

About the Asian Development Bank

ADB is dedicated to reducing poverty in the Asia and Pacific region through pro-poor sustainable economic growth, social development, and good governance. Established in 1966, it is owned by 66 members—47 from the region. In 2005, ADB operations totaled \$7.4 billion in loans, equities, guarantees, grants, and technical assistance. With headquarters in Manila, ADB has 26 offices around the world and more than 2,000 staff from over 50 countries.

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Note: All correspondence with the Governor should be sent through KARM

Useful ADB websites

Asian Development Bank
www.adb.org

Country website
www.adb.org/kazakhstan

Asian Development Outlook
www.adb.org/Documents/Books/ADO/2006/documents/kaz.pdf

Annual Report
www.adb.org/Documents/reports/annual_report/2005/