



Board of Directors

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Country Partnership Strategy  
Kazakhstan, 2017–2021  
—Promoting Economic Diversification, Inclusive  
Development, and Sustainable Growth

Attached is a paper on the above subject for discussion and general endorsement.

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# Country Partnership Strategy

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August 2017

## Kazakhstan, 2017–2021 —Promoting Economic Diversification, Inclusive Development, and Sustainable Growth

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Asian Development Bank

## **CURRENCY EQUIVALENTS**

(as of 10 August 2017)

Currency unit	–	tenge (T)
T1.00	=	\$0.0030
\$1.00	=	T332.00

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
AKC	–	applied knowledge center
CAREC	–	Central Asia Regional Economic Cooperation
COBP	–	country operations business plan
CPS	–	country partnership strategy
GDP	–	gross domestic product
IFI	–	international financial institution
INDC	–	intended nationally determined contribution
KEEP	–	Knowledge and Experience Exchange Program
KPS	–	knowledge products and services
PFA	–	partnership framework agreement
PPP	–	public–private partnership
SDG	–	Sustainable Development Goal
SME	–	small and medium-sized enterprise
SOE	–	state-owned enterprise
TA	–	technical assistance
UMIC	–	upper middle-income country
UN	–	United Nations

## **NOTE**

In this report, “\$” refers to United States dollars.

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## COUNTRY AT A GLANCE

<b>Economic<sup>a</sup></b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
GDP (\$ billion, current)	208.0	236.6	221.4	184.4	135.0
GDP per capita (\$, current)	12,387.4	13,890.8	12,806.7	10,509.9	7,585.2
GDP growth (% , in constant prices)	4.8	6.0	4.2	1.2	1.0
Agriculture	(17.4)	11.2	1.3	3.5	5.4
Industry	1.8	3.1	1.5	(0.3)	0.6
Services	10.4	6.9	5.7	3.1	0.9
Gross domestic investment (% of GDP)	25.2	24.6	25.8	27.9	27.9
Gross domestic saving (% of GDP)	43.5	39.9	40.8	34.6	33.9
Consumer price index (annual % change)	5.1	5.8	6.7	6.6	14.6
Liquidity (M2) (annual % change)	7.3	1.5	(8.2)	7.9	46.4
Overall fiscal surplus (deficit) (% of GDP)	(2.8)	(1.9)	(2.8)	(2.2)	(1.6)
Merchandise trade balance (% of GDP)	18.3	14.7	16.4	6.9	6.9
Current account balance (% of GDP)	0.5	0.5	2.8	(2.8)	(6.2)
External long-term debt service (% of exports of goods and services)	34.8	35.1	36.6	71.9	71.3
External debt (% of GDP)	65.8	63.4	71.2	83.2	119.3
<b>Poverty and Social</b>	<b>2009</b>			<b>2015</b>	
Population (million)	16.1			17.5	
Population growth (annual % change)	2.6			1.5	
Maternal mortality ratio (per 100,000 live births)	24.0			12.0	
Infant mortality rate (below 1 year/per 1,000 live births)	18.3			9.3	
Life expectancy at birth (years)	68.4			72.0	
Adult literacy (%)	99.7			99.8	
Primary school net enrollment (%)	93.8	[2010]		99.2	
Underweight children (% below 5 years old)	3.7	[2010]		2.6	[2016]
Population below poverty line (%)	8.2			2.7	
Population with access to safe water (%)	93.9	[2010]		97.3	
Population with access to sanitation (%)	97.3	[2010]		98.0	
<b>Environment</b>	<b>2015</b>				
Carbon dioxide emissions (million tons)	262.9	[2013]			
Carbon dioxide emissions per capita (tons)	15.4	[2013]			
Forest area (million hectares)	12.6				
Urban population (% of total population)	53.2				
<b>ADB Portfolio (active loans)<sup>a</sup></b>	<b>As of 31 December 2016</b>				
Total number of loans					
Sovereign				5	
Nonsovereign				3	
Total loan amount (\$ million) <sup>b</sup>					
Sovereign				1,055.3	
Nonsovereign				80.2	
Disbursements:					
Disbursed amount (\$ million, 2016)				125.2	
Disbursement ratio (%)				34.3	

( ) = negative, [ ] = latest year for which data are available, ADB = Asian Development Bank, GDP = gross domestic product, M2 = broad money.

<sup>a</sup> Covers ordinary capital resources financing for projects and programs, including policy-based lending.

<sup>b</sup> Sources: Government of Kazakhstan. Committee on Statistics; ADB. 2017. *Asian Development Outlook 2017: Transcending the Middle-Income Challenge*. Manila; World Bank. World Development Indicators. <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators> (accessed 31 July 2017); ADB. Loan, Technical Assistance, Grant, and Equity Approvals database; and ADB (Controller's Department and Private Sector Operations Department).

## I. COUNTRY PARTNERSHIP STRATEGY SNAPSHOT

1. **Key development challenges.** Kazakhstan surged to upper middle-income status in 2006 and has since become a major economic power in Central Asia. However, the decline in hydrocarbon prices in 2014 revealed economic vulnerabilities stemming from the country's high dependence on commodity export revenues, as well as institutional and governance constraints. Kazakhstan faces three main challenges to achieving diversified, inclusive, and sustainable growth.<sup>1</sup> First, economic diversification efforts are hampered by shortcomings in the finance sector and a weak enabling environment for developing the private sector. Second, spatial and social inequalities are exacerbated by limited access to infrastructure and quality services outside the main cities and the need to improve the management and efficiency of public service delivery. Third, the growth model remains unfriendly to the environment and the economy is vulnerable to the impacts of climate change.

2. **Government's development agenda.** Kazakhstan's long-term development strategy focuses on improving the quality of life of its population and on becoming one of the world's 30 most developed countries by 2050. In response to the 2014 decline in oil and other commodity prices, government authorities adopted several measures to buttress the economy against future external shocks, including moving to a floating exchange rate; introducing countercyclical programs; and implementing structural reforms to improve governance, accountability, and civil service efficiency. To sustain economic growth, in 2017 President Nazarbayev introduced the Third Modernization of Kazakhstan, a strategic document outlining the country's development priorities, focusing on: (i) accelerated technological upgrading; (ii) improved business environment and expanded private sector activities; (iii) macroeconomic stability; (iv) enhanced quality of human capital; and (v) institutional change, national security, and the fight against corruption.<sup>2</sup> The government has also launched state programs to develop the agriculture sector, entrepreneurship, and small and medium-sized enterprises (SMEs).

3. **ADB strategic objectives.** The aim of this country partnership strategy (CPS) is for the Asian Development Bank (ADB) to assist Kazakhstan in achieving its medium-term development targets and fulfilling its global obligations under the Sustainable Development Goals' (SDGs) agenda. ADB's relatively limited engagement with the country so far does not reflect its potential in assisting with innovative development and financing solutions that address Kazakhstan's enhanced needs as an upper-middle income country (UMIC). Reflecting an increasingly flexible and engaging approach, ADB's support will continue to be demand-driven, focused and selective, yet adaptive to changing circumstances. ADB designed the CPS to meet three main objectives. First, to help lessen the dependency on commodity exports, it will support economic diversification by promoting private sector development and improving access to finance. Second, to help reduce inequalities, ADB will help Kazakhstan realize quality infrastructure and improve the quality of public and social services. Third, to lessen vulnerabilities associated with climate change, ADB will support achieving sustainable growth in line with the country's greenhouse gas mitigation targets and commitments to improve resilience to climate change. The activities ADB will undertake to implement the CPS will also help in (i) improving governance and institutions, (ii) promoting regional cooperation and integration, (iii) enhancing macroeconomic resilience, (iv) supporting project finance and public-private partnerships, and (v) fostering gender mainstreaming.

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<sup>1</sup> Inclusive and Sustainable Growth Assessment (accessible from the list of linked documents in Appendix 3).

<sup>2</sup> Official Site of the President of the Republic of Kazakhstan. The President of Kazakhstan Nursultan Nazarbayev's Address to the Nation of Kazakhstan. January 31, 2017. "Third Modernization of Kazakhstan: Global Competitiveness." [http://www.akorda.kz/en/addresses/addresses\\_of\\_president/the-president-of-kazakhstan-nursultan-nazarbayevs-address-to-the-nation-of-kazakhstan-january-31-2017](http://www.akorda.kz/en/addresses/addresses_of_president/the-president-of-kazakhstan-nursultan-nazarbayevs-address-to-the-nation-of-kazakhstan-january-31-2017) (accessed 31 July 2017).

4. **ADB value addition.** ADB's operations will add value to the economy by creating jobs and providing broad knowledge-based support. Private sector investment and development, knowledge transfer, innovation support, and capacity building will drive the diversification agenda, complement public sector investment projects, and help develop inclusive and climate-proofed infrastructure. ADB will help strengthen development partners' coordination and deliver regional public goods that generate positive externalities to neighboring countries through knowledge assistance in support of operations. The Central Asia Regional Economic Cooperation (CAREC) Program and other regional cooperation and integration initiatives will enhance the benefits of domestic projects that leverage on ADB's international perspective and experience.

## II. COUNTRY DEVELOPMENT CONTEXT

5. **Socio-economic context.** After achieving independence in 1991, Kazakhstan faced serious economic challenges throughout the 1990s. Eventually, windfall revenues from the export of oil, gas, and other commodities, together with structural reforms, lifted Kazakhstan to upper-middle-income status in 2006. Today, the country is a major economic and political power in Central Asia. The quality of life of average Kazakh citizens improved significantly during the past two decades as incomes rose and unemployment rates dropped. Nonetheless, Kazakhstan continues to struggle to diversify its economy, strengthen its institutions, and balance regional disparities between its few economic centers and a vast periphery, where public services remain scarce and of poor quality. The economy remains heavily dependent on hydrocarbons and largely driven by capital-intensive extractive industries.<sup>3</sup> Over the past 25 years, agriculture and manufacturing outputs have been declining as a share of gross domestic product (GDP), employment, and exports, with jobs mostly created in the service sector.<sup>4</sup>

6. **Economic shocks.** Excessive reliance on commodity exports has made Kazakhstan's economy vulnerable to external shocks. GDP growth slowed significantly because of lower commodity prices following the 2008 global financial crisis. A similar trend followed the oil price plunge and the slowdown of the economies of major trading partners in 2014, when the shortfall in export revenues reduced inflows to the National Fund of the Republic of Kazakhstan, diminished budget revenues, lowered investments and increased pressure on the exchange rate. Such developments contributed to the decision made by the National Bank of Kazakhstan to move to a floating exchange rate regime, combined with the adoption of a monetary policy targeting interest rates. This led to an adjustment of exchange rates and sustained inflation because of the large share of imported goods. The prolonged impact of these external economic shocks is substantially affecting the earlier results achieved by Kazakhstan in terms of economic development and inclusiveness.

7. **Economic diversification and resilience.** Creating a competitive manufacturing sector remains a major challenge for Kazakhstan, as excessive reliance on natural resource exports has increased the price of nontradable goods. The manufacturing sector has been unable to drive productivity and employment growth. Similarly, diversification of the tertiary sector toward sophisticated services with high export potential is yet to occur on a significant scale. To increase labor productivity and enhance resilience against external shocks, Kazakhstan needs to acquire productive capabilities toward tradable goods and services. A diversifying economy makes it

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<sup>3</sup> Extractive industries amount to about 30% of GDP—almost half of budget revenues and more than two-thirds of exports. Organisation for Economic Co-operation and Development (OECD). 2016. *Multi-dimensional Review of Kazakhstan: Volume 1. Initial Assessment*. Paris.

<sup>4</sup> The share of processed food in exports was only 0.83% of total exports in 2015. Increased agricultural production would help utilize existing food processing capacities and increase the non-oil value added in the processing sector. United Nations Comtrade Database. <https://comtrade.un.org/> (accessed 31 July 2017).

easier to adapt to the changing external environment, in turn reducing vulnerabilities to commodity price shocks, and increasing economic resilience.

8. **Countercyclical government policies.** After the 2014 oil price shock, the government launched *Nurly Zhol 2015–2019*, a \$9 billion economic stimulus package to improve the country's transport and logistics capacity, expand its economic and social infrastructure, and support SMEs and business activities.<sup>5</sup> *Nurly Zhol* has been effective in boosting public investment and subsidizing credit for targeted businesses. At the end of 2016, to support home ownership and residential construction through interest rate subsidies, the government introduced the *Nurly Zher* program.<sup>6</sup> To reduce economic vulnerabilities, the government also strengthened its state program for new industrial development, and launched institutional reform and new privatization plans of state-owned enterprises (SOEs).

9. **State-owned enterprises.** Despite some early privatization efforts, SOEs still dominate the economy in a variety of sectors. They tend to be large and lack incentives to continue to improve the quality and efficiency of their services and products—while often keeping tariffs and prices below cost recovery levels. These factors act as deterrents to promoting innovation and increasing private sector participation in the economy, especially of SMEs. As a matter of fact, in 2015 the gross value added by SMEs was only 24.9% of total GDP, with medium-sized companies contributing less than 5.0% to GDP, and small businesses being predominantly low-productivity sole proprietorships.

10. **Employment and labor force.** Since 2011, Kazakhstan has consistently recorded low unemployment rates (below 5.0%) with over a quarter of the employed being self-employed.<sup>7</sup> Participation of the working age population in the labor force is 71.1%<sup>8</sup> with the highest female labor force participation rate in Central Asia. However, the gender wage gap continues to be a concern, with women earning only a fraction of men's earnings.<sup>9</sup> Kazakhstan has an educated labor force thanks to high enrollment and education levels, but ranks low in terms of quality of education.<sup>10</sup> The quality of education is becoming a constraint for private sector operations, especially in rural areas. A skills mismatch also presents problems, as the labor market profile shows high demand for low-level skills and low demand for high-level skills, even though enrolment patterns show declining trends in lower-level technical and vocational training.<sup>11</sup>

<sup>5</sup> Government of Kazakhstan. 2015. *State Program of Infrastructure Development Nurly Zhol for 2015–2019*. Astana. [https://primeminister.kz/en/page/view/gosudarstvennaya\\_programma\\_infrastrukturного\\_razvitiya\\_nurli\\_zhol\\_na\\_2015\\_2019\\_godi](https://primeminister.kz/en/page/view/gosudarstvennaya_programma_infrastrukturного_razvitiya_nurli_zhol_na_2015_2019_godi) (accessed 31 July 2017).

<sup>6</sup> Government of Kazakhstan, 2016. State Program of House Construction “Nurly Zher” for 2017-2031. Astana. [https://primeminister.kz/en/page/view/gosudarstvennaya\\_programma\\_zhilishchnogo\\_stroitelstva\\_nurli\\_zher](https://primeminister.kz/en/page/view/gosudarstvennaya_programma_zhilishchnogo_stroitelstva_nurli_zher) (accessed 31 July 2017).

<sup>7</sup> International Labor Organization. <http://www.ilo.org/ilostat/> (accessed 2 June 2017).

<sup>8</sup> Excluded are economically inactive working age persons who are not willing or able to work.

<sup>9</sup> In 2012, women's earnings were only 68% of men's earnings on average. Government of Kazakhstan, Ministry of National Economy, Committee on Statistics. 2012. *Average Monthly Nominal Earnings of One Employee by Gender of Republic of Kazakhstan in 2012*. Astana.

<sup>10</sup> The 2015 Program for International Student Assessment (PISA) report published by the Organisation for Economic Co-operation and Development (OECD) ranks Kazakhstan at the 42nd position in mathematics, 42nd in science, and 52nd in reading—out of 72 countries. [http://iac.kz/sites/default/files/nac\\_otchet\\_pisa-2015\\_final](http://iac.kz/sites/default/files/nac_otchet_pisa-2015_final) (accessed 31 July 2017).

<sup>11</sup> Estimates from the Information-Analytic Center suggest that the proportion of vacancies for skilled craftspersons needed in the labor market will be as high as 95% of total job vacancies by 2018. However, the proportion of students enrolling in training for craft professions is declining, from 51% of total technical vocational and educational training students in 1991 to only 19.4% in 2015. Information Analytic Center. 2016.

11. **Inclusive growth.** Most of the country's value addition is created in the two main cities—Astana and Almaty—and in the oil producing provinces. As a result, income levels and access to quality services are unequally distributed across Kazakhstan's 14 regions and two city *akimats* (local executive bodies). Low agricultural productivity and poor sector governance limit income opportunities in rural areas, impeding growth and inclusion of the rural population. In 2013, salaries paid to employees in agriculture, where most of the self-employed are concentrated,<sup>12</sup> were 90% lower than the national average.<sup>13</sup> Moreover, a large but decreasing share of self-employed—from 29.5% in 2014 to 13.6% in 2016—earns less than the subsistence minimum. The subsistence minimum is low, at T21,612 per month in 2016 (\$63.2 per month or \$2.1 per day).<sup>14</sup> In the same year, the average monthly wage also varied greatly across regions, from 6.2 times the subsistence level in Atyrau, to only 2.2 times in South Kazakhstan.

12. The differences across the regions of Kazakhstan extend to unequal access to quality social and urban services outside the major cities. Most of the water supply and sanitation, solid waste treatment, district heating, and urban road infrastructure of secondary, provincial centers were built during Soviet times and have largely deteriorated. Conditions in smaller towns and agglomerations are similar.<sup>15</sup> Access to and the quality of health care is also considerably poorer in rural areas than in urban centers. In 2014, the average number of doctors was 46 per 10,000 people in the urban centers, but only 11 per 10,000 in rural areas. This situation has led to large differences in health outcomes such as maternal mortality, with 5.1 deaths per 100,000 births in Almaty city compared with 25.0 deaths per 100,000 births in Atyrau and Akmola oblasts.<sup>16</sup>

13. **Green growth performance and climate change.** Kazakhstan has achieved most of the original and additional targets of the Millennium Development Goals, such as poverty reduction, access to primary education, promotion of gender equality and women empowerment, and improvement in children's and maternal welfare, even before 2015.<sup>17</sup> However, environmental sustainability (goal 7) has only been partially achieved. The high rates of economic growth before the 2014 oil price drop created negative externalities such as environmental pollution through industrial and household waste, a coal-based energy mix with virtual absence of renewable energy sources,<sup>18</sup> and a generally high energy intensity caused by inefficiencies and subsidies.<sup>19</sup> The rural poor suffer the most from these effects as their income does not allow for costly substitutes or relocation. Environmental pollution is also increasingly affecting the quality of life, especially in the cities, with rising levels of air pollution from stationary and mobile sources, and growing concerns regarding solid waste. While Kazakhstan has low vulnerability to climate change, the frequency and magnitude of extreme climatic events such as heat waves, heavy

<sup>12</sup> In 2015, agriculture represented 47.0% of total self-employed workers, and 70.4% of those working in agriculture were self-employed. The strong link between self-employment and informal employment in agriculture is a predominately rural phenomenon, concentrated in the southern part of the country: the regions of Almaty, South Kazakhstan, and Zhambyl are home to 48% of the self-employed.

<sup>13</sup> The minimum wage of 16.5% of the average wage (in 2014) is too low to be effective.

<sup>14</sup> Exchange rate of T342.16 = \$1 (2016 average): National Bank of Kazakhstan; Subsistence minimum 2016: Government of Kazakhstan, Ministry of National Economy, Committee on Statistics.

<sup>15</sup> Government of Kazakhstan, Mayor's Office of Astana. Regional Development Program until 2020. <http://astana.gov.kz/en/modules/material/11275> (accessed 31 July 2017).

<sup>16</sup> OECD. 2016. *Multi-dimensional Review of Kazakhstan: Volume 1. Initial Assessment*. Paris.

<sup>17</sup> United Nations. 2010. *2010 Millennium Development Goals in Kazakhstan*. Astana.

<sup>18</sup> As of January 2016, the total installed power generation capacity in Kazakhstan was 21,307 megawatts, of which 87.0% was based on fossil fuels, with 12.0% from hydropower plants and 0.6% from wind and solar.

<sup>19</sup> The *Global Energy Statistical Yearbook 2016* ranked Kazakhstan the seventh most energy-intensive country in the world. Data are based on constant prices at purchasing power parity, with Kazakhstan producing 0.217 kilograms of oil equivalent per United States dollar (2005 constant price and purchasing power). Enerdata. 2016. *Global Energy Statistical Yearbook 2016*. Grenoble.

snow and sleet, and floods are expected to rise, also affecting cities such as Astana, Almaty, and their surroundings. In addition, the overall municipal, water, and transport facilities are vulnerable to risks associated with uncertain changes in precipitation, rising aridity, and extreme weather.

14. **Regional cooperation and integration.** As the largest economy in Central Asia in terms of GDP and surface area, Kazakhstan is an important and active member of the CAREC Program. The country has benefited from transport projects along CAREC corridors, but it is yet to fully exploit its strategic position to facilitate smooth trade across borders and establish regional and global value chains.<sup>20</sup> Kazakhstan joined the Eurasian Economic Union in 2014, and the World Trade Organization in 2015, and remains committed to accelerating integration and cooperation among Central Asian countries and with the rest of the world. Kazakhstan also intends to join the Organisation for Economic Co-operation and Development as a full member. The forthcoming CAREC 2030 strategy is expected to support transforming Kazakhstan's transport corridors into economic corridors, and opening new trade and business opportunities across Central Asia. Besides, as the scope for CAREC operations expands, and as projects under the 'Belt and Road Initiative'<sup>21</sup> are going to be implemented, Kazakhstan's regional economic role is expected to increase considerably. The country will play a growing role as a hub through its transit and logistical infrastructure, which can generate positive externalities and regional public goods and connect Central Asian countries with each other and with neighboring regions. Kazakhstan is also well-positioned to promote regional financial integration among Central Asian countries, including through the Astana International Financial Centre.

### III. COUNTRY STRATEGY FRAMEWORK

#### A. Lessons from Previous Strategy

15. **Country partnership strategy final review and validation.** The CPS (2017–2021) incorporates recommendations of the final review of the 2012–2016 CPS and its validation report by ADB's Independent Evaluation Department.<sup>22</sup> ADB operations were rated successful by the final review and successful on the borderline by the validation report. Both documents make recommendations, which are fully taken into account in this CPS: (i) broaden the scope and scale of operations to enhance ADB's impact; (ii) increase support for private sector development, private sector operations, and public-private partnerships (PPPs); (iii) assist in setting up regional activities and value chains; (iv) feature job creation impact in ADB projects; (v) strengthen development partner coordination; and (vi) prepare the new CPS with a development results framework using practical performance indicators for accountability. ADB will also pay special attention to the quality of projects in the transport sector.

#### B. National Development Strategy

16. **Long-term vision.** The Kazakhstan-2050 strategy<sup>23</sup> aims to transform the country's economy into one that is knowledge-based and diversified; driven by the private sector; and

<sup>20</sup> Kazakhstan ranked 119th out of 190 economies in the World Bank's Ease of Doing Business Survey for trading across borders. World Bank. 2016. *Doing Business 2017: Equal Opportunity for All*. Washington, DC.

<sup>21</sup> The State Council of the People's Republic of China. *The Belt and Road Initiative: From Initiative to Reality*. Beijing. <http://english.gov.cn/beltAndRoad/> (accessed 31 July 2017).

<sup>22</sup> ADB. 2016. *Country Partnership Strategy Final Review: Kazakhstan (2012–2016)*. Manila; and ADB. 2017. *CPS Final Review Validation: Kazakhstan—Country Partnership Strategy Final Review Validation, 2012–2016*. Manila.

<sup>23</sup> Official Site of the President of the Republic of Kazakhstan. Address by the President of the Republic of Kazakhstan, Leader of the Nation, N.A. Nazarbayev on Strategy "Kazakhstan-2050": New Political Course of the Established

enabled by widespread reforms. The strategy's overarching goal is for Kazakhstan to become one of the 30 most advanced economies in the world by 2050, based on income and quality of life. To achieve this ambitious target, the strategy calls for an efficient and sustainable economy, a clean environment, accessible high-quality education and public health care, equal opportunities for men and women, and a highly productive labor force.

17. **Medium-term strategy.** In January 2017, President Nazarbayev announced the Third Modernization of Kazakhstan as the country's medium-term development strategy. This strategy follows the 2015 adoption of the 100 Concrete Steps to Implement 5 Institutional Reforms: to create a modern and professional civil service, ensure rule of law, promote industrialization and economic growth, unify the nation, and enhance transparency and accountability.<sup>24</sup> The strategy focuses on: (i) accelerating the technological modernization of the economy; (ii) improving the business environment; (iii) ensuring macroeconomic stability; (iv) enhancing human capital; and (v) promoting institutional change, security, and the fight against corruption. The CPS is closely aligned to this strategy and assists the government with its implementation. This strategy is complemented by the "National Technology Initiative" strategic plan for development until 2025, a 2017–2021 program for the development of the agriculture sector;<sup>25</sup> a 2016–2019 program for the health sector; and other sector plans with which the CPS is also closely aligned.

18. **Green economy.** In 2013, Kazakhstan adopted the "green economy" concept,<sup>26</sup> which outlines the institutional framework fostering sustainable growth and defines short, medium, and long-term targets for improving the country's environmental performance across sectors such as energy, water, agriculture, and waste management.<sup>27</sup> In 2016, the government revised the concept to improve its implementation. Climate change mitigation and adaptation targets include: (i) increasing the share of renewables in electricity generation to 3% of total energy generation by 2020 and to 30% by 2030; (ii) reducing the energy intensity of GDP relative to 2010 levels by 25% by 2020 and by 30% by 2030; (iii) decreasing carbon dioxide emissions of the energy sector by 15% by 2030 from 2013 levels; (iv) eliminating water deficiency at the river basins by 2030; and (v) improving wheat yield and reducing the costs of irrigation water. Kazakhstan signed the Kyoto Protocol and submitted its intended nationally determined contributions (INDCs) in 2015. The INDCs commit Kazakhstan to reduce emissions by 25% by 2030, compared with 1990 levels. Kazakhstan is also a signatory to the Paris climate agreement since August 2016.

19. **Sustainable development goals.** Kazakhstan is aspiring to play an increasing regional role in Central Asia as United Nations' (UN) member and center for regional organizations. In late 2015, the government started an exercise to reflect the 17 SDGs in the Kazakhstan-2050 strategy and include its global obligations as part of the national agenda. Two similar exercises were also

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State. [http://www.akorda.kz/en/addresses/addresses\\_of\\_president/address-by-the-president-of-the-republic-of-kazakhstan-leader-of-the-nation-nazarbayev-strategy-kazakhstan-2050-new-political-course-of-the-established-state](http://www.akorda.kz/en/addresses/addresses_of_president/address-by-the-president-of-the-republic-of-kazakhstan-leader-of-the-nation-nazarbayev-strategy-kazakhstan-2050-new-political-course-of-the-established-state) (accessed 31 July 2017).

<sup>24</sup> Embassy of the Republic of Kazakhstan to the United States. 2015. *100 Concrete Steps to Implement the 5 Institutional Reforms*. <http://www.kazakhembus.com/content/100-concrete-steps-to-implement-5-institutional-reforms> (accessed 31 July 2017).

<sup>25</sup> A. Seisembayeva. 2017. Government Presents New Agriculture Development Programme. *The Astana Times*. 8 April. [http://astanatimes.com/2017/04/government-presents-new-agriculture-development-programme\\_](http://astanatimes.com/2017/04/government-presents-new-agriculture-development-programme_) (accessed 31 July 2017).

<sup>26</sup> Government of Kazakhstan. 2013. *Decree of the President of the Republic of Kazakhstan on the Concept of Transition of the Republic of Kazakhstan to the "Green Economy."* No. 577. Astana (30 May).

<sup>27</sup> Organization for Security and Co-operation in Europe (OSCE). 2013. *21st Economic and Environmental Forum: Increasing Stability and Security: Improving the Environmental Footprint of Energy-Related Activities in the OSCE Region—Compilation of Consolidated Summaries*. Paris.

started by the National Analytical Center at Nazarbayev University and the UN country team for Kazakhstan.<sup>28</sup> The UN exercise has identified the presence of four SDG accelerators where fast progress is needed to ensure the country proceeds steadily towards achieving its targets: (i) reforms in domestic governance, particularly local governance; (ii) policies to reduce social inequalities, especially for women and children; (iii) measures to diversify the economy, reduce the country's reliance on natural resources, and engage the private sector; and (iv) elimination of subsidies on fossil fuel and water use to help promote green growth. The UN report also highlighted the need to improve the quality of education. ADB—in coordination with other development partners under the Partnership for Development initiative (para. 21)—is contributing to the process aimed at reflecting SDG targets in the Kazakhstan-2050 strategy and filling gaps to reach government development targets by means of knowledge and financial interventions articulated through this CPS.

### C. Role of Development Partners

20. **Existing donor coordinating mechanism.** The government and ADB will maintain open dialogue and close coordination with the assistance provided concurrently by other multilateral and bilateral development partners. To improve agency coordination on implementing infrastructure and government programs, in 2014, Kazakhstan adopted a partnership framework agreement (PFA) with five international financial institutions (IFIs): ADB, the European Bank for Reconstruction and Development, the European Investment Bank, the Islamic Development Bank, and the World Bank. Under the PFA, a coordinating council, chaired by the Prime Minister, approves investment projects discussed at the sector level in separate working groups.

21. **Partnership for development.** The PFA-centered development partners' coordination mechanism has served Kazakhstan well so far. Since 2016, however, the need has emerged to expand the development partners' platform beyond IFIs and embrace a wider group of multilateral and bilateral agencies, to ensure that combined efforts to achieve the country's development targets fully reflect its global obligations under the SDG agenda in the Kazakhstan-2050 strategy. To assist in this effort, ADB contributed to the establishment of a "Partnership for Development" platform with the government and other local stakeholders,<sup>29</sup> including the larger community of multilateral and bilateral agencies. In April 2017, a brainstorming exercise led to convergence among key players on the idea of creating such a platform and organizing a periodic Kazakhstan Development Forum to: (i) assess the extent of investment and knowledge gaps to be filled for achieving the country's development targets; (ii) facilitate introducing policy reforms to ensure targets are met on time; and (iii) coordinate on implementing action plans through specific investment and knowledge interventions across development partners.<sup>30</sup> Forum deliberations will help ADB identify investment and knowledge gaps to be financed through its operations, avoiding overlaps and capturing synergies with other development partners.

22. **ADB's coordination efforts.** ADB will continue to help improve coordination with other development partners and explore cofinancing opportunities. It will strengthen its outreach to the private sector and will work closely with think tanks, universities, and civil society organizations in designing, implementing, and monitoring ADB projects, as well as developing new approaches

<sup>28</sup> The "Rapid Integrated Assessment" of Kazakhstan's readiness for implementing and monitoring the SDGs, recently prepared by the Kazakhstan UN country team, found the presence of a significant overlap between national and sector plans and SDG targets, with 56% of the 126 sub-targets covered, although some major gaps remain in policy formulation and data availability.

<sup>29</sup> Other local stakeholders include academia, the business community, and civil society.

<sup>30</sup> The first Kazakhstan Development Forum, to be jointly organized by the government and development partners under active ADB support, is being planned for late 2017.

and innovative solutions through knowledge products. ADB will also help leverage Kazakhstan's role in Central Asia and foster regional cooperation through the CAREC Program and the creation of applied knowledge centers (AKCs) in selected sector clusters. ADB's efforts to strengthen Kazakhstan's regional role will help generate positive externalities and create a variety of public goods through the expansion of trade and economic corridor development initiatives.

#### **D. ADB's Strategic and Thematic Objectives and Operational Priorities**

23. **Country partnership strategy objective.** ADB is committed to support the government in building a more economically diversified, socially inclusive, and environmentally sustainable Kazakhstan that enjoys high growth rates and stable macroeconomic conditions. These objectives support the SDGs' implementation and are in line with ADB's corporate priorities enunciated in its Midterm Review of Strategy 2020.<sup>31</sup> The CPS will be demand-driven, focused and selective, yet dynamic and responsive to changing circumstances. It will add value to operations by providing enhanced support to the delivery of knowledge solutions, by introducing innovative finance solutions, improving development partners' coordination, and assisting with the promotion of regional cooperation and integration and the development of regional public goods.

24. **ADB contribution.** ADB will contribute to financing Kazakhstan's infrastructure investment needs, delivering public and social services, promoting structural reforms, implementing SOE reforms and privatization plans, and supporting private sector development and investments. ADB operations will contribute to creating jobs, fostering innovation, generating and disseminating knowledge, introducing international best practices, and building the capacity of public institutions. Interventions will complement public sector investment projects and help implement the country's economic diversification plans. ADB's regional perspective and experience will enhance the benefits of domestic projects through the CAREC Program, activities implemented by AKCs, and other initiatives. Developing transport and broader economic corridors will help link local infrastructure to international networks, benefit from agglomeration economies, and create positive externalities to neighboring countries by reducing transport and logistics costs.

25. **Strategic pillars.** ADB operations will be implemented under this CPS as part of three distinct, yet interconnected strategic pillars: economic diversification, inclusive development, and sustainable growth (Figure). These pillars underline the logical framework for ADB's interventions in Kazakhstan, given an environment of evolving needs, the ongoing fragile recovery from the recent economic downturn, and the government's ambitious development agenda.

26. **Pillar 1: Strengthening foundations for economic diversification.** ADB will assist in strengthening the foundations for Kazakhstan's economic diversification by easing access to finance and actively promoting private sector development. Operations will support the growth and expansion of SMEs and the production of tradable goods and services, thus helping the private sector expand while reducing the country's dependency on commodity exports.

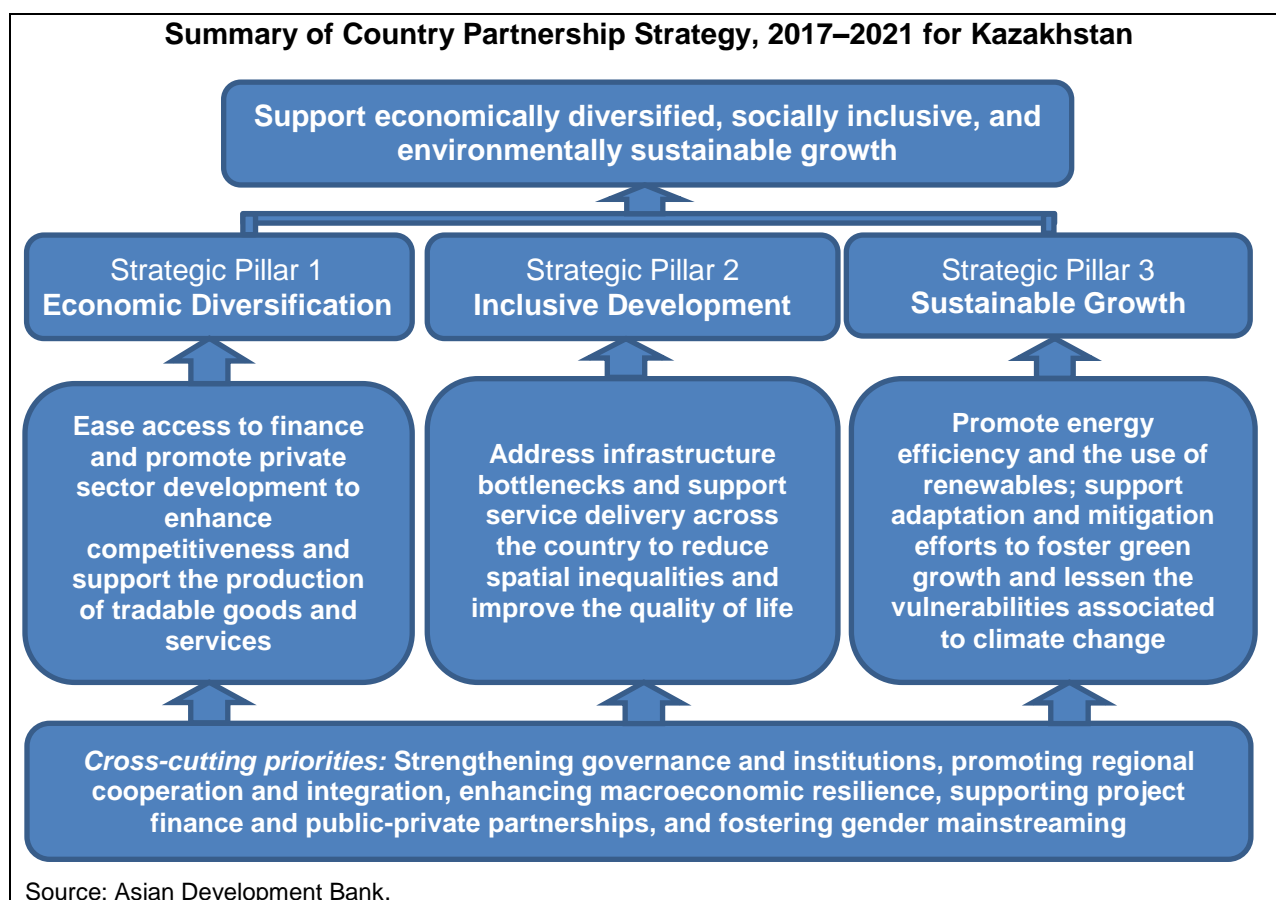
- (i) **Easing access to finance.** ADB will continue providing support to facilitate access to finance for micro-enterprises and SMEs. It will also contribute to introducing finance sector reforms to strengthen the banking industry, including interventions aimed at solving issues with nonperforming loans, encouraging bank lending, and promoting financial literacy. ADB will help enhance finance sector governance as

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<sup>31</sup> ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

well as deepen and widen the financial system through capital and insurance market development.

- (ii) **Promoting private sector development.** ADB will increase efforts to expand its private sector operations and investments in agribusiness, infrastructure, and other sectors, depending on local demand and opportunities. It will promote entrepreneurship and development of SMEs, in line with government targets. ADB will assist Kazakhstan in implementing SOE reforms through commercialization and privatization, serving as an honest broker and providing post-privatization finance as needed for business turnarounds, efficiency improvements, and expansion. ADB will consider investing in equity funds and private companies and offer continued support for trade finance to local banks, aiming to close market gaps and promote international trade activity of companies in Kazakhstan.



27. **Pillar 2: Sustaining inclusive development and reducing inequality.** The CPS will contribute to sustaining inclusive development and reducing spatial and gender inequalities, by addressing the infrastructure bottlenecks existing both nation-wide and at the regional level, and supporting the delivery of good quality social and public services while promoting inclusive and sustainable urbanization.

- (i) **Addressing infrastructure bottlenecks.** Addressing infrastructure bottlenecks will help reduce spatial inequalities across the country. ADB will continue to develop inclusive infrastructure connecting urban and rural areas. Interventions will focus on expanding the potential for revenue generation and on laying the

foundations to improve labor productivity and enhance the quality of jobs. ADB will support the implementation of government programs promoting transport, affordable housing, municipal service delivery, agriculture, irrigation, and social infrastructure enhancement. Interventions will include developing infrastructure connecting Central Asia through the CAREC Program.

- (ii) **Supporting service delivery.** ADB will help strengthen the quality, efficiency, and accessibility of social, municipal, and other public services across the country to reduce inequalities. It will assist in reforming the structure and management of the social and utility sectors to ensure their viability for private sector participation through PPP and other modalities. ADB will promote the introduction of policy reform and the institutionalization of cross-sector coordination and cooperation mechanisms in support of service delivery.

28. **Pillar 3: Fostering sustainable, green growth in response to climate change.** ADB will foster sustainable, green growth in response to climate change by promoting energy efficiency and the use of renewable energy sources, and supporting climate change mitigation and adaptation efforts.

- (i) **Promoting energy efficiency and renewables.** ADB will support achieving Kazakhstan's commitments at the Paris climate agreement by formulating and implementing resolute energy efficiency policies, including updating technologies and equipment. ADB will help resolve bottlenecks in electricity grids and promote the use of renewable energy sources. It will support the development of green housing and green transport systems, and the adoption of reforms to facilitate cross-border energy and emissions trade.
- (ii) **Supporting climate change mitigation and adaptation efforts.** ADB will help Kazakhstan reach its climate change mitigation and adaptation goals identified in its national plans and INDCs. Interventions may include efficient low-carbon, alternative electricity, heat production and transmission, expansion and modernization of climate-proofed infrastructure, and focused financial products promoting energy efficiency and climate resilience. ADB will support enhancing solid waste management and sanitation systems to improve water quality and reduce environmental pollution. Interventions will be in line with Kazakhstan's greenhouse gas mitigation efforts and commitments to reduce climate change vulnerabilities.

29. **Crosscutting priorities.** In addition to the three strategic pillars in paras. 26–28, ADB operations will align with five crosscutting priorities.

- (i) **Strengthening governance and institutions.** ADB will continue to assist the government in improving the governance, transparency, and accountability of public institutions. Assistance may extend to enhance expenditure and tax revenues systems; promote civil service and public sector management reforms; and improve the regulatory improvement. ADB will also support the government in the fight against corruption in line with the Third Modernization of Kazakhstan.
- (ii) **Promoting regional cooperation and integration.** Kazakhstan will continue to benefit from CAREC investments and activities under the forthcoming CAREC 2030 strategy. ADB is pilot testing its support of cross-border economic corridors under the Almaty–Bishkek Economic Corridor (ABEC) initiative, with the aim to create cross-sector linkages and exploit regional synergies. The corridor will

transform the area around the cities of Almaty and Bishkek into one integrated economic space where business activities, the exchange of ideas, and the movement of people are fast, easy, and free of barriers. In support of regional cooperation, ADB will promote integrated water resource management initiatives, including those aimed at improving the efficiency of water use in agriculture and other applications. It will also support the activities of the Astana International Financial Centre in promoting financial cooperation across Central Asian countries.

- (iii) **Enhancing macroeconomic resilience.** ADB will help strengthen Kazakhstan's macroeconomic resilience and capacity to respond to internal and external shocks, and contribute to maintaining fiscal sustainability and macroeconomic stability.
- (iv) **Supporting project finance and public–private partnerships.** ADB will promote a business-enabling environment and support PPPs, through various facilities including its Office of Public-Private Partnership as a trusted broker for PPP development and transaction advisory services. Kazakhstan places high priority on PPPs for improving public service delivery and has made rapid progress in readying itself for PPPs.<sup>32</sup> Local governments, which provide basic public services, do not have the financial and personnel resources to undertake the necessary analysis required to prepare and manage PPPs. ADB will help bring Kazakhstan's PPPs to international standards.<sup>33</sup> Kazakhstan is yet to test or develop financing instruments based on lending against the cash flow of a project that is legally and economically self-contained within a special purpose vehicle. ADB will help with the development of banks' risk-bearing and pricing capacity, and assist Kazakhstan's capital markets in becoming a meaningful source of infrastructure financing.
- (v) **Fostering gender mainstreaming.** ADB will support gender equity across the three CPS pillars and address gender disparities in accessing opportunities for economic development, by: (i) enhancing credit access for women entrepreneurs; (ii) promoting gender-sensitive occupational skills and educational programs aimed at increasing gender awareness; and (iii) modelling programs and policies to protect women from workplace discrimination, wage disparities, and sexual harassment. The proposed interventions to improve social and public services are expected to have significant positive effects on gender equity.

## E. Priorities for Knowledge Support

30. **Knowledge partnerships.** To support Kazakhstan's further development as a UMIC and help create local expertise, ADB remains committed to growing its knowledge partnership with the government and building local capacities through the Knowledge and Experience Exchange Program and other dedicated channels. ADB will form knowledge partnerships with local universities and think tanks, and engage in a dialogue with the civil society. The country director of the Kazakhstan Resident Mission will serve as the ADB knowledge custodian.

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<sup>32</sup> Kazakhstan's operational framework for PPPs features many good international practices. The government has established the Law on Public–Private Partnership, 2015, supporting regulations, and PPP units at the republican and local government levels.

<sup>33</sup> ADB has a PPP operational framework comprising (i) advocacy and capacity development, (ii) enabling environment, (iii) project development, and (iv) project financing. ADB. 2012. *Public–Private Partnership Operational Plan, 2012–2020—Realizing the Vision for Strategy 2020: The Transformational Role of Public–Private Partnerships in Asian Development Bank Operations*. Manila.

31. **Applied knowledge centers.** ADB will support capacity development through various projects and forms of collaboration, promote innovation, and create AKCs to generate activities such as research, capacity building, and policy dialogue to inform sector-specific projects and help implement ADB operations not only in Kazakhstan but also across the region. AKCs will be financed through a variety of funding sources from within ADB departments and in collaboration with partner institutions, including other multilateral and bilateral donors as well as local knowledge institutions. One AKC is expected to be structured on a cluster of activities related to integrated water resource management—where interventions present some commonality in terms of technical solutions across Central Asian countries. Other AKCs could be as well created depending on needs and resource availability. Knowledge partnerships will be focused on supporting the implementation of ADB operations and the development of local expertise in addressing the country’s development needs.

#### IV. STRATEGY IMPLEMENTATION

##### A. Indicative Resource Parameters

32. Kazakhstan is group C country with access only to ordinary capital resources.<sup>34</sup> Given the evolutionary nature of the government’s demand for assistance from IFIs and ADB’s capacity to respond with appropriate, innovative financial products, the CPS adopts a dynamic approach to resource planning. The need to increasing focus on identifying opportunities to finance private sector operations, when forecasting precise financing amounts for private sector projects is difficult, provides an additional rationale for keeping flexibility in resource allocation.

33. ADB estimates that it will provide about \$3 billion in loans to Kazakhstan during 2017–2021, including project financing from sovereign operations, nonsovereign operations, and cofinancing. Available sovereign resources are estimated at about \$2 billion for country and regional projects. ADB will strive to provide support from its private sector operations for at least one project every year, subject to market conditions. Detailed assistance amounts will be decided annually, at the time of preparation of the country operations business plan (COBP). ADB lending modality will align closely with the government’s public debt and borrowing policy. It will reflect discussions with the government on the possibility for ADB to receive corporate guarantees from public holding companies. ADB will also be ready to provide local currency financing as requested by the government. Cost-sharing parameters will remain unchanged with ADB financing covering up to 85% of loan project costs on an overall portfolio-wide basis.

34. To promote infrastructure projects in the public and private sectors, ADB will leverage its support to raise additional resources from other development partners and the private sector through official and commercial cofinancing arrangements and other forms of partnership. ADB will also provide nonlending technical assistance grants to prepare lending projects, enhance governance and institutions, promote policy reforms, and support knowledge work, including sourcing from the KEEP, and from regional cooperation and integration funds.

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<sup>34</sup> ADB’s graduation policy, updated from time to time: ADB. 1998. *A Graduation Policy for ADB’s DMCs. Corrigendum 1*. Manila; and ADB. 2008. *Review of the 1998 Graduation Policy of the Asian Development Bank*. Manila. During the CPS period, ADB will continue dialogue with the government on Kazakhstan’s possible future graduation from ADB’s regular assistance.

## B. Implementation Priorities

35. **Financing Modality of ADB Operations.** The government of Kazakhstan has been articulating its preference for a financing modality of IFI operations that is more directed toward nonsovereign and subsovereign financing than sovereign operations. Although Kazakhstan's public debt ratio was only 24.6% of GDP in April 2017—a relatively low level compared with other countries—the ratio has rapidly increased since 2014, mainly because of currency depreciation and it is a matter of concern for the government, which monitors the trend of this ratio together with other debt-related covenants. The government recently announced its intention to drastically reduce direct sovereign borrowing from the Ministry of Finance, asking IFIs to lend directly to eligible public entities (such as SOEs or public utilities companies) against provision of sovereign guarantees. To limit contingent liabilities, the government is also inviting IFIs to accept corporate guarantees from government-owned public holding companies to secure attractive borrowing terms without directly affecting the state budget.<sup>35</sup> Moreover, to reduce the currency risk associated with local procurement, the government has been requesting all IFIs to lend (almost exclusively) in tenge. ADB will engage in constructive dialogue with the government to respond appropriately to these requests through enhanced flexibility in its lending modality.

36. **Flexible Approach.** While an increase in oil and other commodity prices may positively affect government revenues, creating additional headroom for sovereign borrowing from IFIs in the future, the CPS adopts a flexible approach to satisfy government preferences on lending modality. A country governance risk assessment and a procurement assessment will inform efforts to facilitate the identification of eligible public entities for ADB lending under sovereign or corporate guarantees. In coordination with the government, ADB will explore (i) accepting corporate guarantees provided by internationally rated public holding companies, at appropriate pricing; and (ii) introducing blended finance schemes for operations where sovereign lending is combined with private capital, using the sovereign lending share to lower the cost of finance and leverage private funds.<sup>36</sup> ADB will also ensure lending in local currency by using appropriate mechanisms in coordination with the National Bank of Kazakhstan, including issuing local currency bonds with focused consideration of price competitiveness and other factors.

37. **Enhancing linkages between sovereign and nonsovereign operations.** The demand for greater focus on nonsovereign financing reflects Kazakhstan's advanced needs as a UMIC. ADB will foster synergies between its sovereign and nonsovereign operations by: (i) supporting an improved business-enabling environment for PPPs; (ii) building public sector capacity to develop and prepare PPP projects; (iii) developing relationships with public holding and SOEs to identify new business opportunities and explore accepting corporate guarantees from such entities; and (iv) working towards introducing schemes for blended finance solutions as part of nonsovereign operations. ADB's interventions will be geared to promote innovative business and financial models that are both commercially sustainable and likely to generate high social impact by adopting technology solutions and energy efficiency applications in areas such as municipal services, e-commerce, agri-business, green economy, and finance.

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<sup>35</sup> The Eurasian Development Bank, the European Bank for Reconstruction and Development and the European Investment Bank have already started lending to quasi-public institutions accepting corporate guarantees offered by Baiterek, a national holding company that was formed to help the government develop the national economy.

<sup>36</sup> A blended finance solution can adopt different schemes to generate returns for attracting private capital, including funding viability gaps through government programs. Specific schemes will be decided on a case-by-case basis and applied to single projects or multiple projects under a single facility, where ADB can fund the sovereign share and contribute to development funding, as well as provide donor funding and manage the financing facility.

38. **Implementing key priorities and targets.** Details of ADB's operational program will be included in COBPs. Key sector priorities and targets will be decided based on Kazakhstan's macroeconomic situation, donor coordination under the Partnership for Development initiative, and positive externalities expected to be generated on neighboring countries. ADB projects included in COBPs constitute the base lending scenario. Private sector interventions, technical assistance grants to support reforms, and knowledge work will complement ADB's sovereign support to Kazakhstan.

39. **Improving portfolio performance.** The ADB-assisted portfolio performance of projects in Kazakhstan is satisfactory. Its disbursement and contract award ratios are above ADB-wide averages and no loans are at risk. However, potential risks to project implementation have been identified, and mitigating measures suggested through the yearly country portfolio reviews. Risks will be minimized by ensuring that project readiness and deliverability criteria are met. Lengthy administrative procedures for project implementation and weak institutional coordination between national and regional agencies posed challenges to portfolio performance in the past. To improve project processing and implementation, the government and ADB agreed to develop a common template defining the different steps to be taken by each side, under close monitoring of the other side, to ensure a synchronized approach to project preparation for approval and implementation, with appropriate tools for monitoring results (para. 41).

40. **Reallocating staff resources.** The staff composition of ADB's Kazakhstan Resident Mission will continuously adjust during the CPS period to meet priorities on decentralization and project delegation identified during the midterm review of ADB's Strategy 2020, including the need to deliver a country knowledge plan and implement the strategic thrusts of the CPS. ADB will adjust the number of international and national staff working in the resident mission and out-post staff from headquarters based on the need to ensure the presence of an appropriate number of staff members, including international staff, and a mix of skills to implement the CPS effectively.

### **C. Monitoring of Results**

41. ADB will closely monitor CPS implementation using a results framework that aligns with the Third Modernization of Kazakhstan. The results framework (Appendix 1) specifies progress indicators and provides baselines and numeric targets for these indicators. The framework will be updated annually during country portfolio review missions and country programming missions, when results will be evaluated. ADB will also build on its work on managing for development results to assist Kazakhstan in developing structured approaches to results-based management, including monitoring and evaluation. A country knowledge plan has been prepared to assist ADB deliver its operations during the 2017–2019 period (Appendix 2).

### **D. Risks**

42. Given Kazakhstan's macroeconomic situation and commodity price trends, the demand for sovereign borrowing may remain subdued for some time and only expand once increasing commodity prices create the fiscal space to borrow. Consequently, the CPS stresses the need for sizable nonlending operations, capacity building, and knowledge support. While the CPS promotes the development of PPP and nonsovereign projects, ADB's intended PPP and private sector operations may fail to take off because of weaknesses in the investment climate. The CPS's support for improving the business environment will help mitigate such risk.

43. Key issues that emerged from the governance risk assessment and procurement assessment prepared to inform the CPS include: (i) lack of transparency, accountability, and

independence of economic institutions; (ii) weak capacity to assess the fiscal risk SOEs pose to the state budget; (iii) lack of an effective system for project monitoring and evaluation; (iv) low level of competency in procurement handling by designated officers leading to procedural violations and inefficient procurement; and (v) limited disclosure on public procurement performance, hindering market competition. To mitigate these risks, ADB will promote a transparent, accountable and efficient public expenditure system; conduct a study on SOEs' fiscal sustainability; introduce an effective system for assisting in project monitoring and evaluation; and deliver capacity building programs on public procurement and related activities. ADB will continue to ensure international competitive bidding and other best practices for procurement on its projects, including full disclosure of information, transparency in decision making, and regular audits.

## COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

<b>Country Development Impact Indicators with which the CPS is Aligned</b>				
1. Contribution of SMEs to GDP increased to 30% by 2021 (2015 baseline: 24.9%). <sup>a</sup> 2. Exports of processed food products increased by 40% by 2021 (2016 baseline: \$338,3 million). <sup>b</sup> 3. Energy intensity of GDP at constant PPP reduced to world's 11th highest by 2021 (2015 baseline: 7th). <sup>c</sup>				
CPS Objectives and Related Impacts	CPS Priority Areas	Key Outcomes that ADB Contributes to	Outcome Indicators	CPS Resources
Strengthening foundations for economic diversification	<b>Economic diversification</b>  Easing access to finance for micro, small and medium-sized enterprises  Promoting private sector development	Economic and financial sector stability improved <sup>a</sup>  Business environment enhanced <sup>a</sup>  Agriculture productivity and exports increased	Share of micro, small, and medium-sized enterprises using bank credits to finance operations increased to 25% by 2021 <sup>a</sup> (2014 baseline: 19%)  Irrigated wheat productivity increased to 0.8 kg/m <sup>3</sup> by 2020 <sup>b</sup> (2016 baseline: 0.5 kg/m <sup>3</sup> )	<b>Ongoing portfolio</b> Five sovereign loan projects (as of 31 December 2016): Amount: \$1,055.3 million, of which \$611.6 million in the transport sector and \$443.7 million in the finance sector  <b>Planned operations and contributions</b> Total 2017–2021 lending including sovereign, nonsovereign, and co-financing: \$3 billion, of which \$2 billion is for sovereign OCR lending  <b>Technical assistance</b> Nonlending: average \$3 million per year
Sustaining inclusive development and reducing inequality	<b>Inclusive development</b>  Addressing infrastructure bottlenecks  Supporting service delivery	Connectivity improved linking cities, rural areas, and regional trading partners <sup>a</sup>  Accessibility and efficiency of health care services increased <sup>d</sup>	Average travel time from Aktobe to Atyrau reduced to 7.0 hours (2015 baseline: 14.5 hours).  Contractual close of at least two health-sector PPPs passing fiscal affordability and value for money test by 2021 (2016 baseline: 0).	
Fostering sustainable, green growth in response to climate change	<b>Sustainable growth</b>  Promoting energy efficiency and renewables  Supporting climate change mitigation and adaptation efforts	Energy intensity of GDP decreased <sup>c</sup>  Renewable energy generation increased <sup>c</sup>  Carbon dioxide levels reduced <sup>c</sup>	Power transmission system ready to accommodate an increased share of energy from wind and power sources from 0.6% to 3.0% of total installed capacity by 2021 (2016 baseline: power transmission system not ready).	

ADB = Asian Development Bank, CPS = country partnership strategy, GDP = gross domestic product, kg/m<sup>3</sup> = kilograms per cubic meter, OCR = ordinary capital resources, PPP = purchasing power parity, SME = small and medium-sized enterprises.

<sup>a</sup> Official Site of the President of the Republic of Kazakhstan. The President of Kazakhstan Nursultan Nazarbayev's Address to the Nation of Kazakhstan. January 31, 2017. "The Third Modernization of Kazakhstan: Global Competitiveness." [http://www.akorda.kz/en/addresses/addresses\\_of\\_president/the-president-of-kazakhstan-nursultan-nazarbayevs-address-to-the-nation-of-kazakhstan-january-31-2017](http://www.akorda.kz/en/addresses/addresses_of_president/the-president-of-kazakhstan-nursultan-nazarbayevs-address-to-the-nation-of-kazakhstan-january-31-2017) (accessed 31 July 2017).

<sup>b</sup> A. Seisembayeva. 2017. Government presents new agriculture development programme. *The Astana Times*. 8 April. <http://astanatimes.com/2017/04/government-presents-new-agriculture-development-programme> (accessed 31 July 2017).

<sup>c</sup> Government of Kazakhstan. 2013. Decree of the President of the Republic of Kazakhstan on the Concept of Transition of the Republic of Kazakhstan to the "Green Economy." Astana (30 May; updated in 2016).

<sup>d</sup> Government of Kazakhstan. 2016. Decree of the President of the Republic of Kazakhstan on the Approval of State Program for the Development of Healthcare, "Densaulyk," for 2016–2019. No. 176. Astana (15 January).

Sources: Government of Kazakhstan; and World Bank's Global Findex Database.

## COUNTRY KNOWLEDGE PLAN

### A. Knowledge Needs

1. The Asian Development Bank (ADB) will support Kazakhstan’s knowledge and analytical needs in support of three strategic country partnership strategy pillars: economic diversification, inclusive development, and sustainable growth. Knowledge support by ADB, including applied knowledge centers (AKCs), will help deliver ADB operations in the region and generate public goods and positive externalities benefiting neighboring countries. The “Country Knowledge Plan 2017–2019 At A Glance” is in Appendix 3.

#### (i) Economic Diversification

2. **Finance.** Considerable knowledge assistance is required to support local authorities in their efforts to revive the banking industry, including improving the National Bank of Kazakhstan’s capacity to conduct risk-based supervision, assess banks’ capital adequacy and promote the adoption of Basel II and III requirements. Support through knowledge products and services (KPSs) is also needed to enhance financial literacy, upgrade the use of information and communication technology, and ease access to finance for small and medium-sized enterprises (SMEs). Knowledge support is also needed for introducing Islamic finance products as part of the development of the Astana International Financial Centre.

3. **Private sector development.** ADB will assist Kazakhstan with promoting private sector development. Pilot projects in the Kostanay region and other selected regions will help identify a modality for knowledge assistance to implement state programs aimed at promoting SME development and entrepreneurship, including start-ups and innovation-related activities.

4. **Economic corridors.** Knowledge assistance related to the Almaty–Bishkek Economic Corridor will focus on identifying and implementing investment projects that engage the private sector in agriculture, tourism, transport, and logistics. Support will be provided through technical assistance (TA) and will include studies, workshops, and institution building involving national and local governments, the private sector, and other development partners.

#### (ii) Inclusive Development

5. **Transport.** Kazakhstan’s economic development strategy identifies a strong transport sector as one key contributing element to promoting economic growth and diversification. The plan for developing road transport includes not only improvement of road infrastructure but also a combination of institutional and regulatory reforms, further economic liberalization of the sector, and improving road maintenance services. KPSs are required to improve the system performance with a focus on innovation in road maintenance and defect-free performance-based contracts.

6. **Water and agriculture.** Kazakhstan requires knowledge to assist the government with the implementation of the 2017–2021 state program on agriculture development, which aims at promoting sector competitiveness and agribusiness profitability. The program calls for enhanced agricultural productivity through the rehabilitation of irrigation systems and introduces policies for import-substitution and export-promotion. KPSs are required to conduct studies on irrigation and integrated water resource management, on the development of agribusiness and agro-processing facilities, and on the creation of a commodities market and associated warehousing facilities.

7. **Health care.** Kazakhstan needs knowledge support to enhance primary healthcare delivery and facilities through the development of public–private partnership (PPP) programs.

KPSs are needed to analyze best international practices, design new primary healthcare projects, and rehabilitate existing ones. Knowledge support is also needed to assess the capacity for planning and implementing PPPs to provide primary health care support in oblasts.

8. **Municipal services.** Kazakhstan's aging and dilapidated municipal service infrastructure related to urban transport, water supply and sanitation, solid waste management, and district heating requires huge capital investment and knowledge support. The government is keen to introduce effective management systems and financing modalities to ensure the enhancement and maintenance of urban infrastructure together with efficient delivery of services. The possibility of introducing a municipal infrastructure fund is being discussed with the government and other development partners. KPSs are needed to prepare for the possible adoption of such fund and to inform policy, legal, regulatory, and institutional reforms, making it attractive for the private sector.

### (iii) Sustainable Growth

9. **Energy.** Kazakhstan has recently started a focused policy to ensure the sustainability of the country's energy resources given the challenges posed by climate change. In this context, Kazakhstan needs knowledge support to foster the development of renewable energy, improve energy efficiency, and promote green growth using a comprehensive long-term development approach.

10. **Other areas.** Kazakhstan needs knowledge support to expand its capacity to adopt policies to foster economic diversification, especially by assessing the constraints and conditions necessary to develop the service sector and agriculture production. Public sector management is another area where KPSs are required, particularly in budget planning, and public auditing. Given its recent accession to the World Trade Organization and membership of the Eurasian Economic Union, Kazakhstan requires knowledge solutions to improve the business environment and introduce necessary changes in trade policy and customs systems to ensure compliance to international standards. In response to challenges created by the external shocks that have been hitting the economy since 2014, Kazakhstan needs knowledge support in promoting job creation and inclusive growth and in strengthening its technical and vocational education training.

## B. Scope of ADB's Planned Knowledge Operations

11. To step up collaboration on knowledge production and dissemination, the government and ADB established the joint Knowledge and Experience Exchange Program (KEEP) in 2013. KEEP aims to introduce just-in-time cutting-edge knowledge and global best practices to equip the country for capturing development opportunities and facing challenges in a well-informed manner. KEEP supports knowledge requests in the form of advisory work and capacity building programs, covering (i) inclusive growth and economic diversification, (ii) institutional and policy development, (iii) regional cooperation and integration, and (iv) competitiveness and efficiency enhancement. ADB is also committed to creating AKCs to inform its operations and to conduct policy dialogue in collaboration with other development partners in Kazakhstan and in neighboring countries.

12. ADB will conduct studies, events such as workshops, seminars, conferences, forums, and roundtables; and capacity-building activities to provide knowledge assistance in:

**(i) Economic diversification.** Knowledge assistance in this priority area will cover

- (a) **finance**—improving the National Bank of Kazakhstan’s supervision capacity, and providing technical support to the Astana International Financial Centre and training programs on improving financial literacy and SMEs’ access to finance, in collaboration with the Damu fund, Kostanay region, and Nazarbayev University;
- (b) **private sector development**—implementing pilot projects in Kostanay and other selected regions to support existing state programs on promoting entrepreneurship and SME development; and
- (c) **economic corridors**—identifying investment projects that engage the private sector in agriculture, tourism, information and communication technology, transport, and logistics; and involving national and local governments, the private sector, and other development partners in the Almaty–Bishkek Economic Corridor regional and project preparatory TA.

**(ii) Inclusive development.** Knowledge assistance in this priority area will cover

- (a) **transport**—intensifying institutional reforms to modernize Kazakhstan’s transport and logistics systems; strengthening road maintenance efficiency; introducing and operationalizing intelligent transport systems to address traffic engineering and safety provisions; implementing performance-based contracts; developing innovative approaches to infrastructure financing and asset management; and identifying bottlenecks and critical reforms, design interventions, and foster policy dialogue to improve the country’s logistics chain;
- (b) **water and agriculture**—creating a dedicated AKC and implement the agricultural development strategy focusing on extension services, microfinance, the development of cooperatives to perform agro-marketing, and other farmer-related services; taking economic diversification opportunities arising from agriculture, in collaboration with the Kazakh National Agrarian University; providing loans to rehabilitate aging irrigation systems and improve water use efficiency in farms; and supporting regional operations and facilitate policy dialogue, in collaboration with the United Nations Educational, Scientific and Cultural Organization (UNESCO) and other agencies, focusing on water management systems, irrigation, agriculture development, agribusiness, and urban water supply and sanitation issues;
- (c) **health care**—implementing Ministry of Health state programs to improve the quality and efficiency of primary health care delivery and facilities, and pilot test primary health care polyclinics, and in collaboration with Nazarbayev University and the World Health Organization, developing KPSs focused on assessing the capacity of regions to plan and implement primary health care infrastructure projects based on PPP schemes; and
- (d) **municipal services**—preparing a strategy paper to assist with introducing a municipal infrastructure fund in coordination with the government and other development partners; delivering efficient and high-quality municipal services to enhance investment efficiency and institutional coordination across state agencies and between state and regional agencies, and to address issues on financing modalities for sovereign and nonsovereign operations.

**(iii) Sustainable growth.** Knowledge assistance in this priority area will cover

- (a) **energy**—preparing a long-term sector strategy for promoting green, sustainable energy; developing and implementing energy projects using new approaches and technologies to promote sustainable and low-carbon energy solutions and energy efficiency; increasing environmental protection capacity and reducing carbon dioxide emissions for climate change mitigation and adaptation; improving waste management and suggesting adaptation measures to cope with climate change, greenhouse gas emissions, and environmental control measures; and
- (b) **other areas**—promoting economic diversification; enhancing public sector management of accrual budgeting and public auditing; focusing on trade policy and trade facilitation issues ensuring compliance with World Trade Organization and Eurasian Economic Union requirements; strengthening technical and vocational education and training systems promoting job creation and inclusive growth; and completing a regional study on good jobs for inclusive growth in Central and West Asia, with policy advice on ways to reduce inequality and amplify the impact of operations on inclusive growth.

**C. Areas of Collaboration with Partners**

13. **Government and local institutions.** In delivering the country knowledge products, ADB will closely engage with government agencies and local stakeholders, including think tanks, academic institutions, business associations, and civil society organizations. Collaborations will focus on delivering research, capacity building, and policy dialogue by signing memorandums of understanding to help deliver ADB operations in Kazakhstan. Partnership with the government and local institutions will aim at ensuring the dissemination of KPSs, reflecting local knowledge demand and conditions for increasing ADB operations' awareness.

14. **Development partners.** Multilateral and bilateral development partners have established long-term knowledge-related programs with the government, in recognition of Kazakhstan's expanding knowledge needs. In 2014 the government started a partnership framework agreement with ADB and other international financial institutions to help coordinate the implementation of projects and government programs under a coordinating council chaired by the Prime Minister. More recently, ADB assisted the government in creating a Partnership for Development platform, which brings local stakeholders into the broader community of multilateral and bilateral institutions to ensure Kazakhstan's development targets reflect its global obligations under the Sustainable Development Goals. The first Kazakhstan Development Forum, expected to be held in 2017, will help coordinate the implementation of action plans through knowledge solutions to be financed by ADB and other agencies. Knowledge partnerships will also be forged with the ADB Institute and the CAREC Institute to generate KPSs that improve regional cooperation efforts.

**D. Resource Allocation**

15. ADB will mobilize resources for KPS support to Kazakhstan through its lending and nonlending programs. For 2017–2019, ADB expects to dedicate about \$9 million for KPS generation and dissemination. This amount excludes resources provided by the government to share the cost of selected TA projects, particularly under KEEP. In addition to country-specific assistance, Kazakhstan will benefit from several ADB-wide, CAREC-specific, and regional KPSs, which will be financed under separate arrangements.

**LIST OF LINKED DOCUMENTS**

<https://www.adb.org/Documents/CPS/?id=KAZ-2017>

1. Inclusive and Sustainable Growth Assessment
2. Development Coordination Matrix
3. Country Operations Business Plan

**Supplementary Document**

4. Country Knowledge Plan, 2017–2019: At a Glance