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Technical Assistance to CIS countries

Case study of Kazakhstan

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Outline

1. Country Background	3
1.1. Attitude of the Government and the Society towards Democracy and Market Economy ...	4
1.2. Technical Capacity of the Country	5
2. Supply of TA to the Country.....	6
2.1. Dynamics of TA Flows.....	7
2.2. Technical Cooperation by Donor.....	7
2.3. Technical Cooperation by Sector.....	9
3. Impact of Technical Cooperation on the Country Development	10
Bibliography.....	10

Tables

Table 1. Selected country indicators in 2005	3
Table 2. Developments in output	3
Table 2. Selected EBRD transition indicators	4
Table 3. Total flows of technical cooperation to Central Asia countries, mln. USD	7
Table 4. Distribution of technical cooperation flows.....	7
Table 5. Main bilateral donors	7
Table 5. The structure of TA flows to Kazakhstan in the period from 1996 to 2005 by donors, number of projects	9
Table 6. Number of TA projects by sector during 1996-2005 years	10

Figures

Figure 1. Percentile rank, according to governance effectiveness indicator for Kazakhstan and average for three Central Asian Republics (Kyrgyzstan, Tajikistan and Uzbekistan).....	5
Figure 2. Percentile rank, according to voice and accountability indicator for Kazakhstan and average for three Central Asian Republics (Kyrgyzstan, Tajikistan and Uzbekistan)	6
Figure 3. Structure of TA flows by the number of projects and their share in total amount of TA during the period from 1996 to 2005	8

1. Country Background

Kazakhstan is the second largest country in the Former Soviet Union by the territory, but with the lowest population density. This country accounts for 51 per cent of GDP of Central Asian countries, mainly due to the large oil reserves on its territory (UNDP 2005). It is planned that Kazakhstan contribution to the world's oil supply may reach 2% percent making it one of the leading world producers. Vast amount of money associated with extracting industries stimulates the debate in Kazakhstan about strategic use of oil revenues to ensure sustainable and broad-based economic growth (World Bank 2005).

Table 1. Selected country indicators in 2005

	Surface area (thousand sq m)	Population density (people per sq. km)	Population, total, thou.	GDP per capita, PPP (current international \$)
Kazakhstan	2725	6	14994	7440

Source: World Development Indicators 2006

After the collapse of the Soviet Union, Kazakhstan experienced a dramatic economic recession and hyperinflation until the mid-1990s. Kazakhstan, as the Kyrgyz Republic, quickly launched economic reforms, but the reasons for this were quite different from the Kyrgyz ones. Rich resources and more diversified structure of economy motivated Kazakhstan to take advantage of initial relative strength (IMF 1999). In addition, Kazakhstan wanted to counteract Russia's influence, but in order to achieve this it should have economic growth and prosperity which in its turn could only be done as a result of complete change of the existing economic structure (Olcott 2000).

The economic and structural reforms let economic growth to resume, however during the first ten years of independence the growth mainly was based on oil and gas extraction sectors, but later, after 2000 other industries also started growing.

Table 2. Developments in output

	Average growth rate 1991-1995	Average growth rate 1996-1999	Average growth rate 2000-2004
Industry: of which:	-13.2	1.2	11.7
Oil	-6.9	10.1	13.7
Natural gas	2.3	14.4	22.9
Agriculture	-8.7	-0.6	3.7
Construction	-20.5	2.3	16.9
Transport and telecommunication	-15.7	0.1	11.7
Trade and procurement	-9.3	3.2	9.5
Total	-9.6	0.8	10.4

Source: IMF (2005)

Since 2000 Kazakhstan economic achievements were impressive, per capita income has tripled, the unemployment rate has been halved and a huge amount of exchange reserves have been accumulated (Husain 2006). Economic boom in Kazakhstan made business people in this country seek investment and trading opportunities among more open countries in CIS: Georgia, Armenia, Kyrgyzstan, and Tajikistan. However, economic boom also led to challenges for the country such as extensive banking borrowing and inflation. Thus, currently the country is focusing on tightening monetary policy, banking supervision, prudential tightening and intensified structural reforms.

Kazakhstan is considered as one of the leaders in the market reforms in the region. In comparison to other Central Asia Republics, especially successful were reforms in the banking and non-banking sectors, securities markets, and the overall infrastructural reforms. Less successful were reforms in large-scale privatization, competition policy, and trade liberalization.

Table 2. Selected EBRD transition indicators

	1992	1995	1998	2002	2005	2006
EBRD index of small-scale privatization	2.00	3.00	4.00	4.00	4.00	4.00
EBRD index of large-scale privatization	1.00	2.00	3.00	3.00	3.00	3.00
EBRD index of price liberalization	2.67	4.00	4.00	4.00	4.00	4.00
EBRD index of forex and trade liberalization	1.00	3.00	4.00	3.33	3.67	3.67
EBRD index of competition policy	1.00	2.00	2.00	2.00	2.00	2.00
EBRD index of banking sector reform	1.00	2.00	2.33	2.67	3.00	3.00
EBRD index of reform of non-bank financial institutions	1.00	1.67	2.00	2.33	2.33	2.67
EBRD index of infrastructure reform	1.00	1.67	2.00	2.33	2.33	2.67

Source: EBRD

Political situation in Kazakhstan was changing during the transition period in the direction more or less similar to all Central Asian Republics. Kazakhstan very quickly transformed in the country with a strong presidential system of government, which to date has been led by only one man – the President. The Government of the country has become less democratic as the control of the president and his family has been enhanced (Olcott 2000).

1.1. *Attitude of the Government and the Society towards Democracy and Market Economy*

At the beginning of the transition process Kazakhstan quickly launched economic reforms to take an advantage of relatively good initial conditions. Mr. Nazarbaev was one of the first Central Asian leaders who initiated discourse on "models of development" and the only leader in the region who invited foreign experts, such as Chang Young Ban (South Korea) and the former prime-minister of Singapore Lee Kuan You, to be his personal advisers (Abazov 1998).

The Government was more enthusiastic about economic reforms rather than political liberalization: it quickly initiated pro-market reforms, including price liberalization, banking reforms, creation of attractive conditions for FDI, currency reforms and privatization of small and medium enterprise. In these spheres donors assistance was welcomed and truly supported, however political liberalization was stalled due to vested interests close to the regime. They opposed further

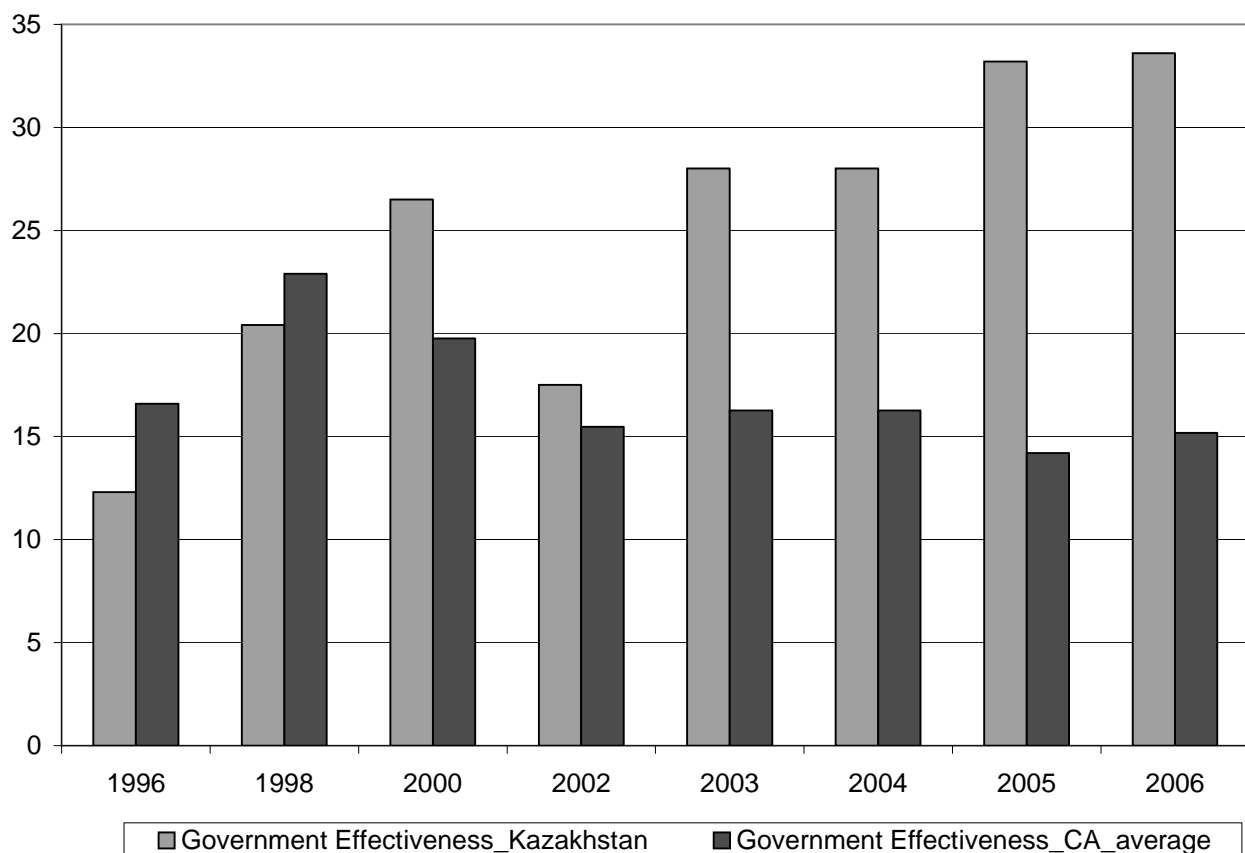
liberalization and reforms that would threaten their political and economic gains (UNDP 2005). Huge oil revenues helped them to be selective to donors' assistance and donors did have much leverage to make the government more acceptable to political liberalization.

In general, the role of the state in Kazakhstan has been also influenced by the growing oil revenues. Oil has changed the political environment in Kazakhstan. It has reduced cash constraints and made its economy "too much government". There is always a risk in the country that the state scope of intervention will not be limited to providing typical public goods, but rather intervening in those spheres of market economy where state impact should be minimal (World Bank 2005).

1.2. *Technical Capacity of the Country*

At the beginning of the transformation process, Kazakhstan was ahead of other Central Asian Republics regarding capacity of its national political elite which was one of the well-trained elites in the region (Abazov 1998). The further development of the country technical capacity can be analyzed by using World Governance Indicators developed by the World.

Figure 1. Percentile rank, according to governance effectiveness indicator for Kazakhstan and average for three Central Asian Republics (Kyrgyzstan, Tajikistan and Uzbekistan)



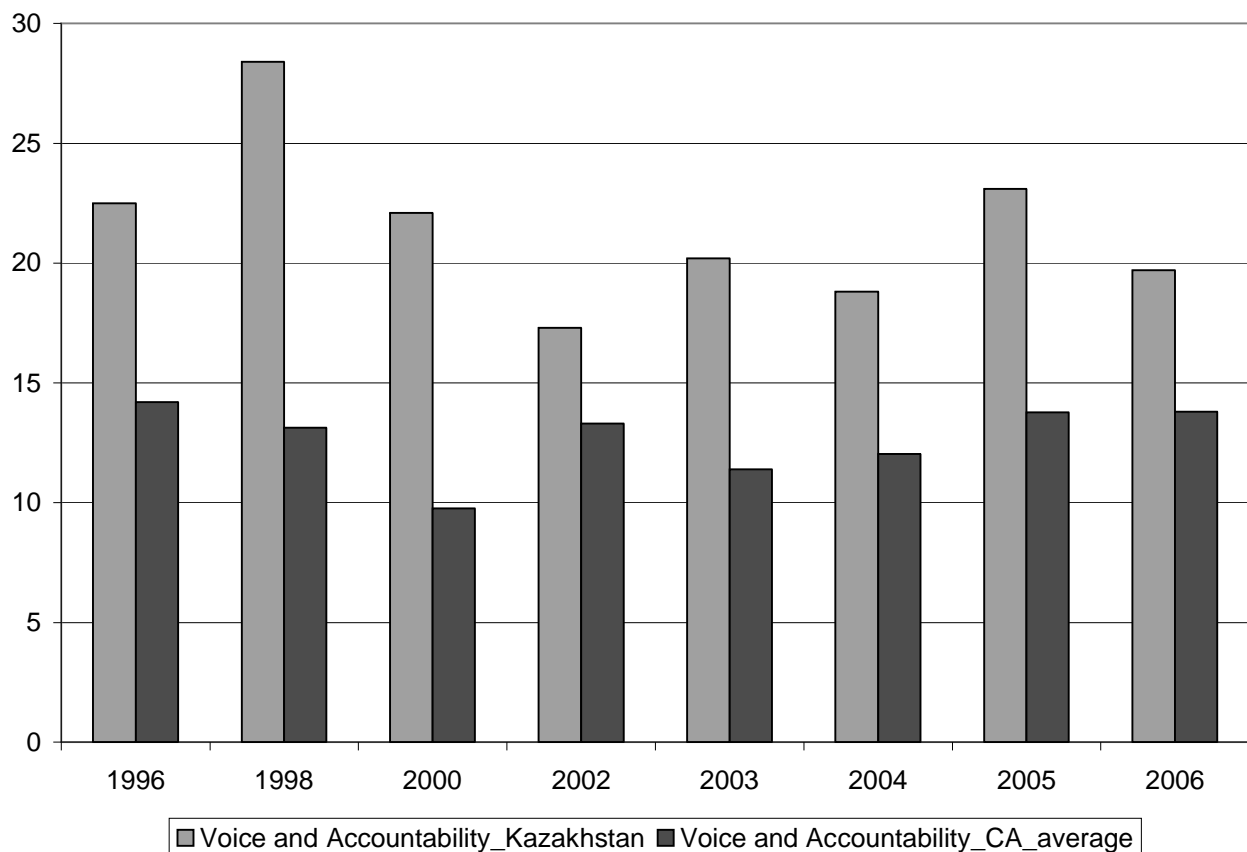
Source: World Governance Indicators, author's calculation.

One indicator of particular interest for us is governance effectiveness which measures the quality of public services, the quality of the civil service and the degree of its independence from

political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies (Kaufmann, Kraay, Mastruzzi 2007).

In 1996 the rank of Kazakhstan, according to the level of government effectiveness, was very low, only in 12.3% of countries situation was worse than in Kazakhstan. However, the country achieved an impressive progress in governance effectiveness moving to the 33.6% percentile rank in 2006, that was much better than position in other three Central Asian countries.

Figure 2. Percentile rank, according to voice and accountability indicator for Kazakhstan and average for three Central Asian Republics (Kyrgyzstan, Tajikistan and Uzbekistan)



Source: World Governance Indicators, author's calculation

The situation with voice and accountability¹ has the opposite pattern decreasing from the 22.5% and 28% percentile ranks in 1996, 1998 year to the 19.7% rank in 2006. Situation in other countries in the region was quite diverse. Tajikistan has improved its position, but still is very low in the ranking. Kyrgyzstan maintained the same relatively high position, while situation in Uzbekistan worsened moving this country to the lowest 2.4% percentile rank in 2006.

2. Supply of TA to the Country

¹ Voice and accountability measures the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.

2.1. Dynamics of TA Flows

There are two basic sources of information on technical assistance available for the Kyrgyz Republic. One source is OECD database which shows Official Development Assistance (ODA) by donors, countries, type of aid. This source of information can be used for cross countries comparison; however some donors are not reflected in it².

Another source of information about donors' projects is the database maintained by UNDP Kazakhstan. This database comprises information on all donors' projects in the republic (amount, sector, date, etc.). This database may be used to have a sectoral picture of donors' aid.

Table 3. Total flows of technical cooperation to Central Asia countries, mln. USD

	Technical cooperation, average year amount, mln. USD			Total accumulated technical cooperation for the period from 1992-2004, mln. USD	Total technical assistance in the period 1992-2004 to GDP ³	Share of accumulated technical cooperation to accumulated ODA	Total accumulated technical assistance per capita, USD
	1992-1995	1996-1999	2000-2004				
Kazakhstan	22.0	72.4	91.8	737.3	2%	45%	55.8
Kyrgyz Republic	12.6	38.4	65.8	514.8	24%	20%	104.7
Tajikistan	4.2	10.7	34.6	291.0	11%	16%	36.2
Uzbekistan	10.9	37.1	69.7	561.2	5%	31%	20.6

Source: OECD, World Development indicators, author's calculation

The data shows that the flow of technical assistance to Kazakhstan was sharply increasing in the second part of 1990s and slowed down in 2000-2004. This pattern is similar almost in all countries in the region (except Tajikistan because of the civil war) and may be explained by the donors' level of understanding of country problems.

In Kazakhstan share of technical assistance to the total ODA is the highest reaching 45%, but in percentage to GDP accumulated amount of technical assistance accounts only for 2%.

2.2. Technical Cooperation by Donor

Statistics on TA flows by donor (bi- and multilateral) is presented in the table 4. The data show that the majority of TA flows come from bilateral donors.

Table 4. Distribution of technical cooperation flows

Kazakhstan	1992-1995	1996-1999	2000-2004	Total
Bilateral technical cooperation	76%	77%	93%	86%
Multilateral technical cooperation	24%	23%	7%	14%
Total	100%	100%	100%	100%

Source: OECD, author's calculation

Major bilateral donors are presented in the table 5.

Table 5. Main bilateral donors

² There is significant discrepancy between OECD and UNDP databases (OECD underestimates TA flows), but as it was mentioned, OECD database a good source for cross-country comparisons.

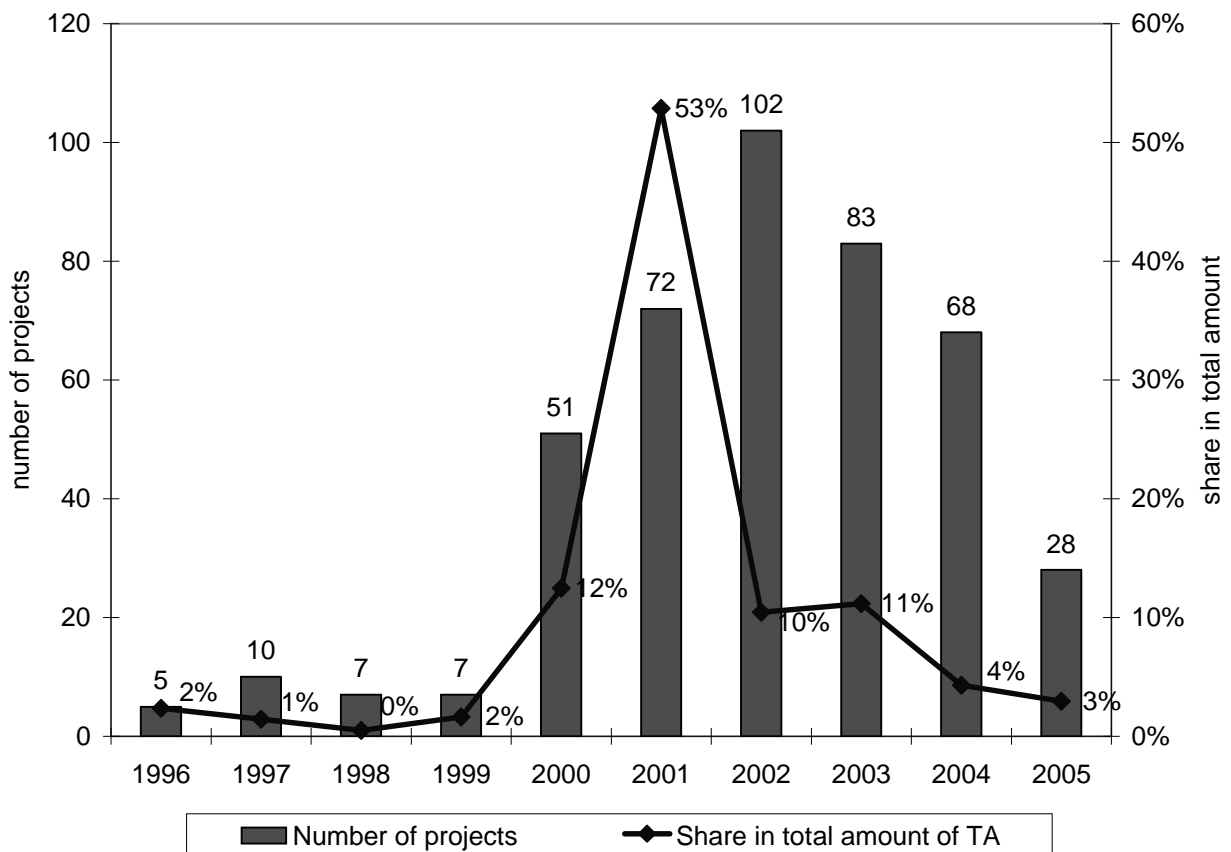
³ GDP for 2004.

	1992-1995	1996-1999	2000-2004	Total
Japan	11%	19%	12%	14%
Germany	32%	10%	8%	11%
United Kingdom	11%	5%	2%	4%
United States	18%	57%	65%	58%
Turkey	23%	3%	8%	8%
Other	5%	6%	5%	5%
Total	100%	100%	100%	100%

Source: OECD, author's calculation

Main bilateral donors for Kazakhstan are United States, Japan, Germany, Turkey and United Kingdom. However, their roles were changing during the considered period (1992-2004). At the beginning of the transformation process (1992-1995) Germany, Turkey and United States were leading bilateral donors. Later, Japan, Germany and Turkey lost their positions and the leader became United States which accounts for 58% of technical assistance provided to the Republic during 1992-2004.

Figure 3. Structure of TA flows by the number of projects and their share in total amount of TA during the period from 1996 to 2005



Source: www.undp.kz, author's calculation.

For having more comprehensive picture about donors and sector composition of implemented TA projects the database compiled and maintained by UNDP Kazakhstan will be used.

The figure 3 shows that the peak of donors TA projects was in 2002 when 102 projects were launched. After 2002 the number of new projects has been gradually decreasing. According to the projects' share in the total amount of TA, the peak year was 2001 when 53% of all TA flows during 1992-2005 came to the country. Regarding average amount of projects, last years there was a tendency to have smaller projects.

Table 5. The structure of TA flows to Kazakhstan in the period from 1996 to 2005 by donors, number of projects

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	Total
ADB	0	0	0	0	0	1	2	2	6	4	15
CIDA	0	0	0	0	0	0	0	0	7	0	7
EBRD	0	0	0	0	2	31	16	5	0	0	54
EU-TACIS	0	0	0	0	6	12	14	20	28	10	90
FAO	0	0	0	0	0	0	2	0	0	0	2
Germany/GTZ	3	5	0	0	4	0	3	2	0	0	17
Germany/Kreditanstalt	0	0	0	1	0	0	0	0	0	0	1
Great Britain/DFID	1	0	0	0	1	0	11	10	0	0	23
Great Britain/Other	0	0	0	0	0	0	1	10	8	0	19
IDB	0	0	0	0	0	1	2	0	0	0	3
ILO	0	0	0	0	0	0	0	1	0	0	1
IOM	0	0	0	0	4	2	1	8	1	0	16
JICA	0	0	0	0	7	1	3	1	3	0	15
Mashav	0	0	0	0	0	0	0	1	0	0	1
SOROS	0	0	0	1	6	5	17	1	0	0	30
UNAIDS	0	0	0	1	0	0	0	1	0	0	2
UNDP	0	5	7	3	4	7	17	18	0	0	61
UNFPA	0	0	0	0	5	0	1	0	0	0	6
UNICEF	0	0	0	0	9	1	0	0	0	7	17
UNIFEM	0	0	0	0	0	4	2	1	0	1	8
UNODC	1	0	0	0	0	0	0	2	3	5	11
USAID	0	0	0	0	0	6	0	0	1	0	7
WB	0	0	0	1	3	1	0	0	0	1	6
WHO	0	0	0	0	0	0	10	0	11	0	21
Total	5	10	7	7	51	72	102	83	68	28	433

Source: www.undp.kz, author's calculation.

The structure of donors has also changed significantly. The highest number of projects during the considered period was implemented by EU-Tacis (90 projects), on the second place is UNDP (61 projects) and on the third is EBRD (54 projects). The picture of main donors changes if to consider amount of projects. The absolute leader will be in such case USAID with the share of 44% in the total amount of TA during 1996-2005 and with the highest average amount of project about 28.8 mln. USD.

2.3. Technical Cooperation by Sector

The sectoral structure of TA flows has changed significantly. During the considered period the highest absolute number of projects was devoted to governance issues (186 from total 433). The peak of launching governance projects (2000-2001) coincided with the projects devoted to economic reforms and poverty and social development. The highest amount of money was also

spent on governance (43% of the total TA flows in 1996-2005), economic reforms (28%) and poverty/social development (15%).

Table 6. Number of TA projects by sector during 1996-2005 years

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Agriculture	0	0	0	0	1	0	0	0	0	0
Economic Reform	1	2	0	0	2	25	15	7	3	1
Economic Reform, Governance	0	0	0	0	0	0	0	0	0	1
Environment	0	2	2	2	6	7	5	12	5	0
Environmental Protection	0	0	0	0	0	1	0	0	0	0
Gender	0	0	0	0	5	6	5	5	3	1
Governance	2	6	2	2	21	28	51	33	25	16
Governance, Poverty & Social Development	0	0	0	0	0	0	0	0	0	1
Poverty & Social Development	2	0	3	3	16	5	25	25	32	8
Rural Development, Secondary Education	0	0	0	0	0	0	1	0	0	0

Source: UNDP, author's calculation.

3. Impact of Technical Cooperation on the Country Development

There are many examples when TA provided to Kazakhstan was successful. In general, TA helped the country to create specialists able to conduct social-economic reforms through trainings, seminars, and internships for government officials. This was extremely important because the knowledge of market mechanisms at the beginning of transformation was almost zero.

Technical cooperation projects were directed towards the development of government organizations which did not exist at the beginning of the transition period (Ministry of Finance, National Bank, etc). Later on TA helped to strengthen their activities (e.g. budget formulation and execution).

Technical assistance has been used for developing main laws in Kazakhstan and strategic development documents. The most successfully technical assistance was used to help Kazakhstan in reforming banking, fiscal and pension systems. Donors helped also to strengthen civil society (NGO support) and supported national think-tanks.

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