RECENT ECONOMIC AND SECTORAL DEVELOPMENTS

Growth and Economic Policy

Kazakhstan continues to experience a broad-based economic slowdown as a consequence of the large terms of trade shock that started in mid-2014. Kazakhstan’s real GDP growth slowed from 4.1 percent in 2014 to 1.2 percent in 2015, as external demand from China and Russia weakened and domestic demand continued to be affected by the fall in oil prices.

Private domestic demand was affected by the move to a floating exchange rate regime in August 2015, which brought with it a large exchange rate adjustment and a rise in domestic prices. In response to the weak demand, industrial output contracted 1.6 percent (year-on-year) in 2015 compared to 2014. Services sector growth fell from 5.7 percent in 2014 to an estimated 2.3 percent in 2015, as growth in retail trade and transport, two main pillars of the sector, slowed. Agriculture grew by an estimated 4.4 percent but contributed little to GDP growth. Some labor market indicators are beginning to weaken, as real wages declined by 2.4 percent between 2014 and 2015. The official unemployment rate remained stable at 5.0 in 2015 but increased marginally to 5.1 percent in January 2016.

The Government responded to the terms of trade shock appropriately in 2015. The authorities revised the 2015 budget and reprioritized the 2016 budget, cutting both current and investments expenditures, postponing some projects while protecting social expenditures. The Government also sought to improve the efficiency of public expenditures going forward. The non-oil fiscal deficit widened from 10.1 percent of GDP in 2014 to 12.6 percent in 2015, as oil revenues halved and non-oil revenues fell, reflecting the slowing non-oil economy. At the same time, off-budget expenditure increased in 2015, as the Government refinanced the national oil company’s external debt payment.

The continued slide of oil prices during 2015 led to external imbalances and fueled speculative pressure on the tenge. The National Bank of Kazakhstan (NBK) intervened aggressively to defend the exchange rate until mid-August 2015, providing injections of foreign exchange and tightening tenge liquidity. In mid-August 2015, the NBK announced a move to a floating exchange rate regime and inflation rate targeting. The tenge lost almost half of its value against the U.S. dollar between mid-August and end-December 2015. The depreciation of the tenge reduced imports in the fourth quarter of 2015 compared to the fourth quarter of 2014, but the 2015 current account deficit is estimated to be US$5.3 billion compared to the surplus of US$6 billion in 2014 due to large export revenue losses. Although the ratio of foreign-denominated loans to total loans stood at only 23.2 percent in August 2015, it is important to keep a close eye on how the development will affect the banks, as the number of nonperforming loans (NPLs) is expected to rise.

The year 2015 was marked by the launch of a new wave of structural reforms. The “100 Concrete Steps, a Modern State for All” Program is structured around five major pillars of the institutional reform agenda: (i) professionalizing public administration, (ii) enforcing the rule of law, (iii) increasing state transparency and accountability, (iv) fostering economic diversification and growth, and (v) uniting the nation. Strengthening institutions (via the “100 Steps” Program), improving physical infrastructure (via the Nurly Zhol Infrastructure Development Program), and raising the quality of human capital (as part of the skills-enhancing agenda) are all key pillars of the long-term development strategy “Kazakhstan 2050,” which aims to transform Kazakhstan into a knowledge-based, diversified economy driven by the private sector.

Public Financial Management and Public Administration

Kazakhstan has created a comprehensive system of state planning, which is currently based on the Concept of Improving the System of Results-Based State Planning, approved in 2013. The overall strategic framework, Kazakhstan 2050, has been put in place with a long-term vision.
of the country’s comprehensive strategic goals and aspirations. To adjust its strategy to the new reality of reduced demand and low commodity prices, the Government is now developing a Strategic Plan 2025. This plan will determine the goals, key areas, and priority tasks for the country’s development in the coming decade.

The Government has developed a new budget policy aimed at strengthening the public financial management (PFM) system. The annual budget covers a rolling medium-term three-year planning period. The Government of Kazakhstan is taking steps to introduce a program budgeting structure so that the budget is appropriated according to budget programs. Strategic plans and budget programs are increasingly focused on performance. An efficient electronic payment system and a comprehensive treasury single account have been established to support budget execution.

The Government has demonstrated strong commitment to and ownership of reforming the public audit system and draft public audit legislation, which involves institutional and administrative reforms for external and internal audit. In the area of accounting and reporting, major efforts have been undertaken, beginning in January 2013 with the introduction of accrual International Public Sector Accounting Standards (IPSAS) for the whole of government, including broad range training and capacity-building activities.

Through five institutional reforms, the Government aims to improve the quality of governance, transparency, and fairness in the rule of law, as well as the accountability of government through decentralization. The reforms cover effective and professional public service delivery through open recruitment, better training, and the linking of pay and promotion to performance. To enhance accountability, the program includes the devolution of decision making to the local level as authorities also pursue the devolution of budget expenditures to local authorities in parallel.

The Bank assists the public sector and PFM reforms in Kazakhstan through a range of activities, including: the ongoing Tax Administration Reform Project, the Statistical Capacity Building Project, and the Justice Sector Institutional Strengthening Project. In addition, the Bank provides advisory and technical assistance under the Joint Economic Research Program (JERP), including technical assistance on drafting the Strategic Development Plan 2025 and the new Revenue and Budget Codes, strengthening the public internal audit system, and strengthening governance in state-owned enterprises (SOEs).

Financial Sector Performance

The NBK and the Government have provided substantial liquidity support to banks through the economic support program. In 2014–15, economic support went mainly to the banking sector to relieve credit problems by addressing a longstanding issue with NPLs and providing subsidized loans to small and medium-sized enterprises (SMEs). The support program recapitalized the Problem Loans Fund by US$1.4 billion in 2014 in order to reduce NPLs, which constituted about 23.5 percent of total bank loans in December 2014. The program of credit stimulus continued through 2015, while additional stimulus measures, including bailing out certain foreign exchange mortgage holders and topping up tenge deposit holders, were announced by the NBK in August 2015.

Tighter monetary policy and targeted policy interventions impacted the rate of credit growth and its composition, although the move to a floating exchange rate in August 2015 is expected to ease access to credit. However, in the near term, exchange rate volatility and recent hikes in the NBK base rate have stifled enterprise investments, and banks’ enterprise lending has contracted. Banking system assets have increased by a 5 percent compound annual growth rate since 2008; however, GDP growth was much stronger during the same period, so that the ratio of banking assets to GDP declined from 91 to below 40 percent over that period.

![NPLs and Provisions, 2008-2016](source: IMF Financial Soundness Indicators)
The ratio of private credit to GDP in Kazakhstan declined from a peak of 59.9 percent in 2007 to 37.4 percent in 2011 and has hovered near 37 percent for the past four years. Credit to the corporate sector stagnated after monetary policy tightened, while consumer credit has been capped by the regulator at 30 percent for each bank. Meanwhile, subsidized loans to SMEs have grown through the Nurly Zhol Program and lending support from international financial institutions (IFIs) to this sector, as shown below, but non-program lending has stagnated, and the apparent growth in enterprise lending is accounted for by increasing the tenge value of existing foreign exchange loans. Meanwhile, a steep decline in tenge deposits and a corresponding increase in foreign exchange deposits, combined with a declining demand for foreign exchange borrowing, has placed banks increasingly in a short open currency position.

Non-bank financial institutions (NBFIs) can complement the activities of commercial banks by targeting specific market segments in which banks do not participate actively. In Kazakhstan, NBFIs are significantly underdeveloped compared to countries with comparable income levels. In support of diversification of the financial sector, World Bank technical assistance has focused on the development of the securities and insurance markets. The use of financial instruments that can enhance access to finance, such as leasing, factoring, and trade-credit financing, could be further promoted by introducing a more conducive legal and institutional framework.

The Bank is working with the Government on financial sector reforms through several technical assistance projects along with ongoing policy dialogue. As part of the JERP, the Bank provides the NBK with guidance on strengthening the deposit insurance system and improving the supervision of securities markets. For a number of years, the Bank has been providing technical assistance to the Ministry of Finance on improving the insolvency system in the country, and in 2015, a revised law on corporate insolvency was enacted as well as implementing sublaws; a concept law on personal insolvency has likewise been developed and awaits endorsement. The new insolvency legislation is expected to streamline the insolvency process and improve creditor rights, thereby enhancing the environment for access to finance.

Private Sector Performance

The Government’s strategy for the diversification and competitiveness of the economy is anchored in the recognition of the private sector’s paramount role. Though diversification toward non-extractive tradables has been part and parcel of Kazakhstan’s development strategy, actual success has so far been limited. The Government’s current development program puts a major emphasis on increasing the non-oil sectors’ contribution to growth.

Labor productivity in Kazakhstan has grown in recent years but much remains to be done in key sectors, especially agriculture and manufacturing. Labor productivity has grown faster in the oil-extracting sectors/regions; the highest productivity growth was observed in the oil-extracting Atyrau region, where regional output per worker was four times higher than the average for the country and 11 times higher than in the agro-intensive Zhambyl region. Productivity growth in the oil-extracting regions was fueled by large capital investments associated with oil-extraction activities, while employment creation was limited. The agriculture sector, on the other hand, lags behind the global possibilities frontier; a domestic agricultural worker in Kazakhstan produces US$3,000 worth of crops per year, while a farm worker in a developed country produces US$50,000–$70,000 worth of crops, or 17–23 times more.

Improving productivity and competitiveness in Kazakhstan requires a mix of private initiative and public support in order to (i) stimulate investment in physical capital for the modernization of production processes, (ii) adopt and develop new technologies to accelerate the pace of technological change in the country, (iii) develop human capital to enhance managerial and technical skills, and (iv) promote public investment in basic infrastructure.
The Government plans to address the challenges through structural reforms and selective financial support and investments. The medium-term agenda for stimulating private sector investment, productivity, and economic diversification is outlined in the State Program of Industrial and Innovative Development for 2015–2019 and aimed at more focused support for the manufacturing industry through a combination of targeted industry/cluster support and systemic measures. Other efforts are directed toward strengthening market competition, modernizing large and medium-sized enterprises, and stimulating private sector innovation, particularly in new, high value-added, and export-oriented sectors.

The Government has shown a commitment by accelerating reform efforts in the business-enabling environment to attract the needed investment in the non-oil economy. The outcomes are visible in a variety of areas, resulting in an improvement in Kazakhstan’s Doing Business ranking from 74 in 2010 to 41 in 2016, placing it among the top reformers in improving the ease of doing business for entrepreneurs. Kazakhstan improved conditions for starting a business, getting credit, and protecting investors. However, although positive legal reforms have been achieved, many obstacles remain in practice for enterprises. Similarly, although reforms supporting the business environment beyond Doing Business have taken place, they could be enhanced further in terms of implementation.

The country has established several programs, instruments, and institutions to foster SME development but with modest success so far. SMEs’ contribution to GDP amounts to only 20 percent, and 30 percent to employment. In January 2016, the number of registered small enterprises (small companies, individual entrepreneurs, and farmers) reached 1.3 million; however, only about half were economically active, and the majority (over 70 percent) were in the form of individual entrepreneurship without the creation of a legal entity.

The Bank’s recently approved SME Competitiveness Project aims to strengthen the management capacity of SMEs to grow and create more and better jobs. The project also focuses on increasing market linkages for SMEs in the non-extractive sectors with a market-based growth potential.

The Bank’s technical assistance is focused on the implementation of reforms in the business environment, including such on sub-national level, improvements in the insolvency regime, and implementation of the Entrepreneurship Regulation Concept. In 2014, the World Bank collaborated closely with the Ministry of Investments and Development in building the capacity of the national agency charged with attracting investments and promoting exports. The Bank is currently engaged in policy dialogue to support a favorable environment for local exporters in the non-oil sectors.

Poverty and Social Protection

The favorable external economic environment and fast per capita income growth have contributed to an impressive reduction in poverty in the past decade. The share of the Kazakhstan population living in poverty declined from 47 percent in 2001 to about 3 percent in 2013, as measured by the national poverty line. Against the international US$5 per day (2005 purchasing power parity) poverty line, which is more appropriate for countries with a higher level of income per capita, approximately 15 percent of Kazakhstan’s population lived below the poverty line in 2013, down from 77 percent in 2001.

A comparison of Kazakhstan’s performance in the World Bank’s indicator of shared prosperity with other countries in the region shows significant progress. The shared prosperity indicator is measured by the growth rate of consumption per capita of the bottom 40 percent of the population. In Kazakhstan, the average consumption growth for all households was about 8 percent, while the growth rate of consumption per capita of the bottom 40 percent was about 9 percent during 2009–13.

Overall, about 30 percent of the population receives some form of social assistance, which is low by the standards of upper-middle-income countries. This low coverage is related to the low

1 The Doing Business methodology has evolved over 2010–15, therefore the rankings are not fully comparable.
value of the income-eligibility threshold, which is set per person at about US$1 per day. Kazakhstan's social safety net consists of categorical and means-tested transfers. Categorical programs transfer about 60 percent of all their resources to the population in the two lowest quintiles of the income distribution. The means-tested program is more cost efficient, transferring almost 90 percent of all resources to the two lowest quintiles. It has suffered from reductions in real budget outlays, however, and it now covers less than 1 percent of the population. To prevent it from contracting further, the program needs to be reformed to include activation elements that focus on graduating prime-aged, able-bodied recipients from relying on assistance to finding employment.

Kazakhstan's pension system was transformed from a pay-as-you-go scheme to a contribution-based, fully funded accounts scheme in 1998. Real returns remained low, given the risk aversion of the funds. Current pensioners continue to rely almost exclusively on state pensions, while lump-sum distributions from individual accounts remain small. In response to the decreasing purchasing power of pensions, a basic pension was introduced in 2005, and pensions continue to be augmented each year at a rate exceeding inflation. The Government is currently considering further reform options.

The World Bank's engagement with the Government of Kazakhstan in the social protection sector is underpinned by the JERP. It currently focuses on assisting the Government in introducing elements of activation and conditional cash transfers, so that the resulting social safety net is flexible, incentive compatible, and proactive. It has also supported an in-depth assessment of the national pension system, including reform options with changes to the basic pension system and additional employer contributions to improve future pension outcomes.

**Education**

Since 2010, Kazakhstan has ranked first on the UNESCO Education for All (EFA) Development Index by achieving universal primary education (99 percent), adult literacy (99 percent), gender parity (99 percent), and a nearly 100 percent rate of transition from primary to secondary general education (confirmed by the latest EFA report 2013–14). Public expenditures on education had been on the rise (3.4 percent of GNP in 2013–14), but due to the economic slowdown, they were cut to 2.89 percent in 2015 and are now much lower than the average of the Organisation for Economic Co-operation and Development (OECD) benchmark of 6–7 percent.

**Kazakhstan has demonstrated a strong commitment to improving student outcomes, with recent laudable achievements.** These include the rapid increase in access to preschool education (from 23 percent enrollment in 2005 to 82 percent in 2015), the introduction of innovative teaching and learning in secondary education through Nazarbayev Intellectual Schools (NIS), the development of per capita financing methods, and the establishment of Kasipkor Holding and Nazarbayev University to elevate technical, vocational, and higher education.

**Over the next five years, Kazakhstan is embarking on further major reforms across all education levels.** As delineated in the State Program on Education Development for 2011–2020, the Government plans to achieve universal preschool education by 2020, complete the transition to a 12-year model, and introduce a per capita financing scheme and a Board of Trustees at the secondary level. Since Kazakhstan joined the Bologna process in 2010, a three-level degree system of higher education has been introduced in all higher education institutions. Improving the quality of teaching, learning, and training and increasing funding at all levels are among the remaining challenges.

The Bank supports the education sector in Kazakhstan through a strategic and comprehensive engagement combining research and advisory services and investment operations. The Bank’s activities are aligned with sector priorities under the country’s Strategic Plan for the State Program for Education Development. Technical assistance implemented under the JERP supports multi-year programmatic activities to raise the learning outcomes of general secondary education.

The Bank helps to improve the employment outcomes and skills of the current workforce as well as the relevance of technical and vocation education (TVE), training, and higher education programs in Kazakhstan through the recently launched Skills and Jobs Project. This new project builds on the successful efforts of the
Technical and Vocational Education Modernization Project (TVEM), completed in 2015, which was aimed at raising the efficiency, quality, and relevance of TVE through an improved policy framework and institutional capacity.

To support the Government in implementing its youth development policy, the Bank prepared the Kazakhstan Youth Corps Project, which is designed to promote young people’s community engagement and life skills through community-based service learning programs, especially for vulnerable youth.

In support of the Government’s reform and modernization effort, a new Education Modernization Project is under preparation, with expected approval in 2016. The project seeks to support the Government’s program to improve quality and equity in primary and secondary education, benefiting 2.6 million students as well as teachers and other stakeholders, particularly 80,000 students and teachers in approximately 400 underperforming and disadvantaged schools.

Health

Although recording improvements, Kazakhstan is facing challenges in restructuring its health care system. The country’s health outcomes are lagging behind its rapidly increasing income. At 71.62 years in 2014, its life expectancy is low compared to other countries with similar incomes. Noncommunicable diseases such as cardiovascular diseases and cancers, as well as tobacco- and alcohol-related diseases and injuries, are major causes of adult mortality. However, notable progress has recently been achieved in maternal and child health. Infant mortality and under-five mortality rates, according to international estimates, were 12.6 and 14.0 per 1,000 live births in 2015, respectively, with the latter demonstrating the successful achievement of the Millennium Development Goals (MDG) target of 18.0 per 1,000 live births by 2015. Similarly, an international estimate of 12.0 per 100,000 live births in 2015 for the maternal-mortality ratio demonstrates achievement of the related MDG target and indicates that the country has reaped the benefit of its efforts to reduce this ratio over the past couple of years.

The new State Health Care Development Program “Densaulyk” for 2016–2019 builds on the improvements in strengthening the health care system and the population’s health status. Guided by the overarching goal of strengthening the population’s health to ensure sustainable socioeconomic development in the country, it aims to (i) develop the system of public health; (ii) improve disease prevention and management; (iii) enhance the effectiveness of the health care system’s management and financing; and (iv) increase the efficiency of resource use and improve the health sector infrastructure.

The World Bank supports health care system reform through a comprehensive Health Sector Technology Transfer and Institutional Reform Project. The project helps introduce international standards into the health sector and build long-term institutional capacity in the Ministry of Health and related health institutions. It deals with all aspects of health sector reform, including: (i) health financing, budgeting, planning, and management; (ii) health care quality improvement; (iii) reform of medical education and medical science; (iv) health information system development; (v) pharmaceutical policy reform; and (vi) food safety and World Trade Organization (WTO) accession.

The World Bank also supports implementation of the “Densaulyk” Program through a new investment project and technical assistance under the JERP. The Social Health Insurance Project will help improve the accessibility, quality, and efficiency of health service delivery and reduce financial risks to the population by supporting the implementation of the national mandatory social health insurance system and further improvement of the Unified National Health System to properly respond to new needs and requirements.

Agriculture and Irrigation

Agriculture growth averaged 4.2 percent in 2001–14. Although slower than the rest of the economy and uneven from year to year, the growth is robust. Though the agriculture sector accounts for only 4.4 percent of GDP, it continues to employ almost one-fifth (19 percent) of the working population and is therefore critical to addressing poverty and food security, as well as to providing an important avenue for the diversification of the economy.

A major part of agriculture exports, which totaled US$2.64 billion in 2014, comes from the exports of grain and flour. The share of food and
agriculture exports in total exports was 3.3 percent in 2014. The share of imports of agriculture/food products in total imports was 10.5 percent in the same year.

Labor productivity in agriculture increased by almost 50 percent between 2001 and 2012, but not to the same extent as in other sectors (75 percent). Consequently, the disparity between incomes in the agriculture sector and other sectors increased. Agricultural labor declined from 36 percent of total employment in 2001 to 19 percent in 2014. The majority of labor is concentrated in the small household sector, which produces 46 percent of agricultural output, including over 70 percent of livestock output.

The sector is highly heterogeneous in terms of farm structure and productivity, and thus average data across regions and farm types give quite limited information. The northern region is dominated by larger farms specializing in crop production, whereas smaller mixed farms, which include substantial meat and dairy production for the domestic market, predominate in the south.

The Government recognizes the enormous untapped potential of the agriculture sector and is developing options for reform. Facilitating structural change in the sector will require the creation of a more flexible land market. Improving the efficiency of the increased number of subsidies and credit programs and aligning them with WTO requirements would release significant public funds for other important priorities. Livestock production has become a major priority in the Government’s agriculture policy, and a significant share of subsidies was given to livestock producers in 2013–14.

Current key World Bank contributions to the agriculture sector include the second phase of the Irrigation and Drainage Improvement Project, a follow-up to the first phase of the project, which helped improve irrigated agriculture. Building on the 2010 Public Expenditure and Institutional Review, which provided a qualitative critique of the agricultural subsidies programs, the JERP study, “Improvement of the Approach to Agricultural Strategy, Policy and Budget Formulation,” provided a more detailed quantitative analysis of the impact of selected subsidies on tariff quota programs in terms of the distribution of costs and benefits for producers, consumers, and taxpayers, as well as economic losses and outputs. Under the JERP, the Bank helps the Government to analyze the effectiveness of the current measures supporting agriculture and to develop possible alternative measures consistent with WTO rules.

Water and the Environment

Kazakhstan has made commendable progress on modernizing its post-Soviet regulatory and institutional framework for environmental management, but challenges remain in adequately managing the environmental impact of industries. The country has inherited a legacy of significant environmental problems related to pollution and natural resource use. The environmental impacts are sometimes associated with excessive pressures on scarce water resources and the resulting significant public health damage. Since environmental monitoring systems are not sufficiently funded, environmental statistics do not reflect the current pollution load on the environment.

One of the significant environmental challenges for Kazakhstan is the desiccation of the Aral Sea, formerly one of the four largest lakes in the world. Rapid irrigation developments in Kazakhstan and Uzbekistan over the past 40 years resulted in serious economic, social, and environmental damage to the sea and to the adjacent region. The shrinking of the sea (and its consequences) has been described by many environmentalists as the worst environmental disaster in recent history. The Bank’s assistance through the Syr Darya Control and Northern Aral Sea Project helped to reduce water losses in the Kazakh part of the basin and to capture that water in the Northern Aral Sea (NAS), with impressive results. The Forest Protection Project also helped address the long-term threat to crops and animals of poisonous dust from the desiccated sea bottom by planting saxaul forests to stop the highly salinized sand and dust from spreading to other areas.

Current support to Kazakhstan’s environment sector includes: (i) the Ust-Kamenogorsk Environmental Remediation Project, addressing groundwater pollution and strengthening institutional mechanisms for groundwater quality monitoring, as well as providing technical assistance on reducing gas flaring; and (ii) the Second Irrigation and Drainage Improvement Project (IDIP-2), aimed at improving the timely availability of water for productive purposes, including fisheries, while at the
same time reviving the NAS. Several projects under preparation will focus on forestry development, solid waste management, the elimination of persistent organic pollutant wastes, and the mitigation of climate change.

The Bank also supports Kazakhstan’s water and environment sectors under the JERP engagements. In FY15, the Bank analyzed the impact of climate change on different regions and various sectors of the economy and provided input to the formulation of mitigation and adaptation strategies. Technical assistance to the Ministry of Energy informed government policy and identified regulatory changes for improved solid waste management. The Bank helped the Committee for Water Resources to develop a road map for strengthening management, policy reform, and public investments in the water sector to improve water use efficiency in irrigation, to increase agriculture productivity, and to achieve water savings to meet the growing non-agriculture water demands. The Bank also assists Kazakhstan in reducing gas flaring to broaden and deepen the benefits of the existing gas utilization program.

Transport

Although strategically Kazakhstan has the potential to connect the growing markets of Southeast Asia and China to Russia and Europe, the country ranks only 88th among the 160 economies included in the Bank’s trade logistics report “Connecting to Compete 2014: Trade Logistics in the Global Economy.”

Kazakhstan’s current transport system includes 97,427 kilometers of roads, 14,000 kilometers of railways, and numerous logistics centers, as well as free-trade zones to facilitate production, warehousing, and transportation. The road and rail networks account for the transportation of nearly 90 percent of total cargo volume. The majority of goods in transit are transported via the rail network, the rest by road and water transport.

The development objectives for the transport sector in Kazakhstan have been defined in the new State Program for Transport Infrastructure Development up to 2020 (Transport Strategy), with the assistance of the World Bank. The Strategy calls for more efficient transport infrastructure and logistics, with a greater focus on infrastructure at the local level, for both improving basic accessibility and increasing connectivity throughout the country, including remote and sparsely populated regions, to provide access to social infrastructure and services.

In the railways sector, key reforms have been aimed at separating infrastructure from rail transport, largely eliminating above-rail tariff regulation, providing open access to infrastructure, and subsidizing unprofitable but socially important services. The National Railway Company “Kazakhstan Temir Zholy” defines its strategic role as a key logistics provider for transit traffic between Asia and Europe and takes measures to attract transit freight traffic through Kazakhstan.

In the roads sector, key institutional reforms focus on the improvement of road maintenance and investments in highway infrastructure. The National Road Operating Company “KazAvtoZhol” oversees the construction, management, and funding of the major republican road network.

In the aviation sector, the gradual liberalization of air transport regulation is planned, along with investments in infrastructure and significant measures to improve safety.

In the water transport sector, the emphasis is on the Aktau port and services infrastructure, the expansion of the merchant fleet, maritime safety, and the development of human resources.

The Government of Kazakhstan embarked on an ambitious roads development program in 2010, the Western Europe-Western China (WE-WC) International Transit Corridor Project (part of CAREC2), to stimulate economic growth and reduce poverty in the poorest parts of the country by improving access to the regions and providing employment in the construction sector and related services. As part of the Government’s plan to upgrade the 2,840 kilometers linking Europe and Russia to China through Kazakhstan, the World Bank supports the implementation of the South-West Roads Project (SWRP), the largest infrastructure project in Central Asia and one of the largest single investment loans in the World Bank’s history. Overall, about 85 percent of the total amount of the WE-WC project is cofinanced by the World Bank.

2 Central Asia Regional Economic Cooperation.
and other IFIs). The SWRP focuses on: (i) upgrading and reconstructing 1,230 kilometers of road sections within the South Kazakhstan, Kyzylorda, and Almaty oblasts; (ii) strengthening the institutional capacity of the road agencies; and (iii) improving road safety and road services.

The Government of Kazakhstan expanded its partnership with the Bank on the rehabilitation and development of the WE-WC corridor by involving the Bank in the implementation of the East-West Road Project. This project will provide an efficient transport link from Khorgos, which is the primary road border crossing point between Kazakhstan and China, to the city of Almaty. The project will also help improve approaches to operation and maintenance and enhance road safety.

The Nurly Zhol Program charges the Government to implement road and rail transport projects connecting Astana with areas in the east, west, north, and south via rail, air, and road networks. The World Bank will cofinance two important road corridors linking the center (Astana) with the west (Aktau) and the south (Almaty). The Center-West Corridor is the main gateway to the west through the Caspian Sea and beyond through the Caucasus to Europe, and to the east to the port of Lianyungang in the Pacific Ocean. The Center-South Corridor strategically connects Kazakhstan to Western China and Russia as well as enhances connectivity between the major economic centers. These projects are intended to create an environment conducive to business-driven regional economic integration through enhanced factor and goods mobility that allows the formation of distribution, production, and delivery systems.

Energy

Kazakhstan’s rapid economic growth in the past decade has led to a sharp upswing in electricity consumption. As a result, the earlier generation’s surplus has disappeared and the supply-demand situation has become extremely tight. The deteriorating state of regional electricity cooperation in Central Asia has further aggravated the supply deficit. A lack of investment to expand electricity capacity in the past two decades and the fact that most of the coal-fired fleet, accounting for 84 percent of total generation, has started to reach the end of its design life threaten economic growth unless new generation and transmission investments are undertaken in a timely manner.

Kazakhstan ranks among the top 10 of the world's most energy-intensive economies, and the Government has launched a number of policies and programs aiming to improve its energy efficiency. To create an environment more conducive to reducing the energy intensity of GDP, the Law on Energy Saving and Energy Efficiency was adopted in January 2012 to provide a comprehensive legal, regulatory, and institutional framework and introduce the concept of energy service companies (ESCO). An ambitious Energy Efficiency Program 2020 was adopted in 2013, setting targets to reduce the energy intensity of GDP by 10 percent by 2015 and 25 percent by 2020. The National “100 Concrete Steps” Program launched in 2015 also focuses on attracting investment in energy efficiency.

The World Bank supports the development of the sector through the Energy Efficiency Project, focusing on investments in public and social facilities along with technical assistance to create an enabling environment for sustainable energy financing. The technical assistance is focused on a power sector policy review and regional trade, funded by the Energy Sector Management Assistance Program (ESMAP) and Central Asia Energy-Water Development Program (CAEWDP), respectively, as well as the development of a renewable energy market. Support is also rendered for the development of Kazakhstan’s domestic Emissions Trading Scheme under the Partnership for Market Readiness (PMR).

The Bank is also helping the Government in its efforts to improve conditions for attracting private investment to Kazakhstan’s renewable energy sector through the multi-year JERP engagement. Advisory assistance to the Ministry of Energy focuses on further improving the regulatory and institutional framework for renewable energy development and facilitating the integration of renewable energy into the power system and electricity market.

THE WORLD BANK PROGRAM IN KAZAKHSTAN

Kazakhstan joined the World Bank in 1992. Since then, the Bank has approved 45 loans to the country for a total amount of more than US$7.9 billion, of which about 67 percent, or over US$5.3 billion, has been disbursed.
The Country Partnership Strategy (CPS), approved on May 1, 2012, was designed to ensure continued strong government ownership of the Bank-supported programs, and to allow the Bank to adjust to changing government priorities and country circumstances, thereby maximizing the Bank’s contribution to Kazakhstan’s development. The CPS concentrates on the Government’s key priorities of competitiveness and jobs; strengthened governance in public administration and service delivery; and the safeguarding of the environment.

In May 2014, the World Bank and the Government embarked on a Partnership Framework Arrangement (PFA), guided by the CPS and aimed to support the Government’s efforts to ensure sustainable development and inclusive growth that is widely shared and benefits the lower-income groups. Implementation of the PFA is conducted through technical assistance, investment, and institutional capacity-building projects along the following thematic areas: (i) attracting investments into the economy and developing public-private partnerships (PPPs); (ii) facilitating sustainable environmental (greener and energy-efficient) development; (iii) increasing the role of the private sector in the economy by fostering the development of SMEs and improving the business climate; (iv) providing implementation support to institutional reforms; (v) developing job skills for the labor market; (vi) promoting regional cooperation and economic integration; (vii) fostering science and innovation; and (viii) strengthening the financial sector.

With the signing of the PFA, the Bank has significantly extended its Advisory Services and Analytics (ASA) to the Government provided under the JERP. The JERP is an instrumental tool for providing policy analysis, strategic planning expertise, and good practice options. The JERP comprises about 20 thematic tasks every year and helps to further strengthen the institutional capacity of the Government to conduct economic and sectoral work.

As of April 2016, the Kazakhstan portfolio consisted of 14 operations (12 International Bank for Reconstruction and Development [IBRD] loans and two large grants funded from the Swiss Trust Fund), with a total net commitment of US$4.7 billion, of which US$2.2 billion has been disbursed. While over 80 percent of the commitments are concentrated in the two big roads development projects, the portfolio remains diverse, with two-thirds of the projects focused on institutional building in the areas of education, health, innovations, and the revenue administration agenda. The pipeline in Kazakhstan includes a number of projects at various stages of preparation. These include: (i) the Support to Social Modernization: Health Insurance Project; (ii) the Education Modernization Project; (iii) the Center South Road Corridor Development Project; (iv) the Center West Regional Development Corridor; (v) the Forestry Development Project; (vi) the Solid Waste Management Project; (vii) the Elimination of Persistent Organic Pollutant Wastes Project; (viii) the Syr Darya Control and Northern Aral Sea Project, Phase 2; (ix) the Modernization and Rehabilitation of Irrigation and Drainage Project; (x) the Regional Climate Adaptation and Mitigation Program; (xi) the Digital Kazakhstan Project; and (xii) the SME Line of Credit Project.

Overall, Bank operations in Kazakhstan enjoy strong government ownership. However, several projects have experienced slow disbursements, reflecting a somewhat slow start-up. The performance of Bank operations in the country have also been affected by a number of country system aspects, including frequent staff turnover at both mid-management and working levels, a lengthy government processing system, and procurement delays. Systemic issues are being addressed at different levels through the established PFA Coordination Council, led by the Bank and chaired by the Prime Minister, and the Country Portfolio Performance Review.

10
KAZAKHSTAN: SECOND IRRIGATION AND DRAINAGE IMPROVEMENT PROJECT

Key Dates:
Approved: June 27, 2013
Effective: January 29, 2015
Closing: December 31, 2021

Financing in million US Dollars*:

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<td>IBRD Loan</td>
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<td>Government of Kazakhstan</td>
<td>240.10</td>
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<td>Total Project Cost</td>
<td>343.00</td>
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</table>

* as of March 16, 2016

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

This project responds to the government strategy to accelerate the improvement of irrigated land, improve the efficiency of water use in agriculture, and reduce demands on scarce surface water resources. Better use and management of irrigation infrastructure will help develop the agriculture sector to benefit the national economy and people in rural areas.

The Project Development Objective is to improve irrigation and drainage (I&D) service delivery to support farmers in the project areas. This will be achieved through rehabilitation and modernization of I&D systems; improved management, operation, and maintenance (MOM) of these systems; and more efficient use of associated irrigated lands, all with the improved participation of users in developing and managing the rehabilitated/modernized systems.

The project comprises the following components:
1. Rehabilitation and Modernization of I&D Systems Infrastructure (US$323.38 million). Subcomponent A will support the rehabilitation and modernization of I&D infrastructure on approximately 113,000 hectares. Subcomponent B will provide technical assistance for the design and supervision associated with the rehabilitation and modernization of I&D infrastructure, including preparing site-specific dam safety plans.
2. Sustainable Management, Operation, and Maintenance of I&D Systems (US$6.93 million) will support: (a) developing and strengthening Rural Consumer Cooperatives (RCCs) and water management organizations through: (i) supporting the establishment of the enabling training and support units (Rural Support Units, RSUs); (ii) supporting Participatory Irrigation Development and Management (PIDM) activities, including related water sector studies and access to credit and leasing resources; and (iii) enhancing MOM activities, including water monitoring tools; (b) modernizing and strengthening on-farm water management (at the RCC level); and (c) modernizing and strengthening the MOM of the main irrigation and drainage system.
3. Agricultural Development (US$9.80 million) will support: (a) strengthening of farmer capacity through: (i) improving farm management and land use; (ii) supporting knowledge transfer on innovative agro-techniques; and (iii) supporting agro-cooperatives, including establishing and strengthening the enabling farmer services centers (FSCs); (b) farming and irrigation mechanization through: (i) developing water saving techniques, (ii) facilitating access to maintenance equipment for the on-farm irrigation systems, and (iii) strengthening the related advisory facilities.
4. Project Management, Technical Assistance, and Training (US$2.89 million) will include operational support for the Project Management Unit (PMU) to be established within the Committee for Water Resources.

Implementation Status and Key Results:
- The procurement process for the largest irrigation consultancy contracts on integrating irrigation system design, participatory management, construction supervision, and safeguards management has been completed, and the civil works design is in process.

Key Partners: the Ministry of Agriculture of the Republic of Kazakhstan, responsible for overall implementation through the Committee for Water Resources.
KAZAKHSTAN: ENERGY EFFICIENCY PROJECT

Key Dates:
Approved: May 22, 2013
Effective: June 1, 2015
Closing: June 2017

Financing in million US Dollars*:

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<td>Total Project Cost</td>
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* as of March 16, 2016

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

Kazakhstan ranks among the top 10 most energy-intensive economies in the world and uses more than three times as much energy per unit of GDP as the countries in the European Union (EU). This high energy intensity results in significant costs for the country in terms of economic competitiveness, public health, and the environment. Reducing the inefficient use of energy would allow Kazakhstan to save up to US$1.3 billion per year in energy expenditures in the public and private sectors.

International experience shows that public buildings can readily achieve 20–40 percent energy savings through cost-effective retrofits. To this end, the project will support investments in energy-efficient upgrades in about 75 public and social buildings throughout the country. These improvements are expected to enhance the working conditions of more than 30,000 pupils, teachers, hospital patients, children, doctors, and others benefiting from improved indoor comfort levels in these buildings.

The Project Development Objective is to improve the energy efficiency of public and social facilities and the enabling environment for sustainable energy financing.

The project will address a range of energy-efficiency issues through the following components:

1. The upgrading and modernization of public and social facilities, such as schools, kindergartens, clinics/hospitals, and street lighting;
2. Technical assistance to help address the existing financial, technical, institutional, and legislative barriers that are preventing the public sector from tapping into its large energy savings potential.

Implementation Status and Key Results:

- Energy audits and designs for the first batch of 19 public social facilities (11 kindergartens and eight schools) in six oblasts (Atyrau, Mangistau, Karaganda, Kyzylorda, Pavlodar, and East Kazakhstan) are ongoing. Construction is expected to start in May–June 2016.
- It is expected that 25 public and social facilities will be selected and retrofitted in 2017. The call for proposals for the second batch of subprojects will be issued by the Ministry of Investment and Development in December 2016. Following the Government’s priorities and needs on attracting investment in energy efficiency under the National “100 Steps” Program, the project funds a technical assistance study on energy-efficiency financing mechanisms with the wide engagement of stakeholders. The study was launched in September 2015, and the first stakeholder consultation meeting is scheduled for April 2016.

Key Partners: the Ministry of Investment and Development (MID), JSC “Institute for the Electricity and Energy Saving “KazakhEnergoExpertise” (EEDI), local authorities, and private energy service providers.
The environmental pollution in Ust-Kamenogorsk City is linked to industrial hazardous waste accumulated before 1990. The project will optimize the design and implementation of a program for groundwater cleanup and the remediation of waste disposal sites in Ust-Kamenogorsk based on technical, economic, financial, social, and ecological assessments. In addition, the project will cover investments and activities to control groundwater downstream of treatment sites and the development of a long-term Groundwater Quality Monitoring System.

The Project Development Objective is to prevent contaminated groundwater from becoming a risk for residential areas, drinking water resources, and the Irtysh River, and to strengthen the institutional mechanisms for groundwater quality monitoring.

The project comprises the following components:
1. Containment of high-priority sources of groundwater contamination. This component will develop immediate cleanup activities to prevent the further infiltration of contamination into the aquifer from the identified high-risk waste dumps and slurry ponds located within or near the city, mostly in the area of the Central Industrial Complex.
2. Remediation of Current Contaminated Groundwater Sites. This component includes two subcomponents: (i) a pump and treat groundwater remediation system; and (ii) a groundwater quality monitoring network. This component will support the interception, treatment, and monitoring of contaminated groundwater in the project area and prevent the further migration of groundwater with unacceptable contamination levels to sensitive areas, groundwater users, and the Irtysh River.

Implementation Status and Key Results:
- The investigation program to assess the contamination level of seven industrial high-priority waste dumps in Ust-Kamenogorsk was concluded, and a detailed design for the remediation of these industrial waste dumps has been developed. State approval for the detailed design has been obtained for six out of seven industrial waste dumps.
- Civil works started in April 2013. The rehabilitation of four industrial waste dumps is completed. One waste dump was remediated with public funding when the design work for the other waste dump remediation was carried out.
- Telemetry, leak detection, and other equipment has been supplied at the Vodokanal. The water leakage reduction program in Ust-Kamenogorsk is being implemented. Laboratory equipment to measure heavy metals and organic chemicals in the ground, surface water, and soil in Ust-Kamenogorsk has been successfully installed, and laboratory staff trained.
- Detailed sampling and analysis have been undertaken in the Capacitator sludge pond for laboratory analysis to determine the precise concentration of polychlorinated biphenyls (PCBs) and required remediation technologies in line with the Stockholm Convention. Technical options for the treatment system have been confirmed and tested, and works have been completed.
- The Groundwater Monitoring Program for the groundwater remediation component is being implemented. Twenty-two multilevel monitoring wells have been drilled and installed.
- Remediation of the Titanium Magnesium Plant (TMP) industrial waste dump site to be completed in mid-2016, and works under the last industrial waste dump site (UMZ) are to be launched by the end of 2016.

Key Partners: the Ministry of Agriculture of the Republic of Kazakhstan, responsible for overall strategy planning through its Committee for Water Resources.
Key Development Partners: the European Commission (EC) and the Government of Japan.
KAZAKHSTAN: SOUTH-WEST ROADS PROJECT:
WESTERN EUROPE-WESTERN CHINA INTERNATIONAL TRANSIT CORRIDOR

Key Dates:
Approved: April 30, 2009
Effective: December 9, 2009
Expected Closing Date: June 30, 2018

Financing in million US Dollars*:

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*as of March 16, 2016

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

Kazakhstan is the ninth-largest country in the world, with a land area equal to that of Western Europe. The upgrade of the Western Europe-Western China (WE-WC) Road Corridor is among the top priorities of Kazakhstan's infrastructure development agenda. It is the main road corridor crossing Kazakhstan from the border with China in the southeast, through Almaty, Taraz, Shymkent, Kyzylorda, and Aktobe, to the border with Russia (a total of 2,787 kilometers). The construction of the corridor started in 2009. The World Bank is financing the rehabilitation of a section of the corridor in the south of Kazakhstan.

The Project Development Objective is to increase transport and trade efficiency along the 1,230-kilometer road section in Kyzylorda, South Kazakhstan (SKO), and Almaty oblasts, and to improve road management and traffic safety in Kazakhstan. The project will boost Kazakhstan's (and its neighbors') trade, competitiveness, logistics, and infrastructure connections with the world, while providing an artery for regional economic cooperation. The upgrading of the corridor will facilitate a more efficient movement of goods and people and improve road safety. It will also facilitate industrial, agricultural, and commercial activities, with improved trade and services along the road and in adjacent towns and cities.

The project comprises five components:

1. Upgrade and reconstruction of road sections (788.5 kilometers, two-lane infrastructure north of Kyzylorda and four-lane infrastructure south of Kyzylorda) within Kyzylorda oblast.
2. Upgrade and reconstruction of road sections within SKO (361.5 kilometers of four-lane infrastructure).
3. Assistance to the Committee for Roads (CR) with the management of activities associated with the projects funded by other international financial institutions.
4. Institutional development and preparation of action plans to improve road safety and road services.
5. Supervision of civil works.
6. Upgrade and reconstruction of road sections in Almaty oblast (80 kilometers of four-lane infrastructure)

Implementation Status and Key Results:

More than two-thirds of the road length is open to traffic, with 90 percent of the works completed.

- Works are ongoing on the additional 80 kilometer section, a four-lane highway along the same road corridor (east of Shymkent), which became part of the project after its first restructuring in 2012, Temirlan Bypass, and a 50 kilometer section in Kyzylorda.
- In 2015, the Bank approved a second restructuring of the project to allow for the financing of an additional section of 80 kilometers from Kurty to Burylbaital, committing US$217 million of accrued savings, resulting from the lower cost and more efficient procurement of civil works and the devaluation of the Kazakhstan tenge.
- To date, the project has provided up to 35,000 jobs for local people.
- In an effort to strengthen accountability and transparency, an external monitoring mechanism agreed to by the Government and executed by civil society organizations (CSOs) was established in 2012: the National Expert Council for Transparency and Sustainable Development, comprised of the CR, Project Management Consultants, Supervision Consultants, and CSOs. Land acquisition monitoring has been included as a priority activity in the work program.
- The Government has initiated reform in the roads sector and created an autonomous Roads Agency, the JSC KazAvtoZhol, to optimize management of the national road network.
- While civil works continue, institutional strengthening activities (road safety, road services, and road asset management) are being implemented jointly by the CR and KazAvtoZhol.

Key Partners: the Ministry of Investment and Development, the Committee for Roads (CR), and KazAvtoZhol.

Key Development Partners include the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the Japan International Cooperation Agency (JICA), and the Islamic Development Bank (ISDB).
The East-West Roads Project is part of the Government’s plan to upgrade and improve the international transit corridor linking Europe and Russia to China through Kazakhstan (a total of 2,787 kilometers). The Bank has been helping to upgrade 1,150 kilometers of the corridor through the financing of the ongoing South-West Roads Project. The East-West Roads Project is expected to provide an efficient transport link from Almaty—one of the major economic centers of Central Asia—to Khorgos, the primary road border crossing point between Kazakhstan and China, thereby completing the upgrade of the WE-WC Road Corridor.

The Project Development Objectives are to increase transport efficiency along the section of the WE-WC Road Corridor within Almaty oblast and to modernize highway management on sections of the WE-WC Road Corridor.

The project will provide an efficient transport link from Almaty to Khorgos, thereby completing the upgrade of the WE-WC Corridor. The upgrading of this 305-kilometer long section of the WE-WC Road Corridor in Almaty oblast would facilitate a more efficient movement of goods and people and improve road safety. It would also facilitate industrial, agricultural, and commercial activities, with improved trade and services along the new road and in adjacent towns and cities.

Long-Term Development Impact:

The project will focus on increasing the quality of services provided to road users, including a reduction in road user costs and improved road safety and services, by undertaking pilot operation and maintenance activities along the WE-WC Road Corridor. The pilot activities will also help develop realistic cost estimates for the operation and maintenance of the other road corridors in Kazakhstan. Additionally, a study has been launched to review tolling options to help the Government to recover costs for the operation and maintenance of parts of the corridor.

The Project comprises two components:

1. Upgrade and construction of the road section of the WE-WC Road Corridor within Almaty oblast
2. Modernization of highway management on sections along the WE-WC Road Corridor

Implementation Status and Key Results:

- Procurement for all eight lots, civil works, and the supervision consultancy was completed by the time the project became effective to fully utilize the construction season. As of October 2015, works had been completed on roughly 130 kilometers of road sections.
- JSC KazAvtoZhol National Roads Operating Company has been authorized to implement day-to-day management and operation functions under the project, with the Roads Committee responsible for overall project implementation. Institutional strengthening activities are being procured to support the development of a tolling strategy for the road section from Almaty to Khorgos and to support the development of a concept and instruments for the operation and maintenance of the road network.

Key Partners: the Ministry of Investment and Development, the Roads Committee, and KazAvtoZhol.

Key Development Partners include ADB, EBRD, JICA, and ISDB.
The small and medium-sized enterprise (SME) sector can play a key role in addressing Kazakhstan’s development challenges and in advancing shared prosperity and economic diversification. Kazakhstan has over 750,000 registered SMEs that employ over 2.5 million people and produce about 18 percent of GDP. These indicators lag behind global averages and regional benchmarks. To date, SMEs represent over 90 percent of all enterprises in the country. Almost two-thirds of SMEs are concentrated in the trade and services sectors, which are characterized by low risk and modest startup capital.

The Project Development Objective is to enhance the competitiveness and management capacity of targeted SMEs in Kazakhstan.

Project components include:

1. **SME Capacity Building** to strengthen government SME support programs by enhancing quality and introducing international standards to increase SME competitiveness and access to other programs.
2. **SME Linkages in Competitive Sectors**
   2.1 **Supplier Development Program** to increase supply-chain linkages between SMEs and large firms in Kazakhstan through facilitation of linkages; focused technical assistance to SMEs; and establishment of a Supplier Development Office
   2.2 **Competitive Sectors Support** for the development of the non-extractive sectors in and around priority geographic areas through institutional capacity strengthening
   2.3 **Factoring Strategic Assessment** to make a strategic assessment for a supply chain financing (SCF) program to improve access to and terms of credit for SMEs
3. **Impact Monitoring and Evaluation (M&E)** to deploy rigorous impact evaluation and M&E tools to gain evidence for policy, program design, and transparency; citizen engagement through public-private dialogue (PPD); and a strengthened SME Call Center.
4. **Project Management**

Performance Indicators: Some notable criteria of success with regard to the project development objectives will include: (a) the number of SMEs that become “accredited suppliers” to large companies; (b) the percentage of participating SMEs reporting improved management and business practices; (c) the number of Cluster Competitiveness Action Plans for which implementation has begun.

Implementation Status and Expected Results:

The preparatory work is in progress, with all the interested partners aiming to start implementation in April 2016.

**Key Partner:** the Ministry of National Economy of the Republic of Kazakhstan, the National Chamber of Entrepreneurs, and the Kazakhstan Industry and Development Institute (KIDI).
KAZAKHSTAN: HEALTH SECTOR TECHNOLOGY TRANSFER AND INSTITUTIONAL REFORM PROJECT

Key Dates:
Approved: January 15, 2008
Effective: December 15, 2008
Closing: June 30, 2017

Financing in million US Dollars:

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*as of March 16, 2016
Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

The Project Development Objective is to introduce international standards and build long-term institutional capacity in the Ministry of Health (MOH) and related health institutions in support of key health sector reforms pursued by the Government of Kazakhstan. This comprehensive project deals with all aspects of health sector reform, including: (i) health financing, budgeting, planning, and management, (ii) health care quality improvement, (iii) reform of medical education and medical science, (iv) health information system development, (v) pharmaceutical policy reform, and (vi) food safety and World Trade Organization (WTO) accession.

Implementation Status and Key Results:
Project implementation has been extended under three components to prepare for the introduction of social health insurance and finalize procurement for key e-Health infrastructure and drug quality testing. All the activities under four other components have been completed with overall noteworthy progress, including:

- 12 technical centers established to support the health system in accreditation, economic research, planning and investment monitoring, management, standardization, health information management, and innovative education.
- Equity, efficiency, and quality of health care delivery achieved through introduction of regional financing equalization mechanisms, output-based program budgeting, and modern provider payment methods, including a performance-based financing approach. A new “health care manager” specialty introduced, new qualifications standards for managers based on British Occupational Standards promulgated, and new professional training curriculum established.
- Health network master plans based on new facility planning standards developed and adopted by all 16 regions through regional prospective plans for health infrastructure development for 2015–25.
- Strategies for enhancing provider autonomy and a number of health management training programs, including a master’s degree course, developed and implemented.
- The upgraded and certified National Hospital and Outpatient Accreditation Standards and a surveyor training program are used in the annual accreditation process. 100 international standard Clinical Practice Guidelines adapted and being gradually introduced into the clinical practice and medical education process. Disease management programs for the three most prevalent noncommunicable diseases piloted in two regions.
- A state-of-the-art E-Health Concept approved and currently under implementation.
- Regional drug information centers operate in 16 regions; National Pharmaceutical Policy, Drug Formulary, and Outpatient Drug Benefit Strategy developed; and the National Drug Quality Testing Center internationally accredited.
- National food safety strategy implemented, with project-supported European Union (EU)-standard food safety regulations adopted for the whole Customs Union in 2013, and food safety control capacity strengthened through the use of modern research methods and the establishment of the Central Asian Training Center on Food Safety in early 2014.
- 94,000 health professionals and managers have received overseas and in-country training. Applied bachelor’s educational program in the nursing specialty and three simulation training courses for health specialists and trainers implemented. Strategy for capacity building of health managers and researchers until 2020 has been developed.

Key Partners: the Ministry of National Economy, the Ministry of Finance, and the Ministry of Health and Social Development.

The Youth Corps Project supports the Government’s various policies related to youth, particularly the Concept of State Youth Policy 2020. The project is also aligned with the overarching objectives of the Country Partnership Strategy, specifically on improving competitiveness and fostering job creation.

The Project Development Objective is to promote positive youth development in Kazakhstan through service learning opportunities that serve the community while enhancing youth initiative and life skills.

Five domains appear to be important in Kazakhstan: a) **Community engagement:** A stable intention to accomplish something that is at once meaningful to the self and a positive contribution to the community, including volunteering and community services activities; b) **Initiative:** Capacity to identify a goal and then direct cumulative effort over time toward its achievement; c) **Support system:** Opportunities to build strong adult-youth and youth-youth relationships; d) **Safe space:** Access to environments that are free from physical and psychological hazards; and e) **Recognition for positive behavior:** Public acknowledgement of behavior that contributes positively toward the future.

The project will focus on all of these domains by supporting community-based service learning and life skills development as well as the institutional development of the Ministry of Education and Science for Youth Policy implementation. The project is expected to benefit about 8,500 young people, of which approximately 5,100 (60 percent of total direct beneficiaries) will be “vulnerable youth,” and some 100 youth-focused organizations.

The project comprises three components:

1. Subgrants for Community-Based Service Learning and Life Skills Development (US$20 million)
2. Institutional Development for Youth Policy Implementation (US$0.763 million)
3. Project Management, Monitoring, and Evaluation (US$1 million)

Implementation Status and Expected Results:

- The project was approved by the World Bank on March 25, 2014, followed by the signing of the Grant Agreement in September 2015. Implementation of the project is expected to start in April 2016.

Kazakhstan stands on the doorstep of a new stage of social and economic modernization and political democratization. The Government foresees the creation and strengthening of the rule of law and judicial institutions as an essential component of this new stage of modernization for Kazakhstan. That is the main reason that Kazakhstan’s authorities envisage the Justice Sector Institutional Strengthening Project (JSISP) as a strategic instrument to strengthen the institutional capacity and performance of core justice sector entities and deliver measurable results. Because of the importance of this agenda, the Presidential Administration itself is overseeing project preparation.

The Project Development Objectives are to (a) strengthen the institutional capacity of selected agencies for effective implementation of selected laws and (b) improve the efficiency and transparency of and access to select public services in the justice sector.

The project will address a range of justice sector issues through the following components:

1. Strengthening the Implementation of Key Elements of the Legal and Institutional Framework
2. Improving Ministry of Justice Service Quality and Responsiveness
3. Strengthening Judicial Efficiency and Professionalism
4. Promoting Project Implementation, Coordination, and Fellowships

Implementation Status and Expected Results:

- Strengthened institutional capacity of designated agencies for effective implementation of selected laws measured by private sector satisfaction level with the implementation of the Entrepreneurship Code, a new Law on Self-Regulatory Professional Organizations, and the Administrative Offenses Code.
- Improved efficiency of selected justice services measured by JSISP-supported pilot court-users’ satisfaction level with the quality of judicial services.
- Improved transparency of selected justice services.
- Improved access to selected justice services measured by the growth in the number of eligible persons, including women beneficiaries, provided with legal aid.
- Strengthened professionalism of judges and other public servants of the justice system.

Key Partners: the Ministry of Justice (implementing agency), Supreme Court, General Prosecutors Office, Ministry of National Economy, Ministry of Interior, and selected high-volume courts.

Key Development Partners: EU, USAID, UNDP, UNIFEM, GTZ, and the American Bar Association Rule of Law Initiative (ABA-ROLI).
The Government of Kazakhstan is implementing tax administration reform to improve Kazakhstan's competitiveness and business climate by reducing the burden of tax compliance through state-of-the-art procedures and processes while combating tax evasion and corruption.

**The development objective** of the proposed project is to modernize and strengthen tax administration to become more efficient and effective in serving the citizens of Kazakhstan while reducing the administrative burden imposed on the private sector to comply with their tax obligations. Specifically, the goals are to: enhance tax compliance and thereby reduce the shadow economy; strengthen institutional and human capacity in tax administration; reduce the administrative cost of tax administration; and reduce the time and financial costs to taxpayers in their transactions with tax administration.

**The project consists of three components:**

1. Institutional development is aimed at optimizing the structure of tax administration, increasing institutional efficiency, and improving human resources (HR) management practices.
2. Operational development aims to improve and further develop core tax administration operations.
3. Information technology infrastructure development attempts to develop a comprehensive and integrated tax management system.

**Implementation Status and Expected Results:**

- Legal framework for universal filing, improvements in excise taxation, and risk management put in place.
- Strategy for tax audits, capacity building in international taxation issues, and strengthening of the large taxpayer office.
- Introduction of universal filing and reform of excise taxation is under way.
- Percentage of electronic filing increased from 60 percent in 2008 to 95 percent in 2015.
- Average time taken by taxpayers to comply with tax obligations as evidenced from surveys decreased from 271 in 2008 to 188 in 2015.
- The Tax Committee is building the capacity of tax officials through learning from the experiences of advanced and developing tax administrations.

**Key Partners:** State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan.

**Key Development Partners:** USAID.
The project aims to support the Government’s target of improving Kazakhstan’s ranking on the World Economic Forum’s (WEF) Global Competitiveness Index from 72nd (out of 139 economies) in 2012 to 50th by 2020.

Focusing on the innovation pillar, the project will contribute to the improvement of such critical areas as: capacity for innovation, quality of scientific research institutes, company spending on research and development (R&D), university-industry collaboration on R&D, availability of scientists and engineers, and patents and applications.

**The Project Development Objective** is to promote high-quality, nationally relevant research and the commercialization of technologies.

**Project components** include:

1. **Development of the Knowledge Base for Innovation** through (a) a competitive grant program selected and overseen by the International Science and Commercialization Board to finance high-quality R&D projects conducted by groups of senior scientists and junior researchers, and (b) PhD training abroad in technical areas that are strategic for Kazakhstan’s economy

2. **Technology Consortia for Inclusive Innovation** to finance (a) productive sector consortia (agriculture, extractive industries, manufacturing; and (b) inclusive innovation consortia (health, education, water, urban and rural infrastructure)

3. **Consolidation of the Technology Commercialization Cycle** to finance (a) public support to a Funding Facility for developing technology-based enterprises and providing a demonstration effect of the commercial viability of these investments, (b) innovation brokerage to generate deal flow, (c) technology acceleration offices abroad, and (d) a network of technology transfer offices (TTO) at major Kazakh universities

4. **Strengthening the Coordination of the National Innovation System** to finance (a) the establishment of an Innovation Observatory (a permanent framework to monitor innovation performance in both the productive and public sector) and (b) awareness raising and coordination activities to articulate and disseminate an inclusive innovation agenda for Kazakhstan

**Implementation Status and Expected Results:**

- The Senior and Junior Research Groups Grant Program is to be launched in April 2016.
- The Technology Commercialization Office is working in partnership with a reputable international technology commercialization contractor, CRDF Global, and has run several knowledge-sharing and capacity-building workshops in Kazakhstan and one in the United States, in addition to completing two selection rounds of grant applications for technology commercialization grants for prototype development and proof of concept.

**Key Partner:** the Ministry of Education and Science of the Republic of Kazakhstan.
Labor force participation and employment rates have traditionally been high in Kazakhstan, especially for women. In line with strong economic growth, unemployment halved between 2001 and 2013, decreasing from 10.4 to 5.2 percent. With such high levels of job access, the immediate jobs challenge for Kazakhstan lies more along the quality domain. The low relevance of the education system has been one of the key difficulties confronting skills development, which is reflected in the country’s poor performance on international student assessments. As the economy continues to develop and diversify, there will be a need for high-skilled specialized employees and for the low-skilled to upgrade their qualifications to be able to secure better jobs.

The Project Development Objectives are to improve employment outcomes and the skills of target beneficiaries and to improve the relevance of technical and vocational education and training and higher education programs.

Implementation Status and Expected Results:

**Under Component 1. Building the Foundation of a National Qualifications System,** the project is expected to help enhance the institutional capacity for improving the relevance of technical and vocational education, higher education, and workforce training. For this, the project aims to align the national qualifications system with labor market demands, focusing on occupational standards, educational standards and curricula, and qualifications assessment and certification. The improved qualifications system, in turn, is expected to improve the quality assurance and relevance of pre-employment education and training.

**Under Component 2. Enhancing Skills for Improved Employment Outcomes and Productivity,** the project will provide the relevant training to the unemployed, unproductively self-employed, and currently employed who are in need of training. The project aims to improve public employment services and enhance the capacity of training centers and institutions to deliver skills development programs in line with market demand. Increased access to relevant training for the working-age population will yield economic benefits, as the unemployed and unproductively self-employed are expected to be more employable in the formal sector and earn higher wages, and firms can increase profits with a more productive workforce in place. Overall, the improved labor market services will result in better job matching and shorter unemployment periods.

**Key Partners:** the Ministry of Healthcare and Social Development, the Ministry of Education and Science, and the National Chamber of Entrepreneurs “Atameken.”
The project aims to improve the efficiency and effectiveness of the national statistical system to provide relevant, timely, and reliable data in line with internationally accepted methodology and best practices.

The project will upgrade the conceptual, methodological, and analytical skills of the Committee of Statistics under the Ministry of National Economy of the Republic of Kazakhstan and other data producers and user agencies in the country. This will position the Committee of Statistics to respond quickly and effectively to the new needs and priorities that will arise in the future.

The principal outcome of this project will be an improved national statistical system that can inform the Government’s decision-making process by providing timely and accurate economic and social data and can also help monitor progress toward national development goals. Achievement of project objectives will support the overall goal by reducing the cost of information supply, increasing the demand, and making the coordination of statistical activities, financing, and execution more effective. It will be also beneficial to the statistics departments of line ministries through improved institutional interaction between statistics agencies and the training of the relevant staff.

Key Expected Results:

- Improved institutional framework that will encourage statistical development
- Improved IT infrastructure
- Strengthened human resources through training in statistical operations
- Improved statistical infrastructure through the application of internationally accepted methodologies and data quality standards
- Developed statistical production system that continuously adapts to the evolving needs of society and the economy through user-producer dialogues
- Institutionalized core statistical activities, including poverty monitoring
- Increased output of reliable statistics by consolidating and strengthening existing surveys and administrative sources and by designing and conducting new data-generating activities
- Timely dissemination, information sharing, and use of data for policy decisions

Implementation Status and Key Results:

- A twinning arrangement has been established between the Committee and a consortium of statistical agencies, led by the German Federal Statistical Office (DESTATIS), since September 2012. Around 50 percent of activities have been completed as part of the technical assistance provided by the consortium.
- Procurement of some IT equipment for regional offices has been completed.
- A mid-term review of the project has been conducted, concluding that it has so far been fully successful and satisfactory.

Key Partner: the Committee of Statistics under the Ministry of national Economy of the Republic of Kazakhstan.
KAZAKHSTAN: JOINT ECONOMIC RESEARCH PROGRAM

Key Dates:

First three-year Technical Cooperation Agreement signed on December 6, 2002


New Technical Cooperation Agreement signed on December 9, 2015 for up to June 30, 2019

In 2003, the World Bank and the Government of Kazakhstan embarked on a Joint Economic Research Program (JERP), a key instrument for responding to the country’s core priorities in the medium-term development agenda. The program has proved to be an innovative solution, with a client-driven knowledge agenda and Bank-selected work, bringing in and building up international experience while developing wider lessons of a good public character. The JERP is structured around the Country Partnership Strategy pillars focusing on development gaps in growth, governance, and the public service delivery agenda. The program is designed to ensure strong government ownership while enhancing the Bank’s contribution to the country’s development in a way that goes beyond funding.

In order to maximize its effectiveness as a knowledge service instrument, the JERP was transformed into a programmatic structure in mid-2011 with activities developed as multiyear and interconnected engagements. This proved to be more effective in increasing and tracking the impact of the JERP by improving the strategic focus of the program and providing more room to fully exploit analytical insight, capacity support, and synergies between sector works. Programming as part of the JERP continued in 2015 with the inclusion of blocks of activities arranged by thematic groups as identified in the Partnership Framework Arrangement (PFA).

A highlight of the JERP is the brainstorming session, co-chaired by the Prime Minister, which brings the highest level of Government, World Bank management, and experienced practitioners together for in-depth discussions on key development issues. Since 2003, 20 brainstorming sessions have provided direct input into the Government’s ambitious reform agenda.

The JERP for FY16 comprises 10 standard JERP activities that include a number of ongoing programmatic tasks as well as one-year tasks requested by various government agencies that are not a part of the PFA program for a total of about US$2.5 million, and 11 PFA technical assistance activities, aligned by six thematic groups for a total of about US$2.7 million.

Key Achieved Results: In terms of results, the JERP has informed policies and built capacity in wide-ranging areas of the Government’s reform program, such as macroeconomic management; public financial management; education, health, and social protection; financial sector supervision; and private sector development. In some of these sectors, Kazakhstan has become a leader in the region and a source of good practices for other countries.

Among the key JERP-supported results:

- Advisory support on public resource management led to improvements in public investment planning followed by a full assessment of budget/financial management systems, resulting in the introduction of a multiyear budget preparation system, thus building the foundation for performance-based budgeting, an effective treasury system, and other efficiency-improving measures.
- Advisory services helped the Government to avoid fiscally risky general bailout strategies in the wake of the financial sector crisis and to balance macroeconomic and monetary stability with sustainable growth objectives while continuing to provide advisory support to maintain prudent management of oil revenues. Design of a countercyclical fiscal policy helped assess and improve the cyclicality of the Government’s economic policies. Advisory services to the National Bank of Kazakhstan provided complementary support toward de-dollarization of the financial sector, improved stress-testing, and risk-based supervision of banks.
- The Bank provided advisory assistance toward the establishment of a Committee for Financial Monitoring under the Ministry of Finance to lead efforts in Anti-Money Laundering and Combating Terrorism Financing.
- Assistance with civil service reform, enhancement of the public sector audit system, and implementation of the Extractive Industries Transparency Initiative contributed to increased transparency and accountability in public sector operations through the introduction of new legislation, regulations, and institutional arrangements.
- In the social protection area, policy advisory support is translating into a new employment program and social safety net system with a Conditional Cash Transfer component to improve the balance between the protection and promotion objectives of the Government’s interventions.
In the health sector, analytical work initiated under the JERP has evolved into a comprehensive joint project (covering health program planning, financial management, quality improvement, reform of medical education and pharmaceutical policy, and food safety measures) that is now building international standards and institutional capacity in the health sector.

Assistance with business environment reforms has facilitated (i) a steady improvement in business entry and exit conditions, payment of taxes, and the protection of investment rights, leading to an accelerated improvement in Kazakhstan’s overall Doing Business rating to 41st in 2016 from 74th in 2010; and (ii) the simplification of the licensing and permits regime through the development of a risk-based methodology.

Assistance to Kazakhstan’s Export Promotion and Foreign Direct Investment (FDI) Attraction Agency helped strengthen its institutional capacity to support local exporters and potential foreign investors toward establishing sustainable, long-term partnerships in foreign markets.

A JERP assessment to strengthen national statistics supported the development of a Statistical Master Plan, which is now being implemented through a joint project as well as other government interventions.

JERP analytical work on the improvement of industrial competitiveness through cleaner and greener production helped with an assessment of the economic and health costs of air pollution and the subsequent design of air pollution monitoring and emission registration systems.

Technical assistance on agricultural reform helped deepen the analysis of specific subsidies programs and supported the development of impact monitoring and evaluation tools for the necessary reform.

Key Partners: the Prime Minister’s Office, the Ministry of National Economy, and other line ministries.
Contact info:
12 Samal, Astana Business Tower
14 floor, 010000, ASTANA
KAZAKHSTAN
Tel.: +7 (7172) 691-440

www.worldbank.org.kz