

**Japan's Country Assistance Program
for the Republic of Kazakhstan**

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Country Assistance Program for the Republic of Kazakhstan

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1. Basic Understanding of Central Asia

Geopolitically, Central Asia is surrounded by big powers such as Russia and China and is vulnerable to the impact of unstable situations of surrounding areas including the Middle East, Afghanistan, and Pakistan. Especially since the 9.11 event, there have been major changes in the region's strategic environment such as the stationing of the U.S. military and the movements of Russia and China. The peace and stability of the Central Asia region are crucially important to the stability and prosperity of Japan, the entire Eurasian continent and the international community as well.

The stable supply of oil and natural gas from the Central Asian region will contribute to the stability of the international energy market. With expected rising energy demand from China and India, a consistent energy supply from the region is important in ensuring diversification of supply sources that meet the demand.

Since their independence, Central Asian countries have been pushing for democratization and transition to a market economy despite political and economic difficulties. Fourteen years after their independence, the diversification of their economies and politics is underway and economic disparities tend to expand depending on the availability of energy resources. Conventionally, reform processes especially in liberalization and opening of market were analyzed based on the dichotomy between radicalism with emphasis on the speed of reform and gradualism. In addition, a new dichotomy between liberal decentralization and authoritarian centralization has emerged. Currently, the discussion on Central Asian transition economies and directions of assistance towards the region are facing important turning points.

On the other hand, central Asian countries have a number of issues that are common to the region and difficult to resolve by individual national approaches: terrorism, drugs, transport, and the effective use of water and energy resources, trade, and environmental preservation. They have previously grappled with various programs targeting the promotion of intra-regional cooperation. However, factors such as the diverse political, economic and social circumstances surrounding the countries and the differences in each government's strategy have restricted the progress for regional cooperation. To achieve peace and stability in Central Asia and to ensure the region's prosperity through potentially feasible economic development, it is crucial to promote integration into the global economy in concert with the region's countries by resolving common issues, achieving regional economic integration, and creating a "common market" on an economically appealing scale.

Based on this understanding, Yoriko Kawaguchi, the then Minister for Foreign Affairs of Japan, visited Central Asia in August, 2004, launched the framework of the "Central Asia plus Japan" Dialogue, and announced the policy for Central Asia based on the two pillars of 1) enhancing bilateral relations and 2) promoting dialogue with the overall Central Asia Region.

In June 2006, Mr. Taro Aso, Minister for Foreign Affairs hosted the Second Foreign Ministers' Meeting within the framework of the "Central Asia plus Japan" Dialogue in Tokyo. The delegates discussed future cooperation, focusing on the promotion of intra-regional cooperation within the framework and adopted the action plan for the five pillars including intra-regional cooperation, which is related to this "Country Assistance Program".

2. Developmental Situation in Kazakhstan

(1) General Situation

(A) Geographic features

Kazakhstan is located in the center of the Eurasia continent and is the 9th largest country in the world with an area of 2.72 million sq. km (seven times that of Japan). Its northern and northwestern regions border on Russia and the border with Russia runs 6,846 km. Its south and southwest border are Uzbekistan, Kyrgyzstan and Turkmenistan, and its east China. Generally Kazakhstan is characterized by huge expanses of flatlands such as deserts or steppes with the southeast near the border region becoming mountainous leading to the Tian Shan. As seen above, since Kazakhstan is a land-locked country surrounded by Russia, China and Central Asian countries, it is in a disadvantageous position to transport its rich mineral resources and agricultural produce.

It has a continental climate with extreme temperature variations during the day and year-round. The mean temperature in January is minus 5 degrees in the south and minus 20 degrees in the north, while conversely, it reaches 30 degrees in July. The average annual precipitation ranges from 300-400 mm in areas near the mountains and 250 mm in the steppe regions. These rigorous climatic conditions have a considerable impact on the promotion of industry centered on agriculture and social living.

(B) Population and ethnic groups

The total population of Kazakhstan is 15.12 million (May 1, 2005) which is rather small relative to its land area. Astana, the capital of Kazakhstan, has a population of 540 thousand and Almaty, the largest city and former capital, 1,130 thousand. Presently 57% of the population lives in cities and 43% in farming communities, many people have been moving from farming villages to big cities due to the disparity in income levels between the city and local communities. Therefore, the need for public services in the big cities as the population concentration has increased.

Kazakhstan is said to be a multiethnic country with over 130 ethnic groups. The largest of them are the Kazakhs comprising 53.4% of the population. The Russians account for 30.2% with their population exceeding that of the Kazakhs in the northern oblasts and Almaty.

(2) Political Situation

Since its independence in December 1991, Kazakhstan has maintained a political regime with Nazarbayev as its president. The president extended his term of office to 2000 by national referendum in April 1995 and, in turn, revised the Constitution by national referendum boosting the presidential power in August of the same year. Then, on October 7, 1998, a constitutional revision bill was passed in the parliament and on the following day, both legislative houses held a joint meeting to shorten the term of office for the current president by two years. A presidential election was held on January 10, 1999 (voter turnout 87.05%) with President Nazarbayev winning reelection with about 80% of the votes (his term by 2006). With regard to Parliament, there was a lower house election on September 19, 2004 with the pro-president faction winning a lower house majority. Concerning this election, while the Organization for Security and Co-operation in Europe (OSCE) acclaimed an improvement in the transparency of the election process, it pointed out “biased election reporting by the media,” “opacity in the activities of the central election management council,” “pressure on voters by local governments” and the “inadequacy of the voter’s list,” noting their view that the election had not yet lived up to the standards required for an OSCE member country.

On December 4, 2005, a presidential election was held with President Nazarbayev winning reelection with about 90% of the votes (his term by 2012). Although OECD/ODIHR enumerated such good things as the existence of the five candidates (two out of the 5 are major players in the opposition parties), the good collaboration with the election-monitoring team from OECD, the organization also mentioned that the media got Nazarbayev a real advantages though the exceeding limitation of campaign activities, the pressure to both the opposition parties and the independent medias.

(3) Economic Situation

As Kazakhstan saw its resource and material development-centered industrial structure growing during the Soviet era, its manufacturing industry was limited to resource development and the consumer goods industry remained underdeveloped. With its transition to a market economy, Kazakhstan’s issues are the departure from the resource-dependent economy and the diversification of its industrial structure. Although significant progress has been made in liberalization and privatization under its radical policies toward a market-oriented economy, there are some backward sectors such as corporate governance and the finance/security market that is more advance than other Central Asia countries, a multitude of issues in its transition to the market economy still remains.

(A) General condition

Kazakhstan is rich in underground resources such as uranium, iron ores and rare metals as well as oil and coal which support its economy. After Soviet breakup, the east coast and north of the Caspian Sea where rich oil reserves was expected but unexploited, have attracted worldwide attention and Western companies have made inroads into there. And also Japanese company INPEX Corporation (formerly Indonesia Petroleum, Ltd.) has been already engaged in the development of the north Caspian Sea continental-shelf development. In addition agriculture is thriving in Kazakhstan. The farmland was significantly expanded due to the virgin land development programs in the Khrushchev era and has become a farm belt in this region. Stock farming as keeping up the nomad tradition is another flourishing industry in the country. Based on these facts, Kazakhstan's GDP is the highest between Central Asian countries. According to the annual presidential message in 2005, its per capita GDP as of the end of 2004 was \$2,700 which might have an upward momentum of overtaking Russia.

Since its independence, the Kazakhstani government has been implementing economic reforms that shift its centrally-planned economy to a market economy promoting a host of programs such as the privatization of state-owned enterprises, the nurturing of medium and small enterprises (SMEs), the creation of the security market, the streamlining of banks, the reform of the pension system as well as improving the conditions for introducing foreign capital. At the same time, the government is also positive about restructuring the economic relationships in the former Soviet economic bloc. In October 2000, the Eurasian Economic Community was set up by expanding the former custom tariff union. In February 2003, Kazakhstan agreed to form an economic unity bloc with Russia, the Ukraine and Belarus. Then, on September 19 of the same year, the four heads of state signed an agreement on the economic unity bloc in Yalta, taking the realistic first step toward economic integration.

(a) Economic growth

Although the Kazakhstani economy was hit hard by the 1998 Russian financial crisis and the worldwide slump in resource prices, it has been growing phenomenally in recent years owing to both the global price inflations of oil and metals which started from late 1999, and the stabilization of the Russian ruble with real GDP growing at 9.8% in 2003 and 9.4% in 2004. According to the annual presidential message announced on February 18, 2005, it was set a goal of attaining a per capita GDP of \$3,000 in 2005 and \$9,000 by 2015.

(b) Public finance

Thanks to the increased revenue from oil (4.4% of GDP), the fiscal revenue and expense for 2003 maintained a 3.0% surplus of GDP, and is expected to show a 2.3% surplus in 2004. The balance of the national fund to which the portions of oil revenues exceeding the benchmark oil prices are transferred, is also expected to have increased to 13.0% of GDP. Kazakhstan consistently is taking a cautious stance on financial management and expanding its development expenditures such as investments in infrastructure and development institutions along with the increase in revenue. The country expects its oil revenues to go up to 7.2% of GDP in its fiscal budget for 2005, although the budgetary surplus is seen to decline to 1.5% of GDP due to the significant increases in social expenditures.

(c) External balance

With respect to the country's balance of international payments, as a result of the current account balance recording a surplus and the capital account posting a huge surplus owing to high-level direct investment and overseas borrowing, its foreign currency reserves are expected to have doubled to a level equivalent to 6-7 months' imports of goods and services. Although its external debts remain high at 66.9% of GDP reflecting the fact that the direct investment in oil development is financed by inter-business loans, its external public debts remain low at 8.5% of GDP.

(B) Mining and manufacturing

Before the Russian Revolution, Kazakhstan was an economy centered on livestock farming. It, however, advanced industrialization focused on resource development under its socialist system. In particular, after World War II, its steel industry began to grow utilizing coal and iron ores produced in the east.

Recently, in addition to the large-scale projects in the oil region (Tengiz, Uzen, etc.) on the east coast of the Caspian Sea, oil development in the north of the Caspian Sea is also attracting attention. In 2000, a large-scale oil field was found in the Kashagan Structure, and a consortium mainly consisting of an Italian

company ENI-AGIP, is already progressing toward the start of commercial production in 2008. From Japan, INPEX Corporation participates in the consortium with an 8% stake. With regard to oil transport from the Caspian Sea to oil-consuming markets, the CPC pipeline was completed in 2001 which allows oil transport through the pipeline to Novorossiisk on the Russian Black Sea coast as well as the existing the Atyrau-Samara pipeline. With strong U.S. government backing, the Baku-Tbilisi-Ceyhan pipeline (two Japanese INPEX Corporation and ITOCHU Corporation participated) starts to supply Kazakhstani oil. The "Atasu-Alashakow oil pipeline" that connects to China constructed from the summer of 2004 is also in-service.

Kazakhstan is rich in rare metals such as gold, silver, copper, zinc, chrome, and titanium of metal resources. Since independence, Kazakhstan has done little to explore its mineral resources and now has concerns about the future of this sector. With respect to uranium with world's growing demand, there seems to be active movement that Kaz Atom Prom, a state-owned company, announced the uranium development project to increase its production up to 7,000 ton by 2010 under the participation of China, Russia, Korea, Western companies, and Japan.

Kazakhstan's processing industry on the other hand is behind the times and the country has a hard time departure from a position as a resource-supplying nation. Consumer-goods manufacturing and other manufacturing sectors, in particular, are underdeveloped, its domestic manufacturing industry is a major issue. Due to overcome this obstacle, the government has announced a policy for accelerating the growth of its manufacturing industry by such as the cluster system, as depending on the "industrial and technological reform program" that is the only national strategy in this field. Kazakhstan's mining and manufacturing production in 2002, 2003 and 2004 were up 9.8%, 8.8 %, and 10.1%, respectively, over the previous year. In addition its oil sector accounts for 25% of GNP half of which is for export.

(C) Agriculture

During the Soviet era, Kazakhstan's agriculture occupied an important position as a large supply source of grains. After Soviet breakup, its supply and distribution systems were in tatters, and the government following independence, took no fiscal measures to revitalize its agriculture because it prioritized the economic reconstruction based on the development of natural resources (metals and oil/natural gas) instead. The share of agriculture in its GDP shrank from 35% in 1970 to 7.7% in 2003.

For a developing country such as Kazakhstan on the one hand, the agricultural sector occupies an important position as the last shelter or hinterland for the economic vulnerable. In fact, 20% of its workforce is engaged in this sector and the agricultural sector has socio-economic impacts equal to the mining sector, albeit with slight differences among statistical datum. With wheat consumption in Kazakhstan at around 4 million tons, or one-third to one-quarter of the country's annual wheat production (wheat production was 16.2 million tons in 2002 and 15.0 million tons in 2003), it has a considerable capacity to export excess wheat. And its quality is superior due to have high gluten content rather than other counties. On the other hand, in case of wheat required relative high transport cost, infant transport routes reduce the country's international competitiveness. In addition, it takes effort to explore new wheat business opportunities because neighboring counties have adopted the increasing wheat self-sufficiency on national-security grounds.

In the past, Kazakhstan's agricultural sector was dominated by inefficient management entities that appeared to have merely changed their names from the kolkhoz and sovkhoz of the former Soviet Union era. In view of the social and economic influence of the agriculture sector as seen above, the government approved a 3-year national plan for agriculture and food to start in 2003 with the official title "National agriculture and food production plan for 2003-2005" and adopted a plan to invest 150 billion teng (about \$1.0 billion) over the next 3 years.

However, its extensive agriculture-style grain production is significantly influenced by its rigorous climatic conditions slowing its real growth rate from 16.9% in 2001 down to 1.4% in 2003 with 0.1% expected for 2004. Since the abandonment of cultivation due to decaying irrigation facilities and brine damage has progressed, its cultivated area of irrigated farmland decreased to 1.3 million ha in 2001 as compared to 2.3 million ha in 1991. Although the privatization of farmland was prescribed in the land law established in June 2003, land ownership and transactions have made little progress because the land price

from the government is relatively expensive. Another major issue is the inability of producers to purchase and maintain fertilizers and agricultural machines due to the lack of funds. To address this issue, the government has been trying to improve agriculture financing with its public funds through the “rural financing partnership.” The total amount financed under this partnership is 7,200 million teng and the government has plans to further expand it.

(D) Economic Reforms

After Soviet breakup, Kazakhstan pushed through macro-economic policies in line with the IMF guidelines focused on the tightening of national budgets and financing and achieved to a certain degree of economic goals such as controlling inflation, fiscal deficit reduction and the stability of the teng by the late 1990s. However, given the Russian financial crisis in 1998 and the worldwide slump in resource prices, Kazakhstan attempted to set its currency at relatively high levels. Consequently, it happened such as its foreign currency reserves considerably declining, exports falling, and an influx of low-priced goods from surrounding countries, and its economy rapidly deteriorated battering the intrinsically weak domestic industry. In addition, the “floating currency system” was introduced in foreign exchange in April 1999, which became de-facto currency devaluation. Since then, Kazakhstan has experienced several drastic falls in its foreign exchange rates, although the teng seemed relatively stable following its percentage decrease at 6.5% in 2003 (the average annual exchange rate in 2003 was \$1.00=143.33 teng). With increased revenues from oil in 2004, the teng has fared on the high side in contrast to past moves traded at about 133 teng to the U.S. dollar as of December, 2005.

Additionally, with the consolidation and privatization of power and railroad companies in the large-scale infrastructure sector, state-owned companies in the oil and gas sector and small and medium public companies are underway. Although Kazakhstan ranks higher among the CIS countries in its approach to the deregulation of economic activity and the shift to a market economy, Kazakhstan’s accession to the WTO will become a stimulating factor in further diversifying its economy and introducing positive market competition. For over eight years, Kazakhstan has been in negotiations over its accession to the WTO. Although it reached substantive agreement with Japan in June 2005, many points in its negotiation still remain with other major countries.

Banking reform also has been pushed through early on. By strictly applying the minimum capital requirements, the number of banks over 200 in 1993 declined to 71 in 1998, 48 in 2001, and is now slightly above 30. The major issue at this present is the pronounced trend in their capital growth rate showing signs of slowing as private banks’ assets have been increasing at annual rates of 50-100% while the net earnings growth rates are on the decline. If this situation were to prevail, the banks’ capital-to-assets ratios would decline with damaging the soundness of the banks and reducing their readiness to counter unexpected problems such as bad debts. Most of the increases in Kazakhstani banks’ assets can be accounted for by increases in loans. According to the government’s announcement, 37.9% of total loan assets as of July 1, 2004 were bad loans. As this shows the private banks’ troubles with their screening standards, the government has started formulating an additional reform program for the country’s banking sector.

(4) Development issues

(A) Growing wealth gap

According to the Statistic Agency’s announcement, the unemployment rate was 8.4% in 2004 (8.7% in 2002 and 8.4% in 2003). Although it shows improvements owing to the economic growth, the real unemployment rate remains high. At the same time, there are some signs of human resource shortages in specialized expertise. Given these circumstances, the Labor and Social Protection Ministry intends to implement comprehensive measures to nurture these human resources in its 3-year program (2005-2007).

Although the salaries for civil servants and pensions have been gradually increased, wage gaps among different industries tend to show disparity. The gap between the highest-paid financial sector and the lowest-paid agriculture and fishery sector is almost six-fold. As the wage levels of the educational and medical sectors are extremely low, people working in these sectors take a second job or move to other industries.

Furthermore, the regional wage gaps has been widening between the western oblasts with oil fields and the northeastern oblasts rich in mineral resources versus those with traditional agriculture and stock farming industries. To realize a well-balanced development across its vast soil, in addition to shaking itself free of the Russian-centered infrastructure network built in the Soviet era, represents a crucial issue in developing the Kazakhstani economy.

(B) Departure from the natural resource-dependent economy

The Kazakhstani government has been adopting national development policies to bring in foreign capital to develop its oil and natural gas resources. However, when taking into account highly volatile oil and natural prices, the barriers to transportation routes for its exports and higher transport costs due to the fact Kazakhstan is a land-locked country not bordering the ocean, the economy that is heavily dependent on natural resources is highly risky. Although the acquisition of foreign currency by resource exports can be expected to support funding for development, to achieve long-term and stable economic growth, the country must strive to diversify its industrial structure by such as focusing on the real economy, nurturing the manufacturing industry through upgrading industry that adds value to existing goods or promotional measures for SMEs, and revitalizing the agriculture sector with modern technology.

(C) Environment

As a result of Kazakhstan emphasizing production expansion in the former Soviet Union era, with such as the aging facilities of petroleum refining and power plants, environmental pollution such as air and water pollutions is very serious especially in and around its industrial areas and electric power plants. With the long retaining period of pollutants due to the country's low precipitation, and the usage of inferior gasoline and the increases of vehicles of recent years, air pollution in the urban areas conspicuous. Additionally, other environmental pollution includes the leakages of radiation and heavy metals at the vacant former factories and the industrial effluents in the Nura River and the Irtysh River which is an international river. High salinity concentration in the Syr Darya River is also serious issue. Sand storms containing agricultural chemicals and salt caused by the drying up of the Aral Sea whose water has decreased to one-third, have been harming the health of local citizens. It is feared that the water pollution of the Caspian Sea associated with oil development may impact marine organisms or local citizens using its water. The area subject to the threat of desertification represents 60% of its total area and is considered the largest in Central Asia. In addition, what municipal refuse is not adequately disposed causes its pollutions of ground water and land contamination. While Kazakhstan is seen to have a diversity of animal and plant species and important stopping points for migratory birds because of its diverse climate zones and elevations, the number of original species has been gradually shrinking with its industrial development.

What Kazakhstan requires in future is an improvement of its environmental indicators based on highly reliable environment monitoring and the review of the environment impact assessment system as well as environmental preservation along with the operations of the oil gas industry. In particular, the issue of air pollution from the flare gas combustion with oil drilling is serious. In December 2003, the government approved the "ecological safety concept for 2004-2015." In recent years, Kazakhstan maintains annual economic growth of more than 9%, its total greenhouse gas emissions in 2003 already reached the 12% of those of Japan. In future, it is expected to largely increase its emission, preventing the global warming is another important issue.

(D) Healthcare

The Kazakhstan's Healthcare indicator was at a relatively high-level during the Soviet era, but started deteriorating after its independence. During the period of 1987 through 2003, its birth rate declined from 25.7 to 17.2 per 1,000 people, while the mortality rate increased from 7.6 to 10.5 per 1,000 people. The infant mortality rate for 5-year-olds and below is 76 per 1,000 live births. Sixty percent of infant deaths occur 8-28 days after the birth, and by region, the south's death rate of 35% stands out. Average life expectancy is 60.6 years for men and 71.4 for women, and 65.8 years if the genders are combined.

Maternal mortality is also high at 42.1 per 100,000 live births. The number of doctors is 73 per 10,000 people in Almaty versus 20 in the country. There is a large gap between big cities and rural areas.

Under the referral system, there is a range of medical institutions from the local health center at the bottom to central hospitals in the community to oblast hospitals and national-level republic hospitals. Although medical services are offered free of charges in principle, in some cases, treatments are chargeable and patients are required to pay their portion of medical bills. Although the GDP share of the Healthcare field in the public expenditure is 2.63% and on the increase, many medical institutions have outdated diagnostic equipment and cannot afford to replace it due to lack of funds. Furthermore, due to shortages in test reagents, medical drugs and supplies, medical and Healthcare services have been deteriorating.

It is said that in the nuclear testing site around Semipalatinsk where nuclear tests were conducted more than 470 times, there are more than 1.2 million atomic bomb victims in the entire oblast. Japan and UNDP have been offering assistance to the victims.

As the “long-term development plan by 2030” notes the “promotion of health” as a priority, improvements in public health, primary Healthcare and the medical service quality as well as upgraded access to medical services in the farming community are future issues for Kazakhstan. In July 2004, the Kazakhstani government approved the “health insurance system reform program for 2005-2010,” which are recommending burden-sharing between the state and the public, focusing on basic medicine, improving medical information, improving maternal and childcare, and the reform of medical education.

(E) Education

Kazakhstan’s compulsory education is 11 years long and tuition fees are basically free for primary and secondary schools. Primary education (6-10 year olds), lower secondary education (11-15 year olds) and upper secondary education (16-17 year olds) are usually provided at the same school. Advanced education (college level) is offered by the university and college.

While the popularization of private schools, responses to informatization, and the multitude of languages used in teaching have diversified the education curricula in Kazakhstan, there are growing disparities in academic levels among schools and regions. The GDP share of the education field in public expenditure accounts for 3.2% and the major issues for education in Kazakhstan are the outflow of excellent teachers, development of teaching materials, and introduction of information technology. In pre-school education for 3-5 year olds, there are many young children who are unable to enter kindergarten due to the scarcity of the facilities. The country’s primary, secondary and vocational education faces shortages in learning materials, furniture, science laboratory rooms and gymnastic facilities because of budget shortfalls. Training schools for teachers are inadequate in both quality and quantity and the situation in farming communities is serious.

In October 2004, the Kazakhstani government approved a “national program of educational development for 2005-2010.” The program, aimed at all generations, is intended to upgrade the country’s educational facilities to foster the competitive human resources that the business community is seeking, proposing the strengthening of English education, the shift to a 12-year education system, improvement in vocational education based on international standards, and the establishment of an advanced education system based on the scholarship system and similar to those in Europe and the U.S.

(F) Economic and social infrastructure

(a) Transport

For Kazakhstan, a land-locked country with a vast area seven times that of Japan, improving its transport infrastructure is a prerequisite for economic development through market economy and investment promotion. Among other things, the country’s transport networks were built with Moscow as their center under the Soviet-era planned economy system. For this reason, the east-west intercity transport routes are underdeveloped and show a marked deterioration due to inadequate management and maintenance requiring prompt improvement.

[Road] the total length of roads in service in Kazakhstan is approximately 81,000 km of which 95% are paved. Although the road networks are well developed to accommodate the current transport needs, the problem lies in the serious deterioration of the road surface. In addition to poor road construction works,

inadequate road maintenance and management, road surface wear due to the passage of overloaded vehicles is severe, making it difficult to maintain operating speeds in some sections. Overall, there are many road sections that pose serious problems for vehicle traffic and transport efficiency. In November 2001, the government instituted the “road development program in 2001-2005,” and since then, it has been struggling to repair, maintain and manage its international and domestic roads of total length 16,133 km.

[Aviation] Most of the airports and related facilities in Kazakhstan were built in the 1960s-70s and have consequently been subject to marked deterioration. With the lack of funding due to the reduction in government subsidies, it has become increasingly difficult to maintain and manage them with posing problems in meeting international standards and ensuring compliance with safety-related rules. The government formulated the “Civil Aviation Master Plan (to which JICA contributed with technical cooperation)” in 1998. According to this, the government pushes ahead with the improvement of the country’s aviation network so that it is able to meet the rising needs for future air transport. Meanwhile Kazakhstan Airlines, the state-run airline, became bankrupt in May 2004, Air Astana, the semi-governmental, is the largest airline company in Kazakhstan.

[Railroad] As Kazakhstan had been positioned as a production base of mineral resources and crops during the former Soviet Union era, its railroads were created with Moscow at their center. The total length of the railroads is 14,000 km and, even today, they handle 70% of the country’s cargo transport. As the country is situated in the center of Central Asia and is the connecting point of the east and west of the Eurasian continent, the government regards east-west transit cargo transport using its geographic advantage as its key challenge. Additionally, the government introduced the “railroad sector reform program” in February 2004 which aimed at breaking up the state-run Kazakhstan Railroad (KTZ) into operational sectors (cargo transport and passenger transport divisions) on a stand-alone basis.

(b) Communications

For Kazakhstan with a vast land area, the telecommunications sector is just as important a sector as that of transport. However, the fixed phone is not in widespread use in Kazakhstan. The fixed-phone diffusion rate for 2002 was 14.6%, up a meager 23% over 1998 (the lowest standard for an advanced country is around 40%). Backed by rapid economic growth and technological innovation, the mobile phone diffusion rate, on the other hand, surged to 6.1% in 2002, a 40-fold increase over 1998. Additionally Internet users numbered approximately 130 thousand in 2002.

Reform of the country’s telecommunications sector was implemented based on the “national program of telecommunications and telephone industry development for 2003-2005” which was approved by the government decision on February 18, 2003. Although this program’s fundamental direction involved reducing calling rates based on the market-oriented method and abolishing the privilege of international telephone calls, while aiming to fully privatize the sector by the end of 2005, no final conclusion on this matter has yet been reached. The sector’s main issue is to accelerate the telecommunications service and telephone ownership.

(c) Electric power

Although Kazakhstan’s total installed capacity for power generation is 18,240 MW, its potential maximum installed capacity is said to be 13,840 MW. Until 2001, Kazakhstan used to be a power-importing country, but electricity exports have slightly turned exceeded imports since 2002. The country has been grappling with the self-reliance of its power supply system including nuclear power as well as upgrading the connected power grids in the country and implementing development projects of power resources to eliminate power demand and supply gaps in the north and south. With the reform of the electrical power sector, power plants with a combined generating capacity equal to 80% of the country’s total power supply are now owned and managed by local or foreign capital. Although the power transmission sector in Kazakhstan is exclusively owned and managed by the state-run electric power company (KEGOC), the power generation and distribution sectors have been gradually shifted to private companies and local operators. As its auction system of selling power by the hour has been functioning well, the privatization of the electric power sector is more advanced than other CIS countries. The “issue of

unpaid electric charges,” which was the biggest problem for the sector, has been gradually solved by installing power meters and implementing power supply stoppages as the sector’s privatization advances.

(d) Water resources /water and sewage

Given its rigorous climatic conditions, Kazakhstan’s water resources are extremely limited, and their effective use is highly important as a basis for the living environment of its population and for the agricultural sector. Much of Kazakhstan, especially the northern steppe region, is subjected to the salinization of upper underground water which is causing adverse effects on drinking water shortages for its residents and afforestation activities in the community. With the establishment of the water use law in 2003 to that end, the Kazakhstani government aims to clarify the responsibilities of the central and local governments in water-resource management and related infrastructure development, maintenance and management. The irrigation systems built in the Soviet era are decaying due to aging and requiring large-scale renovation work. Moreover, as about half of the country’s surface water comes from international rivers whose sources are in neighboring countries, the major issues for Kazakhstan involve solving the conflicting water use issue through international cooperation and adjustment of interests in using their water and environmental issues as typified by the shrinking of the Aral Sea. The withdrawal of the Syr Darya which is an international river and empties into the Aral Sea, is managed by the Syr Darya Water Basin Organization, a subordinate organization of the Interstate Coordination Water Commission (ICWC) composed of five Central Asian countries. However, as its authority and function are ineffective, they are now being strengthened as an international framework.

According to UNDP, the percentage of people without access to safe drinking water is as high as 15% in cities and 27% in farming communities, particularly in farming communities, making the improvement of drinking water quality is needed. As the country’s water facilities have problems with water quality because of crumbling water pipes with high leakage rates, they are in need of renovation work. Ground water accounts for 40% of the water needs for its population. However, its water contains a high level of sodium with possible negative health impacts for its users. As the country’s sewer system is old and not properly maintained or managed, the hygiene situation is very poor and thus in need of replacement. In view of this the Kazakhstani government has formulated the “drinking water program for 2002-2010,” pressing ahead with improvement in water supply facilities, mainly in farming communities.

Meanwhile, water and sewer facilities in big cities are becoming 30-40 years old since their construction and require immediate renovation work or replacement. In addition, they need to expand their capacity along with the population concentration in big cities. Since the operation, maintenance and management of urban water and sewer facilities are in the hands of local governments with limited intervention by the central government, there is no integrated development plan for this sector with inadequate institutional frameworks. In addition, the financial requirements of water and sewer operating companies to maintain and manage their facilities are not satisfied. The government with international institution’s backing for finance, has been addressing this issue with the revision of the water use law and the drinking water program said to be under review.

(G) Governance

Governance reform is critically important in stimulating investment as well as creating a democratic and equitable society. This is especially relevant, since a broad range of Kazakhstan’s social systems, ranging from the administration of justice, to government, to legislative processes and enterprise, came under Soviet-era influences. With this in mind, the cozy relationships of politically influential persons and government officials with private companies and the influence on government power using nepotism as well as the corruption of government officials, still remain the country’s major concerns. Moreover, the Kazakhstani government must overhaul its bureaucracy, in which, when matters of concern are difficult, things only work speedily with a top-down approach, and secure the efficiency and transparency of its administration. Furthermore, enhancing the administrative abilities of local governments is crucial in developing local communities. Since the chances of conflicts being equitably solved under the present judicial system are very slim, it needs to be revamped. To resolve the problem of the opaque accounting system of enterprises, corporate governance reform must be achieved.

In October 2004, the government established the “national committee for the development of civil society and democracy,” under the presidential decree that intended to discuss various reform programs toward democratization together with representatives from all parties and social organizations. Some opposition parties are refusing to attend the committee, noting “there is no guarantee the policies agreed in the committee will be introduced to the president or the government.”

Despite employing democratic procedures, Kazakhstan’s overall political system still has a multitude of problems in reality.

3. Major Development issues and Trends of Assistance for Kazakhstan

(1) Development strategy of Kazakhstan

Kazakhstani government’s development strategy was formerly based on the national development program of “Kazakhstan in 2030” that announced in 1997, and targeting economic growth centered on a market economy, the development of the oil sector and improvement in overall living standards through these programs. As the government has concerned about its industrial and economic structures which are overly dependent on the oil sector, it has revised its long-term strategy in an attempt to diversify its industrial structure by nurturing the non-oil industry sectors. In addition, to achieve this goal, there has been revised strategy focused on the establishment and expansion of various development funds, improvement in the investment environment and the promotion of technological innovation. It included in contrast a plan to increase expenditure on social needs such as healthcare, education, salaries for public servants, and housing in order to remedy the increased disparities between rich and poor and the wage gaps between the private and public sectors. These recent government policies were included in the annual presidential message of February 2005 and are seen to be preferentially implemented as Kazakhstan’s development strategies over the next 3-5 years.

In terms of accepting assistance, the Kazakhstani government is positive about receiving technical cooperation aimed at the transfer of expertise and new technology in view of the above policies and its cautious fiscal management policy. However, on the other hand it takes a negative stance toward public investment and infrastructure development by overseas borrowing.

(DEVELOPMENT STRATEGY OF THE KAZAKHSTANI GOVERNMENT)

- (1) **Long-term development strategy:** In his annual message of October 1997, president Nazarbayev publicized the national development program, “Kazakhstan in 2030: prosperity of the Kazakhstani and Promotion of Security and Welfare,” which represents Kazakhstan’s long-term policy (Priority issues in the strategy are noted below.) What initially gave shape to “Kazakhstan in 2030” as a policy issue was the “Midterm Government Program for 1998-2000”, announced in November 1997. Following the economic reforms implemented in accordance with the program, and also backed by the favorable factor of strong oil prices post-1999, the government repaid its IMF loans in full in May 2005. With this, the program has encompassed political, economic and social reforms, having played its role in fulfilling the specific conditions necessary to put the country’s economy on a growth track.
- *Ensuring national security*
 - *Domestic stability and solidarity of the people*
 - *Economic growth based on a market economy (introducing foreign capital and increasing savings)*
 - *Promotion of healthcare, education and welfare*
 - *Economic development as well as improvement in people’s living standards through the exploration and export of energy resources such as oil and gas*
 - *Improvement of infrastructure such as transportation and telecommunications*
 - *Professional national affairs management by nurturing public servants with highly sophisticated expertise and creating stable organizations*
- (2) **Midterm development strategy and plan**
- (A) “Kazakhstan’s social and economic development plan for 2001-2005”: As the first stage of the “development plan by 2010,” which sets out the goals to be achieved in the first decade of “Kazakhstan in 2030,” the “Kazakhstan’s social and economic development plan for 2001-2005” was formulated. The Kazakhstani economy entered a high-growth period as its GDP grew 13.5% in 2001, the first year of the plan, over the previous year and 9.5% in 2002. The key to this high economic growth was its mineral industry, such as the oil and non-metal sectors, which are included in the seven long-term priority issues of “Kazakhstan in 2030.” Around this time though, the heavy dependence of the Kazakhstani economy on its mineral sector was viewed with suspicion; hence paving the way for the introduction of the “national program for industry and technical innovation development” targeting the correction of its heavy dependence on the mineral sector and the diversification of its economic structure. The priority issues of the plan are as follows:
- *Strengthening competitiveness through economic liberalization*
 - *Implementation of poverty programs and administrative reforms*
 - *Regenerating the manufacturing industry and nurturing human resources*
 - *Achieving agricultural growth programs*
 - *Introduction of Information and Communication Technology (ICT) (the creation of e-government)*
 - *Promoting reform of the educational and healthcare sectors*
 - *Reform of local government (transfer of authority to local government)*
 - *Strengthening investment in development using oil revenues*
- (B) **Industry and technological innovation development strategy for 2003-2015:** In 2003, which was the turn-round year of the “Kazakhstan’s social and economic development plan for 2001-2005,” the Kazakhstani economy was found to be becoming increasingly dependent on oil. Therefore, the Kazakhstani government, in addition to revising “economic growth through the development and export of underground resources such as oil/gas and improvement in people’s living standards,” namely, one of the seven long-term priority issues noted in “Kazakhstan in 2030,” adopted the “industry and technological innovation development strategy for 2003-2015” in May 2003 to break away from this heavy reliance on resources by diversifying its economy, in turn by nurturing the

manufacturing industry. The strategy, citing the following goals as its basic policies, involved implementing improvement in the ambient surroundings of financial institutions such as investment and innovation funds in order to financially support the policies.

- *Production modernization and renewal of facilities*
 - *Scientific research and development and introduction of new technologies*
 - *Support for sound business investment*
 - *Preferential tax measures to attract investment*
- (3) **Annual presidential message in 2005 – “Kazakhstan heading for rapid economic, social and political modernization”**: President Nazarbayev announced his annual message, “Kazakhstan toward rapid economic, social and political modernization,” in February, 2005. The message, while generally in line with the aforementioned development strategy and plan noted above, also emphasized the promotion of a market economy, and the deregulation and diversification of its economic structure as well as clearly hammering out policies to increase social expenditures and correct disparities in society. The gist of the presidential message was as follows:
- (a) **Economic policy**: Shows concrete measures for economic diversification while relying on a long-term development

strategy, “Kazakhstan in 2030” (noted above). [Cluster system [implementing industry development programs by positioning the promising sectors—tourism, oil gas, food (agricultural product processing), textile, transportation, industry, construction materials—as a pilot cluster] , nurturing SMEs [cultivating SMEs based on funding from the “small and medium enterprise development fund” and continued reform of the financial sector], improvement in human resource cultivation and vocational education]

- (b) **Social policies** [Life security of mothers, children and the elderly, improvement in healthcare and medicine, housing construction, upgrading of public servants’ salary]
- (c) **Democratization and political reforms** [Consideration given to Kazakhstan’s indigenous tradition while respecting democratization; targeting reforms in the framework of the current constitution; negative to constitutional amendment]
- (d) **Streamlining administration** [More efficient and transparent administration, promotion of the decentralization of power and judicial reforms, and strengthening anti-corruption measures]
- (e) **Diplomacy** [Prioritize cooperation and development with Russia, China, the U.S. and the EU, propose a “coalition of Central Asia countries”, and strengthen anti-terrorism measures]

(2) Trends of Japan’s assistance to Kazakhstan

Since 1991 and before Kazakhstan was listed in Part I of the list of the Development Assistance Committee (DAC) in January 1993, Japan started cooperating with Kazakhstan by accommodating trainees or dispatching specialists and has also provided assistance such as medical supplies and equipment and vaccines worth \$14.4 million since 1993 as part of the \$200-million emergency humanitarian relief for the former republics of the Soviet Union.

In September 1999, Japan and the UNDP co-hosted the “Tokyo International Conference on Semipalatinsk.” In this conference, Japan appealed the necessity of helping the residents of Semipalatinsk as well as expressing its intention to provide medical assistance for local residents living near the former nuclear testing site in Semipalatinsk by coordinating grant aid and technical cooperation and providing assistance totaling \$1.0 million through the Japan-UNDP “Human Resources Development Fund” and the “WID Fund” over about two years.

As a result of the policy dialogue in November 2002, the following priority areas were defined: (a) improvement of the system and development of human resources for market economy-based nation-building, (b) improvement in the economic and social infrastructure including operational and management systems, and (c) alleviation of social difficulties caused by systemic transformation and environmental issues. Japan is the largest donor country for Kazakhstan with the amount of contributions of 88.788 billion yen in Yen loans, 5.748 billion yen in grant aid, and 9.218 billion yen in technical cooperation respectively by fiscal 2004.

(A) Improvement in the system and development of human resources for market economy-based nation-building

Japan has so far contributed to Kazakhstan by dispatching specialists (99 specialists by fiscal 2004) and accepting trainees (about 639 trainees by fiscal 2004). This program has achieved satisfactory results in areas highlighted by Japan. In addition, Japan also provide a Japanese course (1,282 students have taken the course by fiscal 2004) and business course (1,894 students by fiscal 2004) at Kazakhstan-Japan Center for Human Development established in September 2002.

In order to support Kazakhstan’s accession to the WTO which is important for Kazakhstan in diversifying its economy and introducing positive market competition, Japan are dispatching specialists to Kazakhstan as well as accommodating its trainees in 2003-2005.

(B) Improvement of economic and social infrastructure, including operational and management systems

As part of our program to improve Kazakhstan’s economic and social infrastructure, Japan have been implementing five Yen-loan projects, namely: rail transport capacity improvement, bridge construction over the Irtysh River, Astana airport repair work, west Kazakhstan road improvement, and Astana water

and sewer system improvement. Among them, the railroad project on which post evaluation is underway involves that (1) the repair of railroad tracks and re-routing in the Aktogay-Druzba section connecting the railroad networks in Kazakhstan and China, (2) capacity expansion of the transshipment facilities at Druzba station where Kazakhstan borders China, and (3) the new construction of a passenger car repair plant at Almaty station. The project body was Kazakhstan Temir Zholy, a state-run railroad company. In addition, with the advance of structural reforms in the railroad sector targeting company split-up and a self-supporting accounting system, the maintenance management of the tracks, the operation and management of the transshipment facilities and the operation of the passenger car repair plant are performed by separate organizations or subsidiaries of Kazakhstan Temir Zholy. Along with the company split-up and a self-supporting accounting system, the delegation of authority in the areas of procurement, maintenance and management has progressed. At the passenger car repair plant, for instance, its management has been trying to improve employees' technical capabilities based on technical training curriculum since 2003. Although there are cases where the equipment procured is improperly managed due to a lack of technical data, Kazakhstan Temir Zholy seems to be taking steps internally to improve the situation. In terms of the Astana water and sewer system improvement now underway, Japan plan to provide support for the financial and accounting systems of the operating institution, PR activities related to water and sewer meter installations and technical guidance on the maintenance and management of the facilities through consulting services, in addition to repairing and improving the water and sewer system.

Japan has conducted surveys on eight development study projects related to the economic and social infrastructure improvement in Kazakhstan including the "Study of the Master plan for the Development of the City of Astana." Since the relocation of its capital to Akmola (now Astana) in the center of Kazakhstan was decided by the presidential decree of September 15, 1995, Japan has offered Yen loans for improvement of its capital functions and effectively surveyed the development programs which are highly appreciated from Kazakhstan.

Additionally, as specialists, Japan has dispatched a total of two individuals to assist with Kazakhstan's economic and social infrastructure sectors through implementing "fare calculation methods in transport and telecommunications." As training course, 16 trainees have enrolled in the "transport policy course" and 19 trainees in the "community development planning seminar" respectively.

(C) Alleviation of social difficulties caused by systemic transformation and environmental issues

To ease the social difficulties caused by systemic transformation and environmental issues, Japan has been carrying out the community medicine improvement plan as a technical cooperation project in Semipalatinsk with its ODA achieving highly satisfactory results in easing social difficulties caused by systemic transformation and environmental issues. In addition, Japan has provided medical institutions in Astana, Almaty and Kzylorda with medical equipment in the form of general grant aid.

Regarding Kazakhstan's water resource issue, Japan has been implementing a grant aid project to supplying water to farming communities in North Kazakhstan and the Akmola oblasts.

Utilizing the grant aid for grassroots human security projects, Japan is also implementing environmental and medical programs in the country (Atyrau, Kzylorda and Aktobe).

Japan has sent a total of 66 specialists to work in Kazakhstan's healthcare sector including the "community medicine improvement plan in Semipalatinsk" and 12 specialists for its environmental field such as "environmental monitoring." Japan has accommodated 17 trainees from the country in the maternal and child health administration course and 26 in the environment administration course respectively. Technical cooperation project in Semipalatinsk, in particular, was highly appreciated by the Kazakhstani side for its significant contribution to enhancing Kazakhstan's cancer screening abilities, the project was extended for two years beyond the original schedule.

(3) Trends of Multi-bilateral Assistance to assist Kazakhstan

(A) Bilateral donors

In terms of bilateral aid, Japan was the biggest donor during the period of 1997 through 2000. For several years previously, however, the U.S., Germany, the U.K., France and Japan have been the top five

countries. Excluding the DAC countries, many countries including Turkey, Russia, Korea, Kuwait and China have been provided aid.

(B) Major international organizations

Various international organizations such as the World Bank (WB), Asia Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), U.N. Development Programme (UNDP), and the Islamic Development Bank (IDB), are offering aid.

With respect to assistance related to the IMF, the Extended Fund Facility (EFF) worth \$446 million was decided upon in 1996 and the extent of achievement of this program was satisfactory. Although Kazakhstan became a signatory country to the IMF's Article VIII in 1997, the EFF went off track in January 1999 and ended in July as it was. Although a new EFF (worth \$453 million) for the three years up to 2002 was decided upon in December 1999, the Kazakhstani government backed by increased oil revenues, repaid all the debts payable to the IMF in the summer of 2000.

Most of the organizations, however, question the implementing abilities of each department and agency of the Kazakhstani government. Therefore, it is necessary to formulate an effective action such as the lobbying the government under the multi-bilateral donors' cooperation.

(a) World Bank

Kazakhstan joined the World Bank in July 1992. Other than five adjustment loan programs—rehabilitation loans, structural adjustment loans, financial sector adjustment loans, public sector resource management adjustment loans, and pension structural reform adjustment loans—the number of programs approved by the end of fiscal 2001 was 22, comprising a total loan amount of \$1.81 billion. The World Bank in collaboration with the Kazakhstani government, announced the Country Partnership Strategy (CPS) on August 10, 2004. In the CPS, the government indicated the four priority areas, (1) management of funds earned by the oil industry and the improvement of governmental organizations and public policies, (2) strengthening governmental roles necessary to stimulate the private sector and the market, (3) investment in human resources and infrastructure, and (4) environmental protection, which are aimed at internationalizing corporate activity and strengthening the competitiveness of its non-oil industries. The World Bank creates the Annual Business Plan (ABP) in line with the development needs of the government and prescribes its activity in detail.

(b) EBRD

As of December 2001, the EBRD had 43 loan programs with Kazakhstan, providing about 750-million-euro loans and 46-million-euro investments, totaling 796 million euro in the two areas. In comparison to other international organizations, the EBRD has more project loans targeting the private sector such as financial (two-step loans for SMEs and loans and investments in privatization funds) and resource development (steel mills and power plants) though, it is the policy of the EBRD. Japan, utilizing the Japan-Europe Cooperation Fund (JECF), has also provided financial support for the BAS Kazakhstan program, set up in 2001 as part of the Business Advisory Services (BAS) program that is the one of EBRD's technical cooperation fund programs. In contrast, its loans to the public sector focus mainly on the transport sector (ports and railroads). The EBRD's priority areas are targeted at (1) transforming the state-run oil gas sector into a commercially viable company, (2) promoting foreign investment in other mineral sectors, (3) nurturing SMEs focused on the linkage with foreign investment enterprises, (4) boosting infrastructure building not dependent on government aid, (5) strengthening financial intermediation capacities by shifting the emphasis to non-banks, and (6) enhancing the investment environment to entice foreign investment.

(c) ADB

ADB started providing loans to Kazakhstan in 1994 with 13 programs as of the end of 2001 which are an outstanding loan balance of \$330 million as of the end of 2003. According to the September 2004 "Country Strategy and Program Update 2005-2007," ADB's aid strategies are focused on four points: overall growth through development (transportation and farming communities) of the private sector; human resource development (water supply to farming communities, education and governance); development with a sustainable environment; and intra-regional cooperation. While the EBRD is mainly focused on financing

for private sectors, the ADB emphasizes the strengthening of governance, cultivating the private sector and reducing poverty.

(d) UNDP

In 1994, the UNDP established its office in Kazakhstan. During the two periods 1997 through 1999 and 2000 through 2004, UNDP provided assistance to Kazakhstan based on the Country Cooperation Framework (CCF). During its second term of 2000 through 2004, it focused on three fields, namely: social development; democratic reform; and environment management. In July 2004, UNDP announced a new country program for 2005 through 2009, citing its priority areas as the following three areas based on the experiences and results: poverty reduction and monitoring; governance development; and environment management and human security.

4. Basic Policy for Japan's Assistance to Kazakhstan

(1) Principle and Objectives of Assistance to Kazakhstan

In July 1997, then Prime Minister Ryutaro Hashimoto, proposed "Eurasia Diplomacy" calling for a proactive foreign policy for the Central Asia and Caucasus regions as a "Silk Road region." Since then, Japan has been pushing through "Silk Road diplomacy," focusing on the three pillars of "political dialogues to enhance regional trust and mutual understanding," "economic cooperation and resource development cooperation supporting regional prosperity," and "cooperation for peace through nuclear nonproliferation, democratization and stability." In August 2004, Yoriko Kawaguchi, the then Foreign Affairs Minister of Japan, launched a "Central Asia plus Japan" dialogue raising a diplomatic level to a new stage for exploring a new dimension while maintaining the conventional "Silk Road diplomacy."

As the nation with the largest area and second-largest population between five Central Asian countries, Kazakhstan is a major power and the momentum of its phenomenal economic growth appears to outstrip that of Russia. There are moves to raise investments and to boom tourism in neighboring countries, and to introduce of investors and workers from these countries, Kazakhstan is about to represent important components of the growth engines for the regional economy. Based on these circumstances and the fact that the country has a large say, its stability and steady economic growth will greatly contribute to the development of the entire Central Asia region.

With respect to the healthcare sector, Kazakhstan has issues common to other regional countries. Japan's assistance to Kazakhstan, therefore, is expected to have spillover effects on neighboring countries in future. Moreover, it is required to facilitate mutual exchanges in light of Russian as a common language which the people in the region use and properly exploitation of limited aid resources.

As Japan is dependent on oil from the Middle East region for over 85% of its consumption, it must diversify its supply sources. Kazakhstan is well endowed with natural resources such as oil and nonferrous metals, and in July 2000, it discovered the large-scale Kashagan oilfield in the North Caspian Sea mining area in which Japanese companies have stakes. As the oil production volume from this oilfield is expected to comprise one-third of Kazakhstan's oil production in future. While it is said that the Japan's nuclear power account for one-third of its total electric supply and the demand of natural uranium is growing in the world, Kazakhstan is the second largest country of the uranium deposit. The consistent supply of Kazakhstan's plentiful natural resources to the marketplace will contribute to Japan's efforts to secure energy resources and diversify supply sources. With this in mind, Japan's economic cooperation will play a major role in ensuring the stability and development of Kazakhstan. In July 2002, Japan dispatched a "Silk Road energy mission" to strengthen mutual interdependence and cooperation in the Silk Road and other Asian regions from the perspective of the entire Asian energy security.

(2) Priority Areas

Japan's assistance is aiming not to address all the development issues in Kazakhstan, but to support for Kazakhstan's effort to achieve its development strategies including the principle and objectives of assistance to Kazakhstan in accordance with general ODA framework, while also bearing the common requests to be indicated by Central Asian countries in "Central Asia plus Japan" dialogues. Japan's targets in the next 3-5 years are to facilitate the shift to a market economy, sustain its economic growth, strengthen

its aid-absorbing capacity through ensuring the stability of its macro-economy and an efficient public sector, and implementing policies to allocate the financial resources obtained as a result of the foregoing policies for poverty reduction, environmental preservation, and industrial development. In addition, in terms of promoting the “Central Asia plus Japan” dialogue, Japan’s assistance to Kazakhstan is focused on the country’s self-help efforts toward the area of poverty reduction through sustainable economic growth, and supporting the increase of local economic levels to achieve this goal.

In realizing sustainable economic growth and poverty reduction, it is indispensable to break away from a resource-dependent economy and to diversify of the industrial structure. Additionally, agricultural growth, entrepreneurial activity in the manufacturing sector and the growth of SMEs will become the major issues, therefore, it is necessary to promote job creation, improve the environment and healthcare in the rural area of Kazakhstan, and distribute wealth equitably accrued from economic growth to every layer of the population.

Based on the above understanding, in respect of Kazakhstan’s ownership and its economic conditions, Japan provides assistance for nurturing human development of the country as one of priority areas. While it is predicted to have a thirst for capital demands as its economic growth and development, Kazakhstan’s interest of the realization of more dynamic economy in mind is an assistance that encompasses the concepts such as the assistance of the intellectual/human aspects and Public-Private Partnership (PPP). Therefore, it’s hoped that efforts will be made to new tackles outside the conventional form of the financial assistances including the collaboration with other support schemes. By implementing the supports fitting Kazakhstan’s need, further enhancement of the cooperation between the two counties is expected.

Based on these directions, the priority areas of Japan’s assistance to Kazakhstan are as follows:

(A) Support for Policy formulation, Institutional improvement and Human resource development for Sustainable economic growth

In order to shift its dependency on oil, the Kazakhstani government has adopted an “industrial and technical innovation development strategy for 2003-2015” with emphasizing industrial innovation and including the promotion of SMEs. Due to achieve this strategy, the country requires a mechanism involving the allocation of oil money to develop other industries, and it is indispensable to make upgrading of its financial and capital markets. It is, therefore, important for Japan to help its strategy in the area of policy formulation including institution-building such as the promotion of SMEs and the upgrading of financial/capital markets in driving Kazakhstan’s economic growth.

Meanwhile, Kazakhstan’s efforts to shift to a market economy such as the privatization of state-run enterprises, natural resource development, export promotion, and the privatization of the agricultural sector, are making steady progress with some positive results. Especially the oil and related sectors are raising foreign investments owing to soaring oil prices and increased oil production. In consequence, in order to ensure longer-term and more consistent economic growth as well as further facilitating economic activity under the market economy, their major issues are both the institutional improvement targeting accession to the WTO and human resource development that nurtures leaders in economic activity.

Improvement of governance is also indispensable for the country’s economic growth. Under the current Kazakhstan judicial system, its people cannot expect a fair conflict solution, since the system favors those close to power or the rich. This is not only unacceptable from the perspective of social justice, but is also likely to become a disincentive to future economic progress. By the same token, it is necessary to support the Interior Ministry in its efforts to prevent corruption and drug smuggling by the police. Additionally, major financial companies strongly tied to specific political groups often intervene in corporate activity with politically motivated intentions. This, too, may represent a factor hampering the country’s economic growth; hence the development of human resources in this field would be especially significant.

Since our programs to dispatch specialists to and receive trainees from Kazakhstan have been steadily producing good results, Japan should add further courses on parliamentary affairs management, judicial reforms or administrative management. Furthermore, if the Kazakhstan-Japan for Human Development Center in Almaty (popularly known as the “Japan Center”: the Japanese-style management expertise course offered by Japanese specialists and the Japanese language course with its high-level learning contents based

on learners' needs, are popular. The number of applicants for its various courses or events always exceeds the available places) could offer courses in Astana in addition to Almaty where the course-takers are mainly private citizens, and could also accommodate public servants, since the center of Kazakhstan has shifted to Astana. It is possible to establish a carefully planned support scheme that meets the Kazakhstan's conditions by partly upgrading the current programs for SMEs. With the opening of the JICA office and senior volunteers' activities expected following the start of the Technical Cooperation Agreement with Kazakhstan, it would become possible for Japan to support its economic and social infrastructure from its base.

(B) Economic and Social infrastructure improvement including its operation and management systems

What is expected in the Central Asia region including Kazakhstan is the establishment of an efficient and effective network for the region's roads, railroads and airports, and it is important to address this issue taking the entire Central Asia region into consideration. In view of the outdated facilities built in the Soviet era, it is vital that proper management, maintenance and management expertise applied to the network construction. The infrastructures in service are required the point of views such as further effective utilization of limited resources as well as operation and maintenance/management applied for market economy and international standard. For instance, in the fields of transport, telecommunications and electrical power, it is need to review their charge systems as well as improving the outdated facilities and their efficiency. As proper abilities such as maintenance and planning of update/investment are scarce in another field such as water and sewer sector, due partly to the regional gaps and water resource issues noted (C) below, it is effective to support programs using Japan's knowledge expertise in the software aspects. For this purpose, while Japan must emphasize the benefits of Yen loan including the potential for introducing its high-tech and expertise, Japan must also explore new patterns of Yen loan itself to collaborate with the public-private partnership or other its ODA schemes.

(C) Support for Environmental preservation, and Farming community development and Healthcare due to correct disparities in the rural area

Despite the Kazakhstani government's revenue increases due to increased oil production and skyrocketing oil prices, it has not been yet achieved the equitable distribution of wealth in cities and farming communities or across all levels of the population. With this in mind, the Kazakhstan government cited public policy and environmental preservation as its strategic issues in the "development plan by 2010" and approved the "poverty reduction plan for 2003-2005" in December 2002. The government is expected to introduce further measures in future through these plans. It is also important for Japan to support these plans in progressing further with the correction of disparities in Kazakhstan.

There is a wide gap in healthcare services between urban and rural areas, particularly, it is urgent to upgrade the healthcare services including preventive care programs in the farming communities in Kyzylorda and Zhambyl oblasts south of Kazakhstan where many people remain in poverty. As a measure to address this issue, for instance, its cancer screening ability has considerably improved thanks to Japan's technical cooperation program in Semipalatinsk, therefore, Japan could expand this achievement across Kazakhstan through a new technical cooperation program.

As Kazakhstan's rural areas have a multitude of problems due to lack of funds such as inadequate equipment, outdated or non-existent irrigation facilities, the lack of farmers' organizations, and farm produce processing/ distribution systems, their production and income level is low. Therefore, Japan should provide supports such as the development and renovation of infrastructures such as irrigation facilities, the improving produce processing/ distribution systems, the management of farmers' organizations, and the agricultural technology with targets of the development of agriculture/farming communities, an increase in farmers' income, and job creation.

Kazakhstan's urban and rural areas also have environmental issues such as water resources, air and water pollution in industrial areas, air /soil pollution and desertification, it is required an immediate response. Therefore, it is necessary to provide the assistances such as the enhancement of energy efficiency with the

renovation of aging facilities and the reduction of environmental load, and the development of capacity building of the administrative and technical personnel who have some role in the monitoring technologies of air and water, the technologies of waste water and waste disposal, and environmental measures. Among these pollutions, the problem concerning its water is serious, as it is directly related to the health of its citizens. Based on the importance of intra-regional cooperation with neighboring countries concerning watershed management of its international rivers, Japan will provide support to enhance Kazakhstan's water quality monitoring technology and expediting data exchanges with its neighboring countries. As environmental issues in the countryside, in particular, are closely related to other priority issues such as poverty and damage to the health of local citizens just as the Aral Sea, Japan will formulate and carry out programs focused on the view of human security.

Additionally, in Kazakhstan, as it is also inadequate to take countermeasures for natural disasters such as earthquakes and land slides, Japan will offer Kazakhstan its expertise in disaster prevention.

(D) Promotion of intra-regional cooperation

With a mid- and long-term perspective, Japan has called for the "Central Asia plus Japan" Dialogue. In the action plan adopted in the Second Foreign Ministers' Meeting of the "Central Asia plus Japan" Dialogue in June 2006, Japan and Central Asian countries including Kazakhstan identified "Measures against terrorism and narcotics", "Clearance of anti-personnel mines", "Poverty alleviation", "Health and medical care", "Environment", "Disaster prevention and reduction", "Energy/water", "Trade and investment", "Transport" as the specified areas of intra-regional cooperation which is one of the main pillars of the action plan. Japan will continue to support intra-regional cooperation with a view to complementing Central Asian countries' own efforts and facilitating their cooperation. In this regard, Japan will strive proactively with programs to enhance intra-regional cooperation of the Central Asian countries with taking into account any factors that would promote intra-regional cooperation while implementing bilateral support programs for the aforementioned priority areas when it is applicable.

5. Points to be considered in Implementing Assistance

(1) Efficient and effective Implementation

In order to facilitate Japan's ODA programs, detailed adjustments must be implemented with the Kazakhstani government through on-site policy dialogue on the formulation, adoption and implementation of the programs. Japan will adopt ODA projects taking advantage of Japan's experience, technology, and knowledge assistance schemes suitable for the target or their continuity and relevancy among them must also be discussed through policy dialogue. One idea would be to promote program formulation and implementation planning over several years that would then enhance the results by organic coordination among the schemes.

On the other hand, it is indispensable to improve the Kazakhstani government's ability to implement the programs and strengthen its adjustment capability. As the exchanges of notes concerning Yen loan and grant aid require Kazakhstani parliamentary ratification because the Kazakhstani government has to guarantee tax-free privileged articles, they are time-consuming and cause delays in executing these projects. Japan would like the Kazakhstani government to improve its efficiency in this regard by strengthening its vertical and horizontal coordination. Additionally, as the government has been frequently engaging in personnel reshuffles since the restructuring of government ministries and agencies in 2002, personnel development might be effective for targeting new personnel in charge. Japan must take advantage of the grant aid for grass-roots human security projects, for which procedures are relatively simple in comparison to other Yen loans or grant aids.

As it is important to create verification system for these schemes so that it leads to effective and efficient assistance, the local ODA task force should verify the scheme annually with respect to its program formulation and implementation for each priority areas. The results of the verification constitute an important input for future country assistance evaluation of Japan.

(2) Environmental and Social Considerations

Before formulating and implementing Japan's aid projects such as the development of economic infrastructures which have a possibility to affect both aspects of the environment and society in Uzbekistan, it is need to pay adequate attention to these aspects at early stage of the designing in accordance with the "Guidelines for Environmental and Social Considerations" established by Japan International Cooperation Agency (JICA) and Japan Bank for International Cooperation (JBIC).

(3) Reinforcement of the coordination Multi-bilateral Donors

Japan must proceed further with ODA for Kazakhstan, while also boosting coordination with multi-bilateral donors. In particular, the projects implemented with Japan funds by the UNDP, WB, ADB and EBRD should avoid duplication with our own projects and this is also important from the perspective of strengthening mutual coordination. At the request stage of our demand survey, Japan must ask the Kazakhstani side to dig out meaningful projects based on this perspective and through policy dialogue, and at the same time, Japan must also strengthen coordination with international organizations such as the UNDP, WB, ADB and EBRD through periodically exchanging information and opinions.

(4) Securing Safety

The August 1999 hostage-taking incident in the south of Kyrgyzstan, involving four JICA specialists, was a fresh reminder of the importance of ensuring the security of aid-related personnel. In the Central Asia region, terrorist activities by Uzbekistani anti-government forces and Islamic militant groups have recently resurfaced. As the implementation of the priority areas as noted (D) above is especially expected to involve activities in areas near the border of Kyrgyzstan and Uzbekistan and the security of aid-related personnel is indispensable, it is necessary to ask the Kazakhstani government to pay adequate attention to this matter as well as sharing information on the security situation with the same.