

The Ministry of Foreign Affairs of Japan
Third-Party Evaluation (FY2004)

Country Assistance Evaluation
of
Uzbekistan and Kazakhstan

Summary

March 2005

Preface

This report is the summary of Country Assistance Evaluation of Uzbekistan and Kazakhstan carried out by the External Advisory Meeting on ODA Evaluation, which is an informal advisory body of the Director-General of the Economic Cooperation Bureau of the Ministry of Foreign Affairs of Japan.

Japan has been one of the top donor countries of ODA (Official Development Assistance) and there have been domestic and international calls for more effective and efficient implementation of assistance. The Ministry of Foreign Affairs, as the responsible ministry of ODA, has been conducting ODA evaluation mainly at the policy level with two main objectives: to support the implementation and management of ODA and to ensure its accountability. This evaluation aims to verify the purpose, process of planning and implementation of ODA policy, and result of Assistance to Uzbekistan and Kazakhstan to produce lessons learned and recommendations which may reflect in aid policy to realize more effective and efficient of ODA in the future. In addition, it aims to ensure accountability by publication of this evaluation.

The External Advisory Meeting on ODA Evaluation was formed to improve the objectivity in evaluation. The Meeting is commissioned to conduct ODA evaluation and to report its results and recommendations to the Economic Cooperation Bureau of MOFA. Dr. Yasunaga Takachiho, a member of the Meeting, Professor, Tamagawa University was in charge of this evaluation.

Ms. Miki Wajima, Senior Researcher, Institute for Economic Studies, Japan Association for Trade with Russia & Central-Eastern Europe (ROTOBO), and Ms. Natsuko Oka, Research Fellow, Area Studies Department, Institute of Developing Economies (IDE-JETRO), have made enormous contributions to this report. Likewise, cooperation was received from the Ministry of Foreign Affairs and Ernst & Young ShinNihon. We would like to take this opportunity to express our sincere gratitude to all those who were involved in this review. The Aid Planning Division of the Economic Cooperation Bureau of the Ministry of Foreign Affairs was in charge of coordination. All other supportive work was received from Ernst & Young ShinNihon under the commission of the Ministry of Foreign Affairs.

Finally, we should add that the opinions expressed in this report do not reflect the view and position of the Government of Japan or any other institutions.

March 2005

The External Advisory Meeting on ODA Evaluation:

Hiromitsu MUTA (Professor, Tokyo Institute of Technology)
Koichiro AGATA (Professor, Waseda University)
Kiyoko IKEGAMI (Director, UNFPA Tokyo Office)
Yoshikazu IMAZATO (Editorial Writer The Tokyo Shimbun)
Teruo KAWAKAMI (CPA, Office ASAHI)
Yasunaga TAKACHIHO (Professor, Tamagawa University)
Yayoi TANAKA (Associate Professor, University of Tokyo)
Hiroko HASHIMOTO (Professor, Jumonji University)
Tatsuya WATANABE (Trustee, Japan NGO Center for International Cooperation)

List of Abbreviations

CACO	Central Asian Cooperation Organization
CIS	Commonwealth of Independent States
E/N	Exchange of Notes
EBRD	European Bank for Reconstruction and Development
EEC	Eurasian Economic Community
FDI	Foreign Direct Investment
FY	Fiscal Year
GDP	Gross Domestic Product
GNP	Gross National Product
ICAO	International Civil Aviation Organization
IMF	International Monetary Fund
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
JOCV	Japan Overseas Cooperation Volunteers
KR	Kennedy Round
NGO	Non-Governmental Organization
ODA	Official Development Assistance
PR	Public Relations
PRSP	Poverty Reduction Strategy Paper
SCO	Shanghai Cooperation Organization
SV	Senior Overseas Volunteers
UNDP	United Nations Development Programme
USD	U.S. Dollars
WTO	World Trade Organization

Summary

1 Basic Approach

1.1 Background and Purpose of the Evaluation

Japan has been one of the top Official Development Assistance (ODA) providers for many years. However, due to severe fiscal constraints in recent years, ODA has been strongly required to raise its quality in terms of efficiency and effectiveness, rather than its quantity. ODA evaluation is being conducted as a response to these needs. The Japanese Ministry of Foreign Affairs is responsible for the Country Assistance Evaluation, which is an evaluation at policy level, by requesting its conduction to the External Advisory Meeting on ODA Evaluation, an informal advisory body of the Director-General of the Economic Cooperation Bureau of the Ministry, based on the “ODA Evaluation Guidelines” published in March 2003.

Both Uzbekistan and Kazakhstan are the main recipients of Japanese ODA in Central Asia. Japan has been the top aid donor for both countries until 2000, and the second donor following the United States in 2001 and 2002. To provide assistance effectively and efficiently in the future, it is necessary to revise the past Japan’s Assistance Guidelines towards the two countries as well as their implementation process and results for the purpose of reflecting these evaluation results in the Country Assistance Plan for Uzbekistan and Kazakhstan, which are soon to be formulated.

In this context, this Country Assistance Evaluation aims to draw useful lessons and recommendations for the more effective and efficient implementation of aid in the future and for the formulation of the two Country Assistance Plans as well as to uphold accountability by releasing the results to the general public, through the review of the trends and all assistance-related policies towards Uzbekistan and Kazakhstan.

1.2 Object of Evaluation and Evaluation Framework

The object of this evaluation are Japan’s Assistance Guidelines and results of the Bilateral Policy Consultations conducted between Japan and each of the two countries from which the Priority Areas of Japan’s assistance were prescribed. The period covered goes from FY1997, in which the then Prime Minister Hashimoto announced the “Silk Road Diplomacy” as Japan’s policy to develop closer ties with the so-called “Silk Road Region

(five Central Asian countries and three Caucasian countries)", to FY2003¹. In accordance with the above-mentioned "ODA Evaluation Guidelines", Japan's Assistance Guidelines and the Bilateral Policy Consultations were evaluated from three perspectives, namely, the purpose, the process and the results.

2. Country Assistance Evaluation of Uzbekistan

2.1 Overview of Uzbekistan

(1) General context

Uzbekistan is an emerging nation that declared its sovereignty in June 1990 and its independence in August 1991, becoming an independent nation after the dissolution of the Soviet Union in December 1991. Islam Karimov, who was the First Secretary of the Communist Party of Uzbekistan since 1989, was elected President in March 1990, and became the first President of Uzbekistan as an independent nation through the direct elections held in December 1991. Karimov's presidential term was extended in 1995 and he was reelected in 2000.

Uzbekistan has been following a progressive model in its transition to a market economy, which somehow helped the country to escape from drastic economic contractions that other CIS countries suffered after independence. As a result, Uzbekistan has been maintaining a positive domestic economic growth rate since 1996. However, in 1996, Uzbekistan strengthened foreign exchange and trade control, and introduced a multiple exchange rate regime in 1997. Concerned by this reversal of the liberalization process, the International Monetary Fund (IMF) and the World Bank stopped their financial assistance, and the IMF has not resumed its assistance even today. By the end of 2001, Uzbekistan signed the Memorandum of Economic and Financial Policies with the IMF, with the aim of resuming their relationship. A Staff Monitored Program was started in order to evaluate Uzbekistan's efforts. However, Uzbekistan, without waiting for IMF's financial assistance to resume, reduced the difference between the official and the real exchange rates by itself, meeting the obligations of Article VIII of the IMF Articles of Agreements in 2003 (i.e. (1) Avoidance of restrictions on current payments, (2) Avoidance of discriminatory currency practices, (3) Convertibility of foreign-held balances). However, Uzbekistan's gradualist stance has not changed. In the field of regional cooperation, it formed the Central Asian

¹ Fiscal Year (FY) in Japan covers the period from April 1 to March 31 of the following year. Calendar year (January 1 to December 31) applies where FY is omitted.

Cooperation Organization (CACO) together with Kazakhstan, Kyrgyzstan, Tajikistan and Russia, although its participation is relatively passive compared to the rest of the member countries. Uzbekistan and the above-mentioned four countries are also members of the Shanghai Cooperation Organization (SCO). In order to secure a long-term economic growth, the two main issues for Uzbekistan are: first, to find a balance between the current progressive economic model and the demand of international organizations that call for a more aggressive transition to a market economy and second, to find a way of coexistence with the rest of the Central Asian countries.

Uzbekistan lacks a concrete and comprehensive mid-to-long-term national economic development plan. They have sectoral programs instead. In this Evaluation, the following documents were taken into consideration when defining the country's development direction: (1) Plans or policies on the development of industry and enterprises endorsed by the Cabinet on an annual basis, (2) Presidential Decree No. 2612 "On the Measures for the Realization of the Programs for Liberalization and Deepening Reforms in Political, Economic and Intellectual Spheres of the Society, Ensuring Security of the Country" approved in June 2000 (hereinafter called "Presidential Decree June 2000") as well as the minutes of the Bilateral Policy Consultations between Japan and Uzbekistan, and (3) The State Program of Reforming Health Care for 1998-2005, and the National Skill Formation Program, 1997. On the other hand, Uzbekistan is now in the process of formulating a Poverty Reduction Strategy Paper (PRSP) which could function as a comprehensive development plan². However, in order to materialize the contents of the PRSP that is in general terms a socioeconomic development strategy, consistency between the PRSP and the already formulated (or to be formulated) sectoral policies must be maintained. Also, consistency among different sectoral policies must be considered in order to develop a comprehensive national development plan. Thus, even after the PRSP is finalized, the remaining task is to build a systematic structure where the PRSP and the sectoral programs are incorporated.

(2) Japan's Assistance to Uzbekistan

a) Overview

Three Bilateral Policy Consultations have taken place between Japan and Uzbekistan in the past. According to these Policy Consultations, Japan's assistance to Uzbekistan is justified by the fact that Central Asia and Caucasus are highly important

² The PRSP currently under preparation is called "Interim Welfare Improvement Strategy of Uzbekistan for 2005-2010"

regions for Japan due to geopolitical reasons and to natural resources. Thus, the stability of Uzbekistan, who possesses a strong presence with the biggest population in the region, is directly linked to the construction of a strong regional order.

According to the last Bilateral Policy Consultation held in November 2000, the goals of Japan's assistance to Uzbekistan were to support actively the country so that it can overcome economical problems and reconstruct itself by effectively coping with the lack of human resources, which is required for a smooth transition to a democratic and a market-oriented economy, aging infrastructure, and deteriorating environment. In order to achieve the above-mentioned goals, three priority areas for assistance were agreed upon, namely: (1) Assistance for the transition to a market-oriented economy, (2) Infrastructure development and (3) Social sector reconstruction, mainly in education and health. In addition, during the consultations between the local ODA task force³ and the Government of Uzbekistan held in July 2003, the priority areas agreed upon were: (1) Human resources development and institutional as well as technological improvement for economic growth, (2) Infrastructure development and (3) Social sector reconstruction. As can be seen, the priority areas are quite similar throughout the consultations held during the period of study.

b) Aid performance

Japan's assistance to Uzbekistan started in 1991. Accumulated amounts up to FY2003 were 6.3 billion yen in technical assistance (JICA expenditure basis), 15.4 billion yen in grant aid (E/N basis) and 81.2 billion yen in loan aid (E/N basis). According to the *White Paper on ODA 2004*, Uzbekistan was the third aid recipient in Central Asia and Caucasus region following Kazakhstan and Azerbaijan in 2003. Japan's bilateral assistance provided to this region totaled 345.53 million USD in 2003 on a net disbursement basis, which accounted for 5.7% of total bilateral assistance.

In regard to loan aid to Uzbekistan, there was a period in which new projects were not implemented due to the problem of multiple exchange rates. However, in FY1999, loan aid was resumed for only ongoing projects. After 2000, Japan responded positively to Uzbekistan's efforts to reduce the difference among multiple exchange rates by providing two new loans, one for vocational education and the other for electricity-related needs.

Since 1994, grant aid has been focused mainly on general grant aid such as healthcare and Grant Aid for Increased Food Production (2KR)⁴. Other forms of grant

³ An undertaking started in FY2003 centered around the Japanese Embassy and the representative offices of JICA and JBIC, etc, which has the objective to strengthen the role of the said local aid-related agencies in the process of ODA implementation.

⁴ Food aid commenced in 1968 in accordance with the Food Aid Convention, made as a part of the

provided are grassroots grant aid, grant aid for Human Resources Development Scholarship and cultural grant aid.

Technical assistance is implemented actively as an important part of developing human resources that are necessary for the promotion of a market economy. In addition, with the opening of Japan International Cooperation Agency (JICA) representative office in Uzbekistan in March 1999, trainees in the fields of market economy, environment and public administration were accepted, and started dispatching Japan Overseas Cooperation Volunteers (JOCV) to Uzbekistan.

Finally, there are also development studies which focus on water supply, development of natural resources and transportation.

2.2 Results of the Country Assistance Evaluation for Uzbekistan

(1) Relevance of the purpose of Japan's Assistance Guidelines

In order to verify the relevance of the purpose of Japan's Assistance Guidelines towards Uzbekistan, an analysis of the consistency of the said guidelines with Japan's ODA upper policies, Uzbekistan's development policies, and other donor's assistance policies was conducted.

a) Consistency with Japan's upper assistance policies

Japan's upper policies on ODA that were taken into consideration for the evaluation were the former ODA Charter, the Silk Road Region Diplomatic Action Plan, and the former Mid-term Policy on ODA. A consistency analysis of the three above-mentioned priority areas of the Bilateral Policy Consultations with these upper policies was conducted and the consistency of the three priority areas with the former ODA Charter was proven. In regards to the Silk Road Region Diplomatic Action Plan, the priority areas which were accorded with the view to promote economic cooperation and development of natural resources were consistent. Finally, in regard to the former Mid-term Policy on ODA, consistency was found especially in the fields of social and economic infrastructure development, human resources development to promote democracy and market mechanisms, and mitigation of social

International Grains Arrangement, 1967 after the negotiation of the GATT Kennedy Round (KR). Food aid is sometimes called KR because of its historical background. Following the introduction of Food Aid (KR), Grant aid for increase of food production (2KR) started in 1997. 2KR provides grants for the procurement of production equipment and material, including fertilizers, agrochemicals and agricultural machinery. (JICA Grant Aid Website <http://www.jica.go.jp/english/activities/jicaaid/>)

problems that arise in the transition to a market-oriented economy. Although the New ODA Charter, revised in August 2003, does not fall into the scope of this Evaluation, consistency with the priority areas was also found.

On the other hand, it must be noted that the explanation on the reasons that justify Japanese assistance to Central Asia is simply given to the geopolitical and natural resources importance of the region, and the fact that Uzbekistan's political and economic stability will result in regional order. However, both the documents related to ODA policies and the minutes of the Bilateral Policy Consultations themselves do not go further than this simple explanation.

b) Consistency with Uzbekistan's national development policies

In order to verify whether Japan's Assistance Guidelines agreed upon in the Bilateral Policy Consultations does actually meet the development needs of Uzbekistan, consistency was tested by comparing the above-mentioned guidelines with the Annual Plans and Sectoral Programs of Uzbekistan.

The priority area listed in the Annual Plans is the promotion of a market-oriented economy, which fits with one of Japan's priority areas "Assistance for the transition to a market-oriented economy". On the other hand, according to the Presidential Decree of June 2000, "Infrastructure Policy Programs" and the statements made from the Uzbekistan side during the Bilateral Policy Consultations, the development of a modern and comprehensive infrastructure system is of utmost importance, which proves that Japan's priority area of "Infrastructure Development" is indeed in accordance with the needs of Uzbekistan. As for the third priority area, "Social sector reconstruction", the Evaluation took into account two of the main sectoral programs, namely the State Program of Reform in Health Care (1998-2005) and the National Skill Formation Program (1997). The importance of the health and education sectors as priority areas for the government of Uzbekistan are stated in the minutes of the Bilateral Policy Consultations as well. Based on the same minutes, the priority area of "Social sector reconstruction" set by Japan focuses mainly on the same health and education sectors, thus confirming the consistency of Japan's assistance with Uzbekistan's social development needs. From the above, it is possible to conclude that Japan's overall Assistance Guidelines does meet the development needs of Uzbekistan.

c) Comparison with the assistance policies of the international donor community

The priority areas of the multilateral and bilateral donors during 1997 to 2003 were human resources development for the transition to a market economy, infrastructure development and social sector development. Clearly, Japan's priority areas match with the priority areas of the major multilateral and bilateral donors, thus proving the consistency of Japan's Assistance Guidelines with the international aid community.

On the other hand, some differences could be noticed as well. Areas such as "regional cooperation" were set as a priority area for some donors unlike Japan. Some donors were actively involved in activities to promote democracy while working together with local NGOs. Particularly, the European Bank for Reconstruction and Development (EBRD) included a human rights-related condition in their loans to Uzbekistan.

(2) Appropriateness and efficiency of the assistance policies formulation and implementation process

a) Appropriateness of the formulation and implementation process

Appropriateness of the formulation of the Bilateral Policy Consultation Assistance Guidelines: All Assistance Guidelines in the Bilateral Policy Consultations must be formulated based on the results of a thorough process of information collection and analysis. In addition, officers that participate in the Bilateral Policy Consultations must be appropriate persons with the right background for such tasks. Taking this into consideration, the participants' appropriateness was studied by checking the institutions to which they belong and the number of participants.

No information in regard to the preparation of the First and Second Policy Consultations was available. However, for the Third Bilateral Policy Consultation, study groups were organized and information was collected and analyzed prior to the Bilateral Policy Consultation. It can be inferred from the minutes of the Third Policy Consultation that its results were agreed upon by the appropriate officers of both parties.

When looking at the First and Second Bilateral Policy Consultations with Uzbekistan and Kazakhstan *ex post facto*, it could be said that different Japanese Assistance Guidelines for the two countries could have been formulated based on an analysis of macroeconomic indicators such as economic growth rates or per capita GDP. On the other hand, the main issue in regard to aid policies towards Central Asia during the

1990's was focused on "the transition to a market economy", and all donors were struggling to find the right assistance strategy for Central Asia. Based on this fact, it is fair, up to some extent, to think that it could have been difficult to formulate different Assistance Guidelines for the two countries in regards to the First and Second Policy Consultations.

Reflection of Japan's Assistance Guidelines on the Aid Policies of the Implementing

Agencies: Prior to 1999, JICA formulated its projects in accordance with the former ODA Charter, the Silk Road Region Diplomatic Action Plan and the priority areas agreed upon in the Policy Consultations. In 1999, JICA opened its representative office in Uzbekistan and formulated the first Country Program. From the year 2000, a revision of the Country Program is conducted every June, by which the basic policy and the sub-sectors of each priority area is set, while taking into consideration the results of the Policy Consultations. In addition, in 1999 JICA organized "The Aid Study Committee for Central Asia" which reported on the economic and social conditions in the Central Asian countries (including Uzbekistan), and Japan's assistance policy towards this region. On the other hand, the Japan Bank for International Cooperation (JBIC), prior to 1999, formulated its projects in accordance with the former ODA Charter, the Silk Road Region Diplomatic Initiative and the priority areas agreed upon in the Policy Consultations. In 1999, JBIC formulated its first Regional Assistance Policy towards Central Asia. The Strategies for Overseas Economic Cooperation Operations formulated in 1999 and 2002, take into account the basic policies of the former ODA Charter and the former Mid-term Policy on ODA, and reflect the priority areas agreed upon in the Bilateral Policy Consultations. From the above, it can be concluded that the priority areas of the Bilateral Policy Consultations were properly reflected in the assistance programs of the aid implementing agencies.

b) Reflection of Japan's Assistance Guidelines on the formulation, request, selection and implementation of projects

Although it was impossible to find information through which the process of project formulation, request, selection and implementation could be directly verified, according to the interviews with the Japanese Embassy in Uzbekistan, the JICA representative office and the Agency for Foreign Economic Relations of the Republic of Uzbekistan, today, the results of the Bilateral Policy Consultations are reflected in the above-mentioned process under the coordination of the Japanese Embassy in Uzbekistan and the JICA representative office. In addition, as there are no projects that do not correspond to any of the three priority areas among those projects that were already implemented, it can be concluded that the results of

the Bilateral Policy Consultations were correctly reflected in the process of project formulation, request and selection.

c) Efficiency of the implementation process

Japan's assistance implementation system: The Japanese Embassy in Uzbekistan and the JICA representative office coordinated assistance implementation with the counterpart of the Agency for Foreign Economic Relations of the Republic of Uzbekistan. From 1996 to 2000, a Bilateral Policy Consultation was conducted every two years, in which the priority areas were discussed with the Uzbekistan government. In addition, since May 2003, by the establishment of the local ODA task force consisting of the Japanese Embassy in Uzbekistan and the JICA representative office, Policy Consultations are being held once a year, allowing for much more localized Policy Consultations. From the above, it can be concluded that Japan's assistance implementation system has been developing properly.

Uzbekistan's assistance reception system: The Agency for Foreign Economic Relations of Uzbekistan is commissioned by the Council of Ministers to coordinate all loans and grant assistance. The Agency's responsibility is to collect all requests of ODA projects from different organizations, to check that these match with the country's development goals and objectives and to select the appropriate projects. Those selected projects are then evaluated by the Council of Ministers together with the ministries and agencies concerned. The projects with a high priority are submitted to a special section of the Council of Ministers. The final decision is made by the Chairman of the Council of Ministers (currently held by President Karimov). The donor is then decided, and even after the project is actually implemented, the Council of Ministers is involved in every aspect. From the above, it can be concluded that Uzbekistan's assistance reception system is apparently developed. However, according to the interviews with the Japanese Embassy in Uzbekistan and other donors, it became clear that there is still a long way to go to develop the system, as problems of lack of experience and personnel still remain, and administrative performance is not sufficient.

Coordination among Japan's assistance schemes: Coordination among different assistance schemes have been made in the past. Loan assistance experts dispatched under JICA's technical assistance scheme have supported loan assistance projects by conducting necessary local studies. On the other hand, JOCV and Senior Overseas Volunteers (SV) have been dispatched and supported grant assistance of grassroots projects. As can be seen, efforts to coordinate different aid schemes have been made, from

which it can be concluded that Japan's aid activities in Uzbekistan have given appropriate consideration in order to coordinate with different aid schemes.

Coordination with Uzbekistan's assistance implementing agency: As already mentioned above, project formulation has been organized by the Japanese Embassy in Uzbekistan and the JICA representative office in coordination with the Agency for Foreign Economic Relations of Uzbekistan. In addition, in order to promote Uzbekistan's understanding of Japanese assistance, seminars on JICA's activities have been organized. On the other hand, although JBIC lacks a representative office in Uzbekistan, there have been no obstacles in coordinating with JBIC, according to an interview with the Ministry of Finance. From the above, it is possible to conclude that coordination with Uzbekistan's aid implementation agency has been successfully carried out.

Coordination with other bilateral and multilateral donors as well as NGOs: In terms of coordination with the donor community in general, exchange of information is done through unofficial meetings or gatherings. In real terms, a division of activity areas seems to be settled and the relationship with donors is a complementary one, which reduces the need for aid coordination. On the other hand, there have been some cases of donor coordination, which enables to conclude that donor coordination has been taking place according to the needs. As for coordination with NGOs, it does exist, although in a very limited manner.

(3) Effectiveness and Impact of the Results

Due to the limited availability and accuracy of Uzbekistan's statistics, analysis based on such data was constrained; however, an effort was made to use Uzbekistan's statistics. As a first step to evaluate the results, the share of Japan's financial assistance in Uzbekistan's government expenditure was calculated in order to examine the influence of Japan's financial assistance on Uzbekistan's public finance. Next, progress in each of the priority areas was assessed by socioeconomic indicators. Based on this, the effectiveness of Japan's assistance and its economic and social impact was evaluated. Effectiveness was evaluated when it could be recognized that an outcome would influence the development/progress of the priority area in question. On the other hand, although it is difficult to assess the total impact of Japan's ODA on the development of Uzbekistan, utmost efforts were made to assess the total impact by assessing the influences on Uzbekistan's policies and the evaluations from the Uzbekistan side collected through the interviews.

a) **Share of Japan's Financial Assistance in Uzbekistan's National Budget**

Japan's accumulated financial assistance from 1997 to 2003 were 30.1 billion sum (9.8 billion yen, E/N basis) in grant aid, and 48.1 billion sum (36.8 billion yen, disbursement basis) in loans, totaling 78.2 billion sum (46.5 billion yen). Japan's financial assistance is focused on health and education (social sector) and transportation and communications (infrastructure development). Through careful analysis, it became clear that the share of Japan's financial assistance on infrastructure development in Uzbekistan's government expenditure amounted to 6% to 11%. As loans are the main assistance scheme used in infrastructure development, it goes without saying how considerable Japan's contribution is.

b) **Contribution of Japan's Assistance to Each Priority Area**

Assistance for the transition to a market-oriented economy: When the *Transition Indicators* published by the EBRD from 1997 to 2003 were studied, with the exception of "Liberalization of Markets and Trade", no changes could be seen at all. Outcomes could not be recognized for the projects that required time until their effect becomes apparent. However, in the specific case of the "Uzbekistan-Japan Center for Human Development", the various programs it offers has resulted in the creation of human resources with high business and Japanese language skills, as well as increased interest towards Japan. Certain results could also be recognized in other programs and projects, such as "seminar participants made some recommendations to improve conditions in the workplace based on acquired knowledge" and "made reports, which became the basis for further policy formulation".

As most of the activities in this priority area are related to human resources development, it was difficult to grasp their real economic and social impact since the time required for any impact to become apparent or measurable would be quite long. On the other hand, in regard to the dispatch of experts, as a significant amount of policy recommendations is submitted to Uzbekistan, and some of these recommendations have actually been applied, it can be concluded that Japanese assistance has made certain contribution to this priority area.

Infrastructure Development: According to EBRD's *Infrastructure Transition Indicators*, although certain progress can be recognized, generally, government intervention is still strong and progress on institutional reform has not been enough. However, in regards to railway transportation, which has been one of the priority areas of Japan's assistance in

infrastructure, EBRD's evaluation recognized that there has been progress with legislation and an increased participation of the private sector. Japan's has conducted several development studies in this priority area, which have led to loan aid. Among the projects that have been concluded, there were projects related to airports and railways.

- In regard to airports, some contributions can be recognized such as with Japan's assistance, "it was possible to reach the standards of airport facilities set by the International Civil Aviation Organization (ICAO), which led to an improvement in airport security, and in turn, resulted in an increase in number of flights". On the other hand, with the implementation of a development study to improve airport operations, Japanese assistance contributed to policy formulation in Uzbekistan which resulted in a positive social impact. However, based on visits to one of the airports in question and on interviews, although an increase in international flights can be recognized, numbers of passengers using the airport is decreasing, indicating that the operation rate is not satisfactory. For this reason, Uzbekistan Airways is considering the possibility of increasing operation rates by increasing the number of direct flights to other CIS countries and Europe, and by developing the tourism industry. In this regard, certain positive impact can be recognized in a sense that Japan's assistance increased the potential of Uzbekistan's airport operations.
- In regard to railways, "the number of passenger cars that are fixed and maintained in the repair yard is on the rise", and "foreign currency that was previously necessary to fix passenger cars was saved" are just some examples of the contributions of Japanese assistance. On the other hand, although passengers using railway transportation is on the rise, it has not reached the levels seen in 1998, while the number of transboundary passengers are decreasing. However, without these projects, due to lack of foreign currency, it would have been quite difficult to repair the cars, which would further lower the number of railway passengers. Additionally, a positive social impact from the projects can be recognized, as railways were kept as one of the means of transportation and the quality of services were improved by the acquisition of new passenger cars.

Social sector reconstruction: Healthcare, education and agricultural technology are the main areas of Japanese assistance with regards to social sector reconstruction.

- Healthcare: Although further improvements are necessary in primary healthcare, medical infrastructure for the treatment of tuberculosis and HIV/AIDS, and employment conditions of healthcare professionals, healthcare conditions in Uzbekistan are steadily improving from a general point of view. Japan's assistance has contributed to this improvement by decreasing the time to conduct medical treatment and by decreasing

death rates. In addition, in regard to policy formulation, a Master Plan that became the basis of the Second National Health Reform Program was carried out, from which a positive impact of Japanese assistance can be seen.

- Education: Uzbekistan originally has a high literacy rate, which has been maintained up to today. However, regional differences in the quality of education, decreasing teachers' wages and increasing unemployment rates of those who have completed basic education are the main issues the sector is facing in recent years. The effectiveness and contribution of Japan's assistance can be seen from the fact that educational equipments provided to educational institutions by grant assistance are being used fully. As for the effects on a more macro level, a longer period of time is required until a clear picture of the impact of Japan's assistance in the education sector can be seen.
- Agriculture: Although the real GDP growth rate of the agricultural sector was negative in 1996, which was a bad harvest year for cotton, the period from 1997 in which the Grant Aid for Increased Food Production (2KR) started, until 2001, the growth rate was positive. Agricultural equipments provided under 2KR increased productivity when compared to equipments that were used previously. However, in regards to 2KR, Uzbekistan has not met the requirements of deposit of counterpart fund, thus decreasing the expected effects from the use of these fund resources to carry out other projects. Aside from this, it can be concluded that Japan's assistance has had a positive impact, judging from the fact that real GDP growth of the agriculture sector was positive from 1997 to 2001, the period in which 2KR was provided.

2.3 Recommendations

Following are the recommendations derived from the analysis conducted. The recommendations have been grouped into those that concern the meaning and direction of economic cooperation, as well as other issues to remember in the process of implementing economic cooperation.

(1) Recommendations on the meaning of economic cooperation

- A detailed explanation on the reasons to provide assistance to Uzbekistan is not included either in the documents related to aid policies or in the minutes of the Bilateral Policy Consultations. From the perspective of accountability, it is necessary that the Country Assistance Plan to be formulated in the future contains an explanation on what type of relationship is desirable between Japan and Uzbekistan, the role of economic

cooperation in building such relationship and the results of an analysis on the importance of Central Asia with special focus on Uzbekistan.

(2) Recommendations on the direction of economic cooperation

- ***Encourage and support the formulation of a comprehensive development plan: what to do in the immediate future:*** Uzbekistan lacks a comprehensive development plan. In order to make efficient use of the limited human and capital resources, it is necessary to clarify which are the priority areas of development for Uzbekistan by the formulation of a comprehensive development plan. On the other hand, it is necessary to follow closely the progress of the PRSP currently under preparation, and give continuous support to the formulation of a national development plan that should be based on Uzbekistan's ownership. It is also desirable that such plan be assisted in a well-planned manner through the dispatch of experts and receiving trainees (including assistance for the formulation of the PRSP, if necessary).
- ***Improve the government's administrative capacity in general, including reception of aid:*** Uzbekistan's assistance reception system has been developed up to a certain point, but many issues remain in regard to operation. It is necessary that Japan continues its support. Additionally, appropriate experts should be dispatched in a well-planned manner in order to enhance the government's overall administrative capacity, including a better management of personnel.
- ***Encourage and support the development and disclosure of statistical data:*** Uzbekistan has been urged to reform its statistical system as well as to develop and disclose reliable and easy-to-use statistical data. Japan has constantly been requesting improvements on this issue, and should continue this request. It is important that Japan gives continuous technical support to improve the reliability of statistical data by dispatching experts and receiving trainees.
- ***Review the basic policy regarding the "Assistance for the transition to a market-oriented economy":*** Japan's assistance in this field in the past seems to have been focused on the creation of human resources capable to adjust to a market economy, should Uzbekistan decide to actively push forward the transition to a market economy in the future. It is important that Japan continues this support. However, first of all, it is important that Japan clarifies its direction in this field, that is, Japan needs to

define whether it will continue on the same track, or push for a more active transition to a market economy. Once this is clarified, a more effective and efficient assistance will be possible.

- ***Strengthen knowledge-based support regarding “Infrastructure Development”:*** Japan’s assistance in this area should reinforce the provision of knowledge-based support (such as management know-how), in order to secure an efficient use of the existing infrastructure. Assisting with the formulation of a comprehensive policy for the transportation sector, coordinating the operation of airports with the development of the tourism industry, and providing know-how on management and marketing are some examples.
- ***Promote regional cooperation in Central Asia:*** Uzbekistan’s active involvement in regional cooperation is one of the most important factors for the country’s future stable economic growth. In August 2004, when the then Minister for Foreign Affairs, Yoriko Kawaguchi, visited Central Asia, she announced Japan’s renewed policy towards Central Asia called the “Central Asia plus Japan” Dialogue, in which the importance of regional cooperation to solve many of the regional issues was stressed. The Central Asian countries welcomed this initiative, and Japan should continue this support once a consensus is reached in regards to the vested interests of the concerned countries.

(3) Recommendations on other issues that should be taken into consideration in the process of implementing economic cooperation

- ***Coordination with other donors:*** In Uzbekistan, coordination between donors, including international organizations, are relatively limited. Incentives to promote aid coordination seem to be limited as a division of aid activities is already in place. However, as the possibility of donor coordination could arise in the future, it is necessary that Japan maintains and strengthens its close relationship with the government of Uzbekistan and with the donor community. In addition, should a specific project in which donor coordination would result in a more effective implementation of aid appear, it is desirable that Japan actively promote such coordination.
- ***The Aid for Increased Food Production (2KR) counterpart fund:*** As the 2KR counterpart fund deposit is insufficient, the original objective of using the resources of the 2KR fund for the implementation of projects with high socioeconomic content would

be threatened. Japan has continuously been urging Uzbekistan to solve this issue, and should continue to do so, in order for the 2KR counterpart fund to achieve its intended purpose in the near future.

3. Country Assistance Evaluation of Kazakhstan

3.1 Overview of Kazakhstan

(1) General context

Kazakhstan declared its sovereignty in October 1990 and its independence in December 1991, becoming an independent nation after the dissolution of the Soviet Union in December 1991. Nursultan Nazarbayev, who was the First Secretary of the Communist Party of Kazakhstan since 1989, was elected President in April 1990, and became the first President of Kazakhstan as an independent nation through the direct elections held in December 1991. Nazarbayev's presidential term was extended in 1995 and he was reelected in 1999. In August 1995, Kazakhstan adopted the currently effective Constitution of Kazakhstan at the all-national referendum, which strengthened the authority of the President. Backed by a strong support from the people, President Nazarbayev transferred the capital of the country from Almaty to Akmola (now Astana) in 1997.

Among CIS countries, Kazakhstan has been the most radical in its economic reforms, and with the exception of 1998 when it suffered an economic contraction due to the Russian financial crisis, it has been growing at a positive rate. Kazakhstan followed a managed floating exchange rate system in the beginning, which became impossible to maintain with the 1998 Russian financial crisis, and adopted a floating exchange rate system. The economy started to recover in the same year, and it benefited from the recovery of international prices of raw materials, including oil, and a good year of grain harvest. In 2001, Kazakhstan's real GDP recorded an outstanding growth rate of 13.5%, and has been growing at high rates since then. Foreign Direct Investment (FDI) grew from 2.78 billion USD in 2000 to 4.56 billion USD in 2001 and has been on an upward trend since then. Japan's FDI accounted for about 2% of the total. Kazakhstan applied for admission to the World Trade Organization (WTO) in January 1996, and currently an internal legislation on international trade is being adopted to meet the requirements of the rules and regulations of the WTO. In regards to regional cooperation, Kazakhstan has been one of the most active countries in Central Asia and participates in the Central Asian Cooperation Organization (CACO), the Eurasian Economic Community (EEC, together with Russia, Kyrgyzstan,

Tajikistan and Belarus), and the Shanghai Cooperation Organization (SCO). However, parallel to this outstanding economic growth, problems are also on the rise. Income distribution is worsening and several social problems are surfacing. One of the most important issues that need to be solved is how to achieve a balanced economic development in a country with a vast territory.

Kazakhstan's long-term national strategy is seen in the "Kazakhstan 2030: Prosperity, Security and Improvement of Welfare of the Citizens of Kazakhstan" (hereinafter referred to as "Kazakhstan - 2030") launched in October 1997. In order to realize the objectives contained in it, the government formulated the following national development plans: (1) the "Mid-term Development Plan (1998-2000)" approved by a presidential decree in January 1998, whose role was to lay out the foundation for an economic take off by finalizing the required political, economical and social reforms, (2) the "Strategic Plan of Development of the Republic of Kazakhstan Up to 2010" (hereinafter referred to as "the 2010 Plan"), approved by a presidential decree in December 2001, which indicates specific development objectives that must be met in the first 10 years of the Kazakhstan - 2030 plan and, (3) the "Innovative Industrial Development Strategy of the Republic of Kazakhstan for 2003-2015" (hereinafter referred to as "the Industrial Innovation Plan"), which aims to reduce the heavily oil-dependent industrial structure, and transform it into a more diversified one by promoting the creation of a manufacturing industry.

(2) Japan's Assistance to Kazakhstan

a) Overview

Three Bilateral Policy Consultations have taken place between Japan and Kazakhstan during 1996 to 2002. According to the minutes of these Policy Consultations, Japan's assistance to Kazakhstan is justified by the fact that Central Asia and the Caucasus is a highly important region for Japan due to its geopolitical significance and the importance of access to its energy resources (mainly oil and minerals). Thus the stability of Kazakhstan is directly linked to the stability of the region.

According to the last Bilateral Policy Consultation conducted in November 2002, the goals of Japan's assistance to Kazakhstan were "to effectively solve the problems of lack of human resources that are required for a smooth transition to a democratic and market-oriented economy, aging infrastructures, as well as economic problems caused by the collapse of the trade structure, by actively providing assistance". In order to achieve the above-mentioned goals, three priority areas for assistance were agreed upon, namely, (1)

Development of institutions and human resources required for a market economy, (2) Economic and social infrastructure development, and (3) Alleviation of social difficulties arising from the transition to a market economy and environmental problems. It is worth noting that these priority areas have been more or less consistent throughout the three Bilateral Policy Consultations.

b) Aid Performance

Japan's assistance to Kazakhstan up to FY2003 were 8.7 billion yen in technical assistance (JICA expenditure basis), 5.7 billion yen in grant aid (E/N basis) and 88.8 billion yen in loan aid (E/N basis). According to the *White Paper on ODA 2004*, in 2003, Kazakhstan was the top Japanese aid recipient in Central Asia and the Caucasus on a net disbursement basis. For reference, Japan's bilateral assistance provided to this region totaled 345.53 million USD in 2003, which accounted for 5.7% of the total bilateral assistance.

Assistance loans to Kazakhstan have concentrated mostly on transportation infrastructure (railways, bridges and airports).

With respect to grant aid, Kazakhstan became eligible to receive it in FY1996 as its GNP per capita fell to 1,110 USD in 1994 (below the 1,395 USD line). Since then, grant aid has been focused mainly on areas of healthcare and measures to ease regional income disparities and other problems originated from the transition to a market economy. However, currently, grant aid has been suspended as a penalty due to Kazakhstan's long delay in the implementation process of a project related to the development of water supply in rural areas.

As for technical assistance, Japan has received trainees in areas that aim to promote democracy and market economy, thus the focus has mainly been on human resource development. In regards to development studies, projects have focused on development of transportation, natural resources and water resources (such as the study on the Master Plan for the Development of the City of Astana, and other projects related to mineral exploration).

2.2 Results of the Country Assistance Evaluation for Kazakhstan

(1) Relevance of the purpose of Japan's Assistance Guidelines

In order to verify the relevance of the purpose of Japan's Assistance Guidelines

towards Kazakhstan, an analysis of the consistency of the said policies with Japan's ODA upper policies, Kazakhstan's development policies, and other assistance policies was conducted.

a) Consistency with Japan's upper assistance policies

Japan's upper policies on ODA that were taken into consideration for the evaluation were the former ODA Charter, the Silk Road Region Diplomatic Action Plan, and the former Mid-term Policy on ODA. A consistency analysis of the three above-mentioned priority areas of the Bilateral Policy Consultations with these upper policies was conducted, and the consistency of the three priority areas with the former ODA Charter was proven. In regards to the Silk Road Region Diplomatic Action Plan, the priority areas were consistent especially with "resource development and economic cooperation", which was one of the pillars of the Silk Road Region Diplomatic Action Plan that included economic cooperation based on the development of infrastructure, assistance for the transition to a market economy and solutions to environmental problems in the region. Finally, in regards to the former Mid-term Policy on ODA, consistency was found especially in the fields of social and economic infrastructure development, human resources development to promote democracy and market mechanisms, and mitigation of the social problems originated from the transition to a market-oriented economy as well as the negative legacy left from the Soviet era. Although the New ODA Charter, revised in August 2003 does not fall into the scope of this Evaluation, consistency with the priority areas was also proven.

On the other hand, recently Kazakhstan's financial situation has been better off, as it has been experiencing an economic bonanza due to the rise in international oil prices. Also, compared to other countries of the region, such as Uzbekistan, Kazakhstan has been developing more rapidly, which casts new light on the fact that aid alone is not enough to contribute to the diplomatic relations between Japan and Kazakhstan. Therefore, when considering Japan's future relations with Kazakhstan, it is necessary to consider the measures to promote Japanese FDI and trade, as new means to support Kazakhstan's further economic development, and study how to use various Japanese resources. Under such framework, the role of aid would be to support institutional reforms that would facilitate the promotion of FDI in Kazakhstan.

Like Uzbekistan, it must be noted that the explanation on the reasons that justify Japanese assistance to Central Asia is simply given to the geopolitical and natural resources importance of the region and that Kazakhstan's political and economic stability will result in order in the region. However, both the documents related to ODA policies, and

the minutes of the Bilateral Policy Consultations themselves, do not go further than this simple explanation.

b) Consistency with Kazakhstan's national development policies

In order to verify whether Japan's Assistance Guidelines agreed upon in the Bilateral Policy Consultations do actually meet the development needs of Kazakhstan, consistency was tested by comparing the above-mentioned guidelines with the long-term national strategy "Kazakhstan - 2030". It was found that the priority areas of the Bilateral Policy Consultations do match with the priority areas of "Kazakhstan - 2030", such as "economic growth through the promotion of a market economy", "promotion of health, education and welfare" and "development of public officers" among others.

As Kazakhstan has various national policies and strategies depending on the period covered, a selection was conducted in order to narrow down the policies to those that were really binding during the evaluation period. The results of the comparison of the priority areas of the Bilateral Policy Consultations with the selected national programs are as follows.

For the period 1998 to 2000, the "Mid-term Development Plan (1998-2000)" was the effective national plan. As the objectives of the said Plan are the same as the ones of "Kazakhstan - 2030", consistency is maintained. After 2001, the "2010 Plan" was put into effect. This national development plan contains sectoral programs with detailed priority areas and specific targets. Consistency with the priority areas of the Bilateral Policy Consultations was verified through the comparison with the policies related to the economic development of Kazakhstan. Finally, consistency with the Industrial Innovation Plan, which seeks a more diversified economy, was also verified especially in the area of "development of institutions and human resources required for a market economy". As this last Plan was adopted recently (in March 2003) and is considered the pillar of today's economic development policy, it is necessary for Japan to have a deep understanding of its basic principles when considering future aid to Kazakhstan. From the above, it is possible to conclude that Japan's overall Assistance Guidelines do meet Kazakhstan's national development policies.

On the other hand, Kazakhstan's government debt and guarantee obligations reached 4.1 billion USD in 1999, but by June 2002 the figure decreased to 3.8 billion USD. According to the interviews, Kazakhstan has been seeking more technical assistance and FDI, and less financial assistance since 2000, when international oil prices started to rise and Kazakhstan's financial standing improved. However, during the interview with the

Ministry of Health, it became clear that budget allocation for public health is not enough, meaning that the government's financial resources are not necessarily used effectively.

c) Comparison with the assistance policies of the international donor community

The priority areas of other multilateral and bilateral donors during 1997 to 2003 were transition to a market economy, private sector development, infrastructure development and social sector development. Clearly, Japan's priority areas are the same as the priority areas of major donors, proving the similarity of Japan's Assistance Guidelines with those of the international aid community. On the other hand, recently Japan has announced its intention to actively support regional cooperation in Central Asia. Some of the donors have already started to work in this area, thus proving that Japan is in line with international trends. In addition, the already mentioned fact that Kazakhstan's needs for financial assistance have not materialized due to the development of its oil industry and the country is seeking more technical assistance by which financial management know-how would be transferred to the country, is a notion shared along with other donors.

(2) Appropriateness and efficiency of Japan's Assistance Guidelines formulation and implementation process

a) Appropriateness of the formulation and implementation process

Appropriateness of the formulation of the Bilateral Policy Consultation Assistance Guidelines: All Assistance Guidelines that were discussed and agreed upon in the Bilateral Policy Consultations must be formulated based on the results of a thorough process of information collection and analysis. In addition, officers that participate in the Bilateral Policy Consultations must be appropriate persons with the right background for such tasks. Taking this into consideration, the appropriateness of the formulation of the Bilateral Policy Consultation Assistance Guidelines was studied.

Based on the minutes of the Bilateral Policy Consultations, it is possible to infer that the results of the Consultations were agreed upon, based on appropriate structures from both parties. As mentioned above, when looking at the First and Second Bilateral Policy Consultations with Uzbekistan and Kazakhstan *ex post facto*, it can be said that different Japanese assistance policies could have been formulated, based on an analysis of macroeconomic indicators such as economic growth rates or per capita GDP. On the other

hand, the main issue in regards to aid policies towards Central Asia during the 1990's was focused on "the transition to a market economy", and all donors were struggling to find the right assistance strategy for Central Asia. Based on this fact, it is fair, up to some extent, to think that it could have been difficult to formulate different assistance strategies for the two countries in regards to the First and Second Bilateral Policy Consultations.

In addition, in the specific case of the Third Bilateral Policy Consultation for Kazakhstan, which was held in 2002, the priority areas agreed upon are almost the same as those of the prior two Bilateral Policy Consultations (held in 1996 and 2000), even though the economic situation of the country differed significantly due to progress with the transition to a market economy and the increase in oil prices. This fact leads to the conclusion that preliminary information collection and analysis on Kazakhstan was not fully considered when preparing Japan's Assistance Guidelines.

Reflection of Japan's Assistance Guidelines on the Aid Policies of the Implementing Agencies: Since JICA does not have a representative office in Kazakhstan, a Country Program has not been formulated. However, based on the interviews and documents such as the "Summary of JICA's activities in Kazakhstan, 2004", it is possible to infer that projects were formulated in accordance with the former ODA Charter, the Silk Road Region Diplomatic Action Plan, the former ODA Mid-term Policy and the priority areas agreed upon in the Bilateral Policy Consultations. With respect to JBIC, prior to 1999 when the Regional Assistance Policy towards Central Asia was released, projects were formulated in accordance with the priority areas agreed upon in the Bilateral Policy Consultations. Since 1999, the priority areas were already reflected in the above-mentioned Regional Assistance Policy. It is possible to conclude from the above that the priority areas of the Bilateral Policy Consultations were properly reflected in the assistance programs and policies of the aid implementing agencies.

b) Reflection of Japan's Assistance Guidelines on the formulation, request, selection and implementation of projects

Although it was impossible to find information through which the process of project formulation, request, selection and implementation could be directly verified, according to the interviews with the Japanese Embassy in Kazakhstan, JICA experts and the Ministry of Economy and Budget Planning of the Republic of Kazakhstan, today, the results of the Bilateral Policy Consultations are reflected in the above-mentioned process under the coordination of the Japanese Embassy and JICA experts. In addition, as among those

projects that were already implemented, there are no projects that do not meet any of the three priority areas, it can be concluded that the results of the Bilateral Policy Consultations were correctly reflected in the process of project formulation, request, selection and implementation.

c) Efficiency of the implementation process

Japan's assistance implementation system: Due to the fact that the Japanese Embassy in Kazakhstan was in Almaty and the fact that JICA did not have a representative office in Kazakhstan, it was difficult to constantly hold meetings with government officials in Astana. However, in January 2005, the Japanese Embassy was transferred to Astana, and as the Technical Cooperation Agreement was signed, JICA is soon to open a representative office. With these developments, contact among the two parties is expected to increase and the process of project formulation and request will become more efficient. In addition, although the local ODA task force members meet on an irregular basis because the absence of a JICA representative office, these activities are conducted between the Japanese Embassy and JICA experts. JIBC officers also assist in the meetings when visiting Kazakhstan. The ODA task force framework is also used to hold periodical meetings with the government of Kazakhstan. In addition to the above, among ODA-related activities, publicity or PR is also important. Although PR activities have been conducted, these have not been sufficient, as can be seen in the low recognition of Japan's ODA activities among the general public.

Kazakhstan's assistance reception system: The Ministry of Economy and Budget Planning of Kazakhstan is responsible for the coordination of aid. The Ministry gathers all requests and comments from the ministries and local governments, and decides on the projects that will be requested based on the priorities set in the national development plan. Judging from this, it can be said that Kazakhstan's assistance reception system is apparently developed. However, according to interviews, problems on lack of experienced personnel with enough knowledge on aid reception procedures still remain. In addition, application of tax exemption procedures is necessary when carrying out grand aid and technical assistance projects. However, due to the fact that congressional ratification is necessary in the case of Kazakhstan, and the time required for such procedure is quite long, this has become an obstacle in the process of aid implementation.

Coordination among Japan's assistance schemes: Experts have been dispatched under JICA's technical assistance scheme to support loan assistance projects, while development

studies have led to projects funded by loan assistance. As can be seen, efforts to coordinate different aid schemes have been made, from which it can be inferred that Japan's aid activities in Kazakhstan have given appropriate consideration to coordination among different aid schemes. In addition, JBIC is considering strengthening coordination with JICA, in order to enhance the technical transfer content of its loan projects, according to interviews conducted with JBIC.

Coordination with Kazakhstan's assistance implementation agency: Project formulation has been organized by the Japanese Embassy in Kazakhstan and JICA experts in coordination with the Ministry of Economy and Budget Planning of Kazakhstan. In addition, in order for Kazak officials to better understand Japanese assistance, seminars on "Introduction to ODA Activities" have been organized. In the Kazakhstan-Japan Center for Human Development, seminars on security at the work place and on environment are organized together with Kazakh officials. From the above, it is possible to conclude that coordination with Kazakhstan's aid implementation agency has been successfully carried out.

Coordination with other bilateral and multilateral donors as well as NGOs: Donors hold unofficial meetings which are limited to exchange of information. Thus, donor coordination as it is normally understood does not exist. In real terms, a division in the activity areas seems to be settled, which reduces the need for aid coordination. On the other hand, coordination with NGOs has been extremely limited in the case of Japanese assistance, due mainly to the fact that well-defined criteria for the selection of capable NGOs are absent. There are specialized NGOs that are active in such fields as environment, and have the experience of working together with other bilateral and multilateral donors. To select capable NGOs, multilateral donors use criteria based on the NGO's past record, including the amount and source of assistance received, financial accounts and other supporting documents.

(3) Effectiveness and Impact of the Results

In order to evaluate the results, the share of Japan's financial assistance in Kazakhstan's government expenditure was calculated. Then, progress in each of the priority areas was assessed by looking at socioeconomic indicators. Based on the above, the effectiveness of Japan's assistance and its economic and social impact was evaluated.

a) Share of Japan's Financial Assistance in Kazakhstan's National Budget

Japan's accumulated financial assistance to Kazakhstan from 1997 to 2003 were 3.5 billion tenge (3.8 billion yen, E/N basis) in grant aid, and 30.1 billion tenge (32 billion yen, disbursement-basis) in loan aid, totaling 33.6 billion tenge (35.7 billion yen). Japan's financial assistance to Kazakhstan is focused on health, transportation and communications, especially in the latter two sectors. Loans are the main type of assistance in the development of transportation and communication infrastructure in Kazakhstan, so it can be concluded that their effect must have been significant.

b) Contribution of Japan's Assistance to Each Priority Area

Development of institutions and human resources required for a market economy:

According to EBRD's *Transition Indicators*, Kazakhstan's progress into a market economy is steady. It can be said that Japan's assistance with the development of institutions and human resources required for a market economy have contributed to Kazakhstan's economic reform, as can be seen in contributions such as "approximately 5% of all companies located in Almaty have send their personnel to a training course provided at the Kazakhstan-Japan Center for Human Development" and "the development study on waste management in Almaty have been used as a basis to develop new operations". On the other hand, although it was impossible to calculate the exact impact of Japan's assistance in relation to the priority area to support Kazakhstan's transition to a market economy, it can be inferred that Japan's assistance has had a positive socioeconomic impact in Kazakhstan where economic reforms are steadily progressing. Currently, Japan's assistance in this area is focused on more specific targets as a response to Kazakhstan's needs, which are more sophisticated and pragmatic nowadays. Thus, from now on, it is desirable that Japanese assistance be focused on more specific areas such as support for WTO accession, policy finance and promotion of small and medium enterprises.

Economic and social infrastructure development: According to EBRD's *Infrastructure Transition Indicators*, progress in water supply and sewage as well as railways was slow, while improvements could be seen in roads, communications and electricity. However, in 2003, improvements could not be detected in roads, communications and electricity, while railways and water supply and sewage, which were the main sectors of Japan's assistance, showed clear signs of improvement.

When looking at a railway project which has already been concluded, outcomes

such as “railway transportation capacity between Kazakhstan and China increased, capacity to handle the increased number of freight trains improved” and “capacity for transshipment of freight in the stations near the border with China was enhanced, leading to the development of the capacity to handle a growing amount of freight” could be recognized.

In addition, as the station that was the target of this project, was the sole railway connection with China, a positive impact is recognized in the fact that the project contributed to trade promotion with China. Although there are no specific indicators to calculate the contribution of the railway sector to Kazakhstan’s economy, the sector’s share in freight transportation is high, and an increase in this share will also result in an intensification of trade with neighboring countries such as China and Russia. Therefore, it can be concluded that this specific project did have a positive economic impact.

Alleviation of social difficulties arising from the transition to a market economy and environmental problems: Japan’s assistance in this priority area is mainly focused on healthcare and environment, as follows:

- Healthcare sector in Kazakhstan shows some improvements when looking at indicators related to maternal and child healthcare. However, it still is burdened with serious problems. Specifically, medical facilities and manpower is worsening, and incidence and mortality rate of cardiovascular diseases are quite high. In addition, according to UNDP, medical expenses that patients have to bear have increased significantly, becoming an obstacle for the use of medical facilities. Against this background, Japan’s efforts have contributed to the improvement of Kazakhstan’s healthcare, up to a certain point, starting with projects conducted in Semipalatinsk, from which it can be concluded that Japan’s aid has been effective. In addition, there has also been an impact on the society as can be seen in the fact that Japan’s aid has introduced new medical technology to Kazakhstan, and has contributed to spreading the importance of early diagnosis, detection and treatment of cancer, which was insufficient in the past.
- Results of environment-related assistance were analyzed basically by using socioeconomic indicators on water resources. In Kazakhstan, the percentage of the population with access to safe water is decreasing. In addition, the proportion of untreated wastewater is on the raise. Japan’s assistance in this particular area has been the dispatch of experts in water quality monitoring, and a positive result can be recognized from the fact that a water quality monitoring system was introduced. At the same time, Kazakhstan is now able to formulate certain environmental policies based on the active use of such monitoring system. Thus, it is possible to recognize the positive impact in Kazakhstan’s environmental protection area, even though it is on a

worsening trend.

3.3 Recommendations

Following are the recommendations derived from the analysis conducted. The recommendations have been grouped into those that concern the meaning and direction of economic cooperation, as well as other points to remember in the process of implementing economic cooperation.

(1) Recommendations on the meaning of economic cooperation

- A detailed explanation on the reasons to provide assistance to Kazakhstan is not included either in the documents related to aid policies or in the minutes of the Bilateral Policy Consultations. From the perspective of accountability, it is necessary that the Country Assistance Plan to be formulated in the future contains an explanation on what type of relationship is desirable between Japan and Kazakhstan, the role of economic cooperation in building such relationship and the results of an analysis on the importance of Central Asia with special focus on Kazakhstan.

(2) Recommendations on the direction of economic cooperation

- **Improve the government's administrative capacity in general, including reception of aid:** Although Kazakhstan's aid reception system has been developed up to a certain point, problems such as lack of experienced personnel and other operational problems still remain. It is necessary that Japan continues to support the improvement of Kazakhstan's aid reception system. Additionally, if necessary, experts should be dispatched in a well-planned manner, in order to enhance the government's overall administrative capacity.
- **Support the efforts to break away from a resource-dependent economy:** The Industrial Innovation Plan adopted in March 2003, indicated the objective of breaking away from a resource-dependent economy through economic diversification based on the creation of a manufacturing industry. Japan must recognize the importance that Kazakhstan has been putting on this Plan, and support the country's development needs that are indicated in the Plan. In order to do this, Japan needs to consider a targeted assistance program, taking into account that Kazakhstan has been progressing

in its transition to a market economy and thus has very specific development needs that are more sophisticated and pragmatic than before. In these efforts, Japan must also take full advantage of its comparative advantages such as advanced technology.

- ***Strengthen technical assistance and efficient use of existing infrastructure developed with past assistance:*** Kazakhstan's needs for loans have not materialized due to the development of its oil industry. Kazakhstan is seeking to obtain more technical assistance which would help effective use of its resources⁵. Based on this, when formulating new loan projects, it is necessary to strengthen the transfer of technical knowledge and know-how, in order for new projects to respond correctly to Kazakhstan's needs. In addition, in order to efficiently use the existing infrastructure developed with past Japanese assistance, it is necessary to actively provide knowledge-based support in fields such as management of facilities.
- ***Support measures to improve healthcare indicators and medical infrastructure:*** Kazakhstan is facing severe healthcare problems. With the exception of maternal and child healthcare, all other health indicators are far below the levels seen in 1991. New issues such as HIV/AIDS are also on the rise. Japan should take an active role in solving these problems by deepening talks with the government of Kazakhstan, in order to clarify what kind of assistance is required in which regions of the country. Trends of other donors should also be taken into account, in order to clarify Japan's specific role in this particular priority area.
- ***Promote regional cooperation in Central Asia:*** Kazakhstan has been actively participating in various regional cooperation organizations, and its importance can be seen in the fact that regional cooperation has been one of the top items on the country's diplomatic agenda. In August 2004, when the then Minister for Foreign Affairs, Yoriko Kawaguchi, visited Central Asia, she announced Japan's renewed policy toward Central Asia called, the "Central Asia plus Japan" Dialogue, in which the importance of regional cooperation to solve many of the regional issues was stressed. The Central Asian countries welcomed this initiative, and Japan should continue supporting regional cooperation.

⁵ In regards to grant aid, it is possible that Kazakhstan will not be eligible to receive grant aid in the future if its GNP per capita continues to grow. Moreover, considering that the country's needs for assistance loans have not materialized, it is possible that Japan's assistance to Kazakhstan will decrease drastically in the near future. Japan should not rule out such possibility and consider countermeasures (e.g. conduct more detailed research to find projects that can be funded with assistance loans) should such scenario become a reality.

(3) Recommendations on other issues that should be taken into consideration in the process of implementing economic cooperation

- ***Working together with NGOs:*** Although there is a widespread notion that it is difficult to find reliable NGOs in Kazakhstan, there are those that have worked with other donors. By working with these kinds of NGOs, it is possible to increase the effectiveness and efficiency of Japanese assistance for Kazakhstan. Japan could draw upon the experiences and selection criteria of other donors, in order to find reliable NGOs.
- ***Improve tax exemption procedures:*** Application of tax exemption procedures is necessary when carrying out grand aid and technical assistance projects. However, due to the fact that a congressional ratification is necessary in the case of Kazakhstan, the time required for such procedure is quite long. In order to solve this problem, Japan has made constant requests to the government of Kazakhstan to improve the situation. It is necessary to continue this effort to call for a rapid ratification of the Technical Cooperation Agreement and of the grant aid.
- ***Strengthen PR activities:*** Promotional activities have been carried out for projects such as the Semipalatinsk Medical Improvement Plan and the Kazakhstan-Japan Center for Human Development. However, Japanese assistance is not recognized adequately. Therefore, promotional activities, along with their contents and methods, must be revised, improved and strengthened.