



Project Summary Information

Date of Document – November 9, 2023	
Project Name	Fiscal Governance and Financial Sector Reforms Program
Project Number	P000789
AIIB member	Republic of Kazakhstan
Sector/Subsector	Economic Resilience/PBF
Status of Financing	Under Preparation
Project Description	<p>The Program is proposed to be supported under the COVID-19 Crisis Recovery Facility (the Facility) of the Bank and co-financed with the Asian Development Bank (ADB) under the ADB's Policy on Policy-based Lending (PBL).</p> <p>The proposed Program will provide budget support to help the Government of Kazakhstan (GoK) implement critical reforms to accelerate economic recovery from the COVID-19 pandemic. The Program supports reforms in areas of 1) fiscal sustainability, transparency, and governance and 2) banking and capital market development. It aligns with the priorities of the GoK and aims to assist in addressing its heightened macroeconomic and financial vulnerability to external shocks.</p>
Objective	The Program's objective is to help the Government of Kazakhstan address the country's heightened macroeconomic and financial vulnerabilities through reforms in fiscal management and in the financial sector.
Expected Results	<p>Under Reform Area 1, several legal reforms were approved to (i) set explicit fiscal consolidation targets till 2030; (ii) set new fiscal rules to govern fiscal policy (non-oil deficit path) in a way that becomes countercyclical and imposes annual limits for transfers from NFRK; (iii) set new debt service limits for municipalities; and (iv) establish expanded formal monitoring of external and domestic debt of all state-owned enterprises. To address the problematic fiscal distortions in Public-Private Partnerships (PPP) decisions and public investment selection, the Ministry of National Economy of the Republic of Kazakhstan (MNE) established limits to state obligations in PPPs and other concessions, new rules for selection of concession projects. The Government also approved a new full-fledged and binding methodology to govern economic appraisal and prioritization of public investment proposals.</p> <p>To enhance fiscal transparency, the Parliament amended the Budget Code to impose the obligation for the government to disclose, with the annual budget submission to Parliament, a fiscal sustainability and risks assessment. Additionally, the</p>

	<p>GoK disclosed the first-ever fiscal sustainability and risks assessments to the Parliament, including a fiscal sustainability assessment component that also recognizes the long-term fiscal implications of decarbonization of the country's economy.</p> <p>The GoK also updated the Family and Gender Policy 2030, approving a corresponding Action Plan that includes explicit high-level commitment and instructions to introduce gender-responsive budgeting (GRB) and implement GRB pilots based on gender needs assessment.</p> <p>To ensure medium-term debt sustainability, legal reforms were approved to establish legal authority for i) active liability management practices, ii) comprehensive debt analysis of all direct and contingent liabilities, and iii) issuance of strategic frameworks to govern debt management and market communication.</p> <p>Lastly, under Reform Area 1, the Government implemented energy efficiency improvement plans for social sectors and urban services and pilot green budget tagging to gradually enable an effective introduction of climate policy accounting and assessment concepts and instruments.</p> <p>Under Reform Area 2, the Program includes ambitious reforms to re-establish the loan origination capacity of the banking system and to make financial intermediation more sustainable and accessible to small and medium-sized enterprises (SMEs) in Kazakhstan. Overall, the Program strengthens the resilience of the financial system to external shocks. Legislative amendments and operational modifications were implemented to enhance the confidence in and the effectiveness of the deposit insurance safety net. Reforms also improved transparency with regards to non-performing loans (NPLs), created pre-conditions for the development of an active market for Non-Performing Assets as a mechanism to eliminate bad asset legacies from past macro shocks and to enable faster recoveries by the financial system in the future. To promote sustainable banking practices, the Agency for Regulation and Development of the Financial Market of the Republic of Kazakhstan (ARDFM) developed regulatory recommendations on the disclosure of information about the degree of exposure to ESG-related risks, as well as the procedure for identifying, assessing, and managing such risks in accordance with international ESG disclosure standards.</p>
Environmental and Social Category	C

Environmental and Social Information	<p>The Program will be co-financed with ADB as the lead financier, and the E&S risks and impacts have been assessed in accordance with ADB’s Safeguard Policy Statement (“SPS”), in lieu of AIIB’s ESP. Based on the environmental and social assessments carried out according to SPS requirements, no adverse impacts have been identified concerning involuntary resettlement, Indigenous Peoples, or the environment. Therefore, ADB has categorized the Program as Category C. The Ministry of Finance will be the executing and monitoring agency, while the Ministry of National Economy, the Agency for Regulation and Development of the Financial Market (ARDFM), and the National Bank of Kazakhstan will be the implementing agencies.</p> <p>The Program will operationalize commitments made by the GoK to mainstream gender equality in public financial management. Subprogram 1 includes policy actions related to a) gender-responsive budgeting as a priority reform target, including GRB pilots, and b) on-budget support for women’s entrepreneurship.</p>											
Cost and Financing Plan	<p>Total cost: equivalent to USD 700 million</p> <p>The financing plan is as follows:</p> <table border="1" data-bbox="506 762 1326 963"> <thead> <tr> <th data-bbox="506 762 913 842">Co-financiers</th> <th data-bbox="920 762 1326 842">Amount (equivalent to USD million)</th> </tr> </thead> <tbody> <tr> <td data-bbox="506 842 913 882">ADB</td> <td data-bbox="920 842 1326 882">350</td> </tr> <tr> <td data-bbox="506 882 913 922">AIIB</td> <td data-bbox="920 882 1326 922">350</td> </tr> <tr> <td data-bbox="506 922 913 963">Total</td> <td data-bbox="920 922 1326 963">700</td> </tr> </tbody> </table>				Co-financiers	Amount (equivalent to USD million)	ADB	350	AIIB	350	Total	700
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ADB	350											
AIIB	350											
Total	700											
Borrower	Republic of Kazakhstan											
Implementing Entity	Ministry of Finance											
Estimated date of loan closing	Dec 31, 2024											
Contact Points:	AIIB	ADB	Borrower	Implementation Organization								
Name	Emil Zalinyan	João Pedro Farinha Fernandes	Yerulan Zhamaubayev	Yerulan Zhamaubayev								

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Estimated Date of Concept Appraisal Decision	November 9, 2023			
Estimated Date of Financing Approval	December 14, 2023			

Independent Accountability Mechanism	<p>AIIB's Policy on the Project-affected People's Mechanism (PPM) addresses issues raised under AIIB's ESP, which does not apply to this operation. Submissions to the PPM under the program would, therefore, not be eligible for consideration by the PPM. ADB's independent accountability mechanism (https://www.adb.org/who-we-are/accountability-mechanism/main) addresses issues raised by persons adversely affected by an ADB-assisted operation and allows them to report alleged noncompliance with ADB's operational policies and procedures, including its SPS.</p>
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