

# THE ROLE OF FOREIGN AID IN SUPPORTING TRANSITION AND SUSTAINABLE DEVELOPMENT IN CENTRAL ASIA

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**Abstract:** *This paper presents the role of foreign aid in the transition to market economy and fostering sustainable development in the five countries of Central Asia after they gained independence. It focuses on the amount and relative size of foreign aid, the main recipient countries, its split by providers, the largest donors and the major focus areas. It concludes with stating that foreign aid had a positive effect on some of the important development indicators, but cannot be considered as the main source of progress. Approach is multidisciplinary, method is descriptive analysis.*

**Keywords:** *Foreign aid, international development assistance, Central Asia, transition, sustainable development.*

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“Foreign Assistance is not an end in itself. The purpose of aid must be to create the conditions where it is no longer needed – where we help build the capacity for transformational change in a society” (President Barack Obama)

## 1. INTRODUCTION

After the collapse of the Soviet Union in 1991 five new states, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan emerged in Central Asia, who had to consolidate their statehood, reshape their political, economic and social systems and foster development to raise living standard of their population. Their transition has not been completed yet, and they need to cope with it in times of major geopolitical changes when China is rising, and Russia is trying to regain influence in their neighbourhood. Central Asia is rich in natural resources and can play an important role both for Europe and for Asia to diversify their huge import needs.

The aim of the paper is to highlight the role of foreign aid in the transition and sustainable development of the five newly established Central Asian countries. Research questions include how much foreign aid has been provided for Central Asia, who are the largest donors, what purposes do they finance, and which countries are the major recipients? Is the role of foreign aid positive and significant in fostering transition, growth and sustainable development in Central Asia?

Approach for finding an answer for these questions is multidisciplinary combining international relations, economics and geopolitics. Method used is descriptive analysis based on literature review, statistical analysis, reports and media news.

## 2. LITERATURE REVIEW

For this paper, literature is reviewed on two different topics: (1) history and development of Central Asia, and (2) providing foreign aid.

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For Central Asia, in [1] Gyene provides excellent insight into the history, political regime and international relations of Central Asia from the expansion of the Russian Empire to date. In [2] Gyuris, Szabó introduces the new independent states of the region and highlights their characteristics. In [3] Szálkai studies the development of the relations between the EU and Central Asia. In [4] Boonstra, Panella argues why the EU matters for Central Asia. In [5] Hudec presents a study on China's Emergence in Central Asia.

Regarding foreign aid, in [6] Paragi, Szent-Iványi, Vári give an overview on basic principles, norms, functioning, actors and efficiency of international development assistance. In [7] Furuoka, Fumitaka, Munir, Qaiser present the importance of international capital flow into the developing world, the motives of the donors, the critics of the functioning and results of foreign aid. In [8] Riddell explores if foreign aid really works, and if not, why does it fail? In [9] Easterly collects views of top experts how to improve effectiveness of foreign aid.

This list of reviewed publications represents only a fragment of the very rich literature on the subject and could easily be enlarged. Nevertheless, there has been little written about foreign aid for Central Asia, so the main sources of information about this topic are the news and statistics, which are mainly available through the websites.

### 3. GEOPOLITICAL IMPORTANCE AND COUNTRIES OF CENTRAL ASIA

Central Asia is of great geopolitical importance. It is a vast land-locked area covering 4 million km<sup>2</sup> and having some 70 million people of different nationalities in five countries. The region is gifted with natural resources such as carbon-hydrogens and minerals like uranium and gold. It is a historical transit route between East and West, today the “One Belt One Road” (OBOR) new Chinese initiative also crosses it. Its strategic location and natural resources gave reason for the “Great Game” between England and Russia – using Kipling’s term in his novel “Kim” [10] – and the “New Great Game” between the West and Russia now because dominance over this region is crucial for the global and regional powers.



**Figure 1:** Countries of Central Asia  
Source: The Astana Times [11]

After the collapse of the Soviet Union in 1991 five independent states were established in Central Asia. They were challenged by the difficulties of creating their statehood, fixing borders, setting up institutions, raising living standard, etc. Kazakhstan stands out in size and importance and together with Turkmenistan belongs to the upper middle-income group of countries, while the other three countries – Kyrgyzstan, Tajikistan and Uzbekistan – are in the group of lower middle-income countries. Uzbekistan is the largest of all by population with over 30 million people. Table 1 below presents an overview of the five countries of Central Asia and some of their major indicators.

**Table 1: Overview of Central Asia**

	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
<b>Capital city</b>	Nursultan (Astana)	Bishkek	Dushanbe	Ashgabat	Tashkent
<b>Surface area</b> (km <sup>2</sup> )	2 724 902	199 949	142 600	488 100	448 969
<b>Population</b> (000)	18 204	6 045	8 921	5 758	31 911
<b>Population density</b> (per km <sup>2</sup> )	6.7	31.5	63.7	12.3	75.0
<b>GDP</b> (million, current USD)	181 754	6 572	7 853	37 597	69 004
<b>GDP growth rate</b> (annual %, const. 2005 prices)	1.2	3.5	4.2	6.5	6.8
<b>GDP/capita</b> (current USD)	10 312,1	1 106,4	925,9	6 996,7	2 308,3
<b>Unemployment</b> (% of labour force)	5.6	7.7	10.8	8.6	8.9
<b>Individuals using the Internet</b> (per 100 inhabitants)	72.9	30.2	19.0	15.0	42.8
<b>Exports</b> (million USD)	36 775	1 423	899	3 741	27 947
<b>Imports</b> (million USD)	25 175	3 844	3 030	2 616	25 652
<b>Major export partners</b>	Italy (20.3%) China (11.5%) Russia (9.5%)	Switzerland (45.5) Kazakhstan (10.6%) Russia (10.2%)	Kazakhstan (27.3%) Turkey (20.3%) Italy (10.0%)	China (70.9%) Turkey (5.4%) Italy (5.4%)	Switzerland (38.1%) China (21.4%) Russia (10.1%)
<b>Major import partners</b>	Russia (36.3%) China (14.6%) Germany (5.7%)	China (38.1%) Russia (20.8%) Kazakhstan (16.5%)	China (52.0%) Russia (20.1%) Kazakhstan (11.3%)	Turkey (24.9%) Russia (11.4%) Japan (7.9%)	China (21.0%) Russia (20.3%) Rep of Korea (9.6%)
<b>Balance of payments</b> , current account (million USD)	-5 464	-721	-472	n.a.	n.a.
<b>Net ODA received</b> (% of GNI)	0.05	12.16	4.55	0.07	0.66

Source: UN data [12]

#### 4. FOREIGN AID FOR CENTRAL ASIA

Foreign aid at its broadest meaning “consists of all resources – physical goods, skills and technical know-how, financial grants (gifts), or loans (at concessional rates) – transferred by donors to recipients.” [8, p.17.] This definition is too broad, so a narrower definition will be used in this paper. It defines foreign aid as provision of resources “from rich countries to poor countries, and to poor people, which help to address acute human suffering and which contribute to human welfare, poverty reduction and development.” [8, p. 17] In this sense, foreign aid is also termed as development aid or development assistance.

From the donor side foreign aid can be either bilateral or multilateral. Bilateral foreign aid is provided by the members of the Development Assistance Committee (DAC) or other countries, while multilateral foreign aid is provided by multilateral development institutions and funds. For the entitlement for receiving foreign aid there are set conditions for the recipient countries in both cases. In Central Asia both bilateral and multilateral foreign aid is equally important.

#### 4.1. Entitlement and amount of foreign aid

All five countries of Central Asia are entitled for receiving Official Development Assistance (ODA) – consisting of disbursements of loans made on concessional terms and grants by official agencies – from the DAC countries, multilateral donors and other countries.

Between 1992 and 2017 annual total net ODA to this region increased from USD 74.17 to close to USD 1500 million in constant 2015 prices. The increase was sharp between 1992 and 1998, then it remained relatively constant – except for 2008 and 2015 when the annual growth of the total net ODA received was exceptionally high. The share of Central Asia gradually grew from 0.10 to around 1 percent of the total net ODA provided for the low- and middle-income countries of the world.

Table 2 below presents total net ODA received by Central Asia between 1992 and 2017 in USD million, on constant 2015 prices.

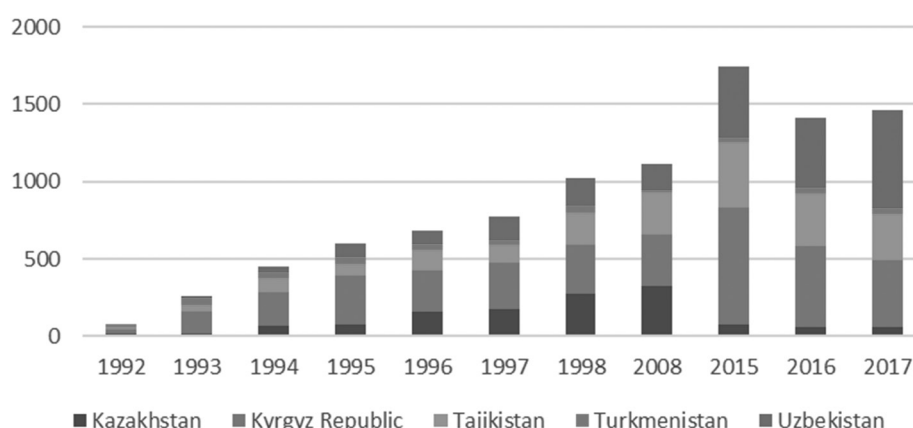
**Table 2:** Total net ODA Received by Central Asia between 1992-2017  
(million USD, constant 2015 prices)

Country Name	1992	1993	1994	1995	1996	1997	1998	2008	2015	2016	2017	Total	Share (%)
Kazakhstan	15.69	22.16	72.24	76.46	160.34	173.75	275.47	329.95	77.46	63.58	58.25	4 404.88	17.13
Kyrgyz Republic	28.80	140.06	211.32	312.85	267.66	305.05	311.74	327.14	754.16	515.96	435.41	8 632.66	33.57
Tajikistan	18.12	38.60	91.25	81.47	128.52	114.21	213.19	270.45	424.86	342.56	297.40	6 160.28	23.96
Turkmenistan	9.94	46.24	38.00	40.82	30.99	26.56	35.83	13.68	23.34	32.90	28.53	970.66	3.77
Uzbekistan	1.62	10.76	36.57	84.54	93.78	154.10	182.55	170.74	460.92	457.25	638.80	5 545.27	21.57
Total	74.17	257.82	449.38	596.14	681.29	773.67	1 018.78	1 111.96	1 740.74	1 412.25	1 458.39	25 713.75	100
Low & Middle income countries	72 655	69 465	71 747	64 309	61 596	60 790	64 684	116 039	152 608	157 966	160 579	2 613 204	
Share of Central Asia	0.10	0.37	0.63	0.93	1.11	1.27	1.58	0.96	1.14	0.89	0.91	0.98	
Central Asia ODA increase (previous year = 100%)	100	347.61	174.30	132.66	114.28	113.56	131.68	122.77	140.85	81.13	103.27		

Source: OECD [13]

During this period Kyrgyzstan received one third of the total net ODA directed to this region, Tajikistan got close to 25 percent and Uzbekistan a bit more than 20 percent respectively. Kazakhstan received higher and higher net ODA amounts from 1992 to 2008 and less and less since then because it became a donor country. Its high share of 30 percent in 2008 dropped to only 4 percent by 2017. Turkmenistan received the smallest amount of net ODA representing not more than 4 percent.

Figure 2 below shows total net ODA received by Central Asia and its split amongst the five countries of the region between 1992 and 2017 in constant 2015 prices.



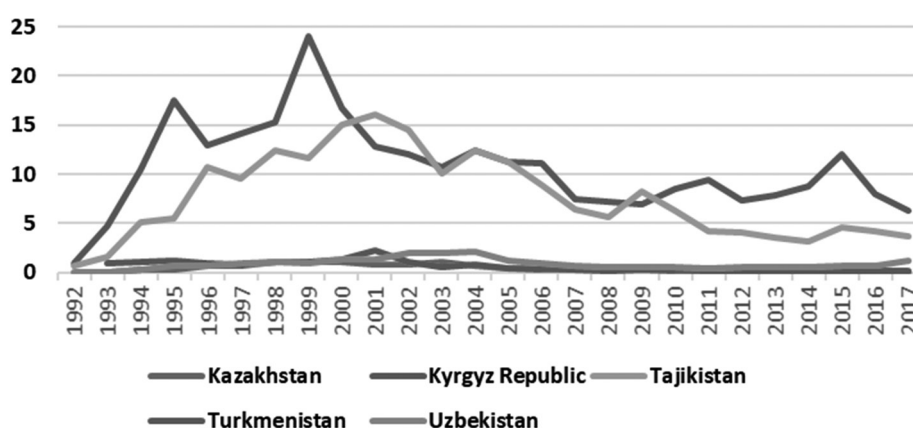
**Figure 2:** Net ODA received by Central Asia in 1992-2017 (million USD, constant 2015 prices)

Source: OECD [13]

## 4.2. Foreign aid and gross national income

Net ODA received by the countries of Central Asia compared to their gross national income (GNI) is the highest in Kyrgyzstan and Tajikistan. These are the two countries with the lowest GNI in the region that amounted to USD 7341 million and USD 8244 million in current prices in 2017. In the Kyrgyz Republic net ODA relative to GNI grew from 0.91 percent to 17.51 percent between 1991 and 1995 and reached the peak of 24.10 percent in 1999. After that it started to fall and since 2007 it is around 7 percent each year – except for 2015 when net ODA was close to 12 percent of the GNI. In Tajikistan net ODA received in relation to GNI increased from 0.62 percent to 10.66 percent between 1992 and 1996 and grew to the maximum of 16.07 percent by 2001. Since then it gradually decreased – except for two years –, and in 2017 it amounted to 3.69 percent of GNI. In Kazakhstan, Turkmenistan and Uzbekistan, where GNI is much higher, – USD 141480 million, USD 40781 million and USD 50605 million respectively –, the share of net ODA in relation to GNI was less than 2 percent throughout the entire period.

Figure 3 below shows the net ODA compared to GNI in percentages in the five countries of Central Asia between 1992-2017.



**Figure 3:** Net ODA compared to GNI in Central Asia between 1992-2017

Source: World Bank [14]

## 4.3. Major donors

To identify major donors for Central Asia the split between multilateral and bilateral foreign aid providers is essential.

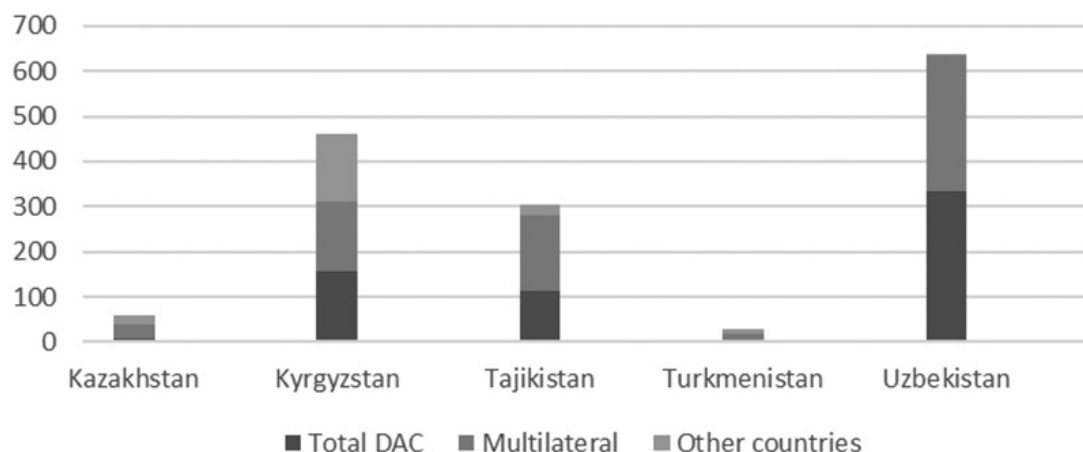
The largest share of foreign aid for Central Asia is provided by multilateral development institutions (44 percent). Half of this amount comes from the regional development banks, 17 percent from the IDA, 13 percent from the EU institutions, 8-8 percent from the UN Agencies and global funds, and the rest from other multilateral sources.

Foreign aid from the DAC countries represents 42 percent. There is an extreme concentration of the major donors as the five largest donors provide 95 percent of this amount. The largest aid provider by far is Japan who provided USD 258.5 million aid for the region in 2017 representing over 40 percent of bilateral aid from the DAC members. The second largest donor is the US who provided USD 118.6 million of aid amounting to nearly 20 percent. Germany is the third with USD 88.9 million equal to almost 15 percent. They are followed by Korea (USD 69.4 million, 11 percent) and Switzerland (USD 53.9 million, 9 percent).



Other donor countries, who are not DAC members, – like Russia – also play an important role providing 14 percent of foreign aid altogether.

Figure 4 below presents the split of foreign aid for Central Asia provided by the DAC members, multilateral donors and other countries.

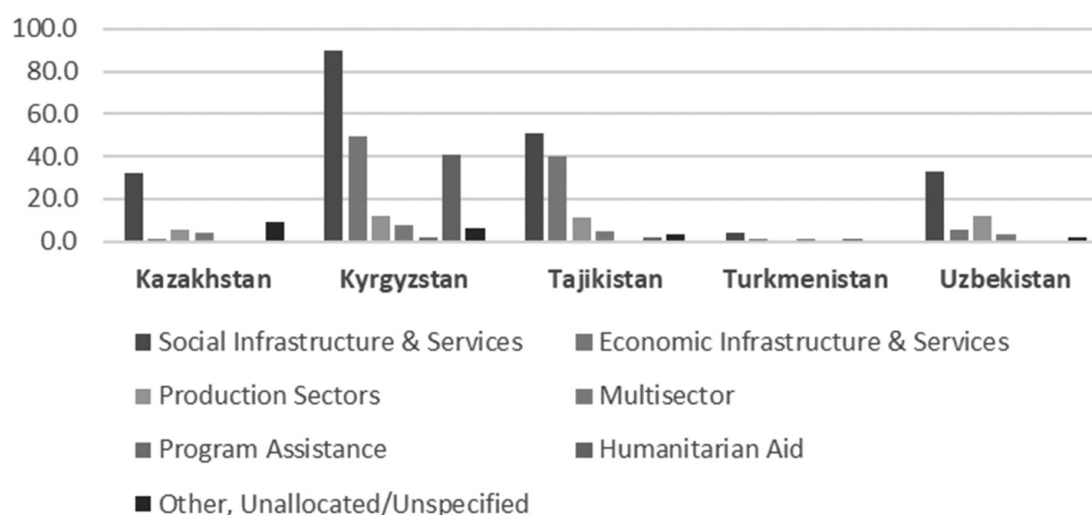


**Figure 4:** Distribution of Foreign Development Assistance  
Provided for Central Asia (million USD, 2017)  
Source: OECD [15]

#### 4.4. Foreign aid by purpose

Foreign aid by purpose can be analysed using annual bilateral ODA commitments. Last available figures for 2017 show that nearly half of all commitments for Central Asia was dedicated to social infrastructure and services, over 20 percent to economic infrastructure, nearly 10 percent to production sectors, and slightly more than 10 percent for humanitarian aid.

Figure 5 presents bilateral ODA commitments by purpose in USD million in 2017.



**Figure 5:** Bilateral ODA by purpose (USD million, 2017)  
Source: OECD [15]

Social infrastructure and services – education, health and population, water and sanitation – received the most in all countries ranging from 62.21 percent in Kazakhstan to 43.04 percent in Kyrgyzstan. Education got far more than health and population – except for Tajikistan –, while water and sanitation lagged behind. Economic infrastructure and services were the second most important purpose in Kyrgyzstan and Tajikistan – being the two poorest countries of Central Asia – with 23.90 and 35.95 percent respectively. Production sector received over 20 percent in Uzbekistan, and a bit more than 10 percent in Tajikistan and Kazakhstan. In Uzbekistan the focus was on industry, mining and construction, while in Kazakhstan on agriculture. Trade and tourism exceeded 2 percent of bilateral ODA commitment only in Turkmenistan, but the amount was rather small, not more than USD 0.2 million. The share of humanitarian aid was close to 20 percent in Kyrgyzstan and Turkmenistan, but it was more than USD 40 million in Kyrgyzstan and not more than USD 1.5 million in Turkmenistan. ODA for other, unspecified purpose was remarkable only in Kazakhstan, where it represented 17.44 percent of ODA commitments. Program assistance was neglectable.

## 5. FOREIGN AID CONTRIBUTING TO TRANSITION AND DEVELOPMENT

Though foreign aid is only one of the factors besides domestic and other efforts contributing to transition and development, it certainly has a positive effect on the major indicators measuring progress.

Figures show that GDP/capita increased in three of the five countries from 1991 to 2017: in Kazakhstan, Turkmenistan and to a less extent in Uzbekistan. In Kyrgyzstan it was stable and in Tajikistan it declined. In the meantime, Human Development Index improved in all countries, especially in Kazakhstan and Uzbekistan. Economic Freedom also increased in all the five countries, but Democracy Index improved only in Kyrgyzstan.

The changes in these indicators suggest that foreign aid did contribute to transition and development in Central Asia but was not the main driver of progress. There is still a lot to do to help these countries catch up, so there will be a need for foreign aid in the future as well. It would be essential though to improve its effectiveness in order that people of the region have a better life and a brighter future in peace.

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