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Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 06-Dec-2023 | Report No: PIDA0255



BASIC INFORMATION

A. Basic Project Data

Project Beneficiary(ies)	Region	Operation ID	Operation Name
Kazakhstan	EUROPE AND CENTRAL ASIA	P179204	Kazakhstan Digital Acceleration for an Inclusive Economy (DARE) Project
Financing Instrument	Estimated Appraisal Date	Estimated Approval Date	Practice Area (Lead)
Investment Project Financing (IPF)	05-Dec-2023	30-Sep-2024	Digital Development
Borrower(s)	Implementing Agency		
Republic of Kazakhstan	Republican State Institution Telecommunications Committee of MDDIAI		

Proposed Development Objective(s)

To support equitable access to high-quality and climate resilient broadband infrastructure in selected unserved and underserved areas of Kazakhstan.

Components

Resilient Digital Infrastructure
Enabling Environment for Digital Economy
Project Management

PROJECT FINANCING DATA (US\$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)? Yes

Is this project Private Capital Enabling (PCE)? Yes

SUMMARY

Total Operation Cost	136.00
Total Financing	136.00



of which IBRD/IDA	100.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	100.00
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Non-World Bank Group Financing

Commercial Financing	36.00
Unguaranteed Commercial Financing	36.00

Environmental And Social Risk Classification

Moderate

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **The largest landlocked country in the world located at the crossroads of Europe and Asia, Kazakhstan, is a resource-rich, upper-middle-income economy that – prior to the Coronavirus (COVID-19) pandemic – demonstrated robust economic growth and poverty reduction but remained largely dependent on its natural resources and vulnerable to climate change.** Given its location between China and the Russian Federation as well as its growing economic ties to the European Union (EU), Kazakhstan lies at the heart of trade and investment opportunities linked to Eurasian connectivity. The country has vast natural resource wealth, being one of the world's most mineral-rich nations and among the top 15 in terms of oil reserves. It has been the economic success story of Central Asia, transitioning from a lower-middle-income to upper-middle-income status in less than two decades.¹ Its gross domestic product (GDP) per capita climbed from US\$5,292 in 2006 to US\$10,041.5 in 2021,² while the poverty rate fell from 36 to 12.4 percent over the same

¹ World Bank, 2020. Kazakhstan Country Partnership Framework 2020-2025 (Report No. 143372). Available at: <https://www.worldbank.org/en/country/kazakhstan/publication/cpf-2020-2025>.

² GDP per capita (current US\$), as reported by the World Development Indicators based on World Bank national accounts data. Available at:



period.³ However, productivity growth in Kazakhstan has declined steadily over the past two decades, shifting to a contraction since 2010. As highlighted in the 2018 Kazakhstan Systematic Country Diagnostic (SCD) and the 2019 Productivity Country Economic Memorandum (CEM), this reflects the approaching limits of what an oil-dominated and export-oriented economy with little progress towards diversification can deliver. The underlying factors are also rooted in structural bottlenecks and a substantial presence of the state in the economy that stifle the private sector and impede enhanced competitiveness.^{4,5}

2. **Socioeconomic vulnerabilities have been exacerbated due to the domestic instability, and Russia’s invasion of Ukraine, which have all had serious repercussions for Kazakhstan.** Since 2008 average growth has slowed to less than 4 percent a year as productivity gains have stalled. In recent years, coupled with rising living costs, this lackluster economic performance has fostered public discontent over inequality and elite capture, culminating in violent protests in January 2022. Russia's invasion of Ukraine has increased uncertainty and introduced new risks, given Kazakhstan’s close economic ties to Russia. The economy grew by 5.1 percent in H1 2023, driven by exports and fiscal stimulus. The influx of an estimated 150,000 Russian migrants bolstered domestic demand and brought a significant increase in registration of new businesses, which has grown by over 20 percent to June 2023. Robust growth of retail trade (8.8 percent in real terms), and car sales (11.1 percent) in H1 indicate strong consumer spending, while investment, driven by rising FDI, has also strengthened. Growth in production was broad-based, including mining and machinery manufacture, basic metals, and chemical products. The unemployment rate declined slightly to 4.7 percent in Q2 2023, from 4.9 percent in 2022. Economic growth and an above-inflation increase in minimum wages drove up real wages by 1.2 percent in Q2 of 2023. In August 2023, inflation slowed to 14 percent from a peak of 21.3 percent in February, still well above the National Bank of Kazakhstan (NBK) 4-6 percent target range. Food price inflation decelerated to 13.5 percent, while services inflation was 13.9 percent. Certain gender inequalities remain and, despite close to parity in educational attainment and health indicators, there continue to be gaps in labor force participation (63.3 percent for women versus 75.5 percent for men), estimated earned incomes and representation in high-level political posts, with Kazakhstan ranking 65th out of 146 countries in the 2022 Global Gender Gap Index.⁶

Sectoral and Institutional Context

3. **The total Kazakhstani ICT sector in 2021 is roughly estimated at US\$ 2.3 billion, representing 3 percent of GDP, heavily dominated by the telecommunications (telecom) and IT markets.** In non-oil GDP of Kazakhstan, ICT sector represents 4.2 percent⁷. Indeed, telecom and IT sub-sector account for 66 percent and 34 percent of the total ICT sector, respectively.⁸ The telecom sector has been liberalized with 589 registered telecom operators, 524 of them being active. Kazakhstan’s approach to digitalization is strategically balanced but the country needs to accelerate efforts in areas where its digital performance is lagging. The “Technological Breakthrough through Digitalization, Innovation and Science” (TBDIS) national Project was adopted in November 2021 guides sectoral development. Until recently less advanced,

<https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=KZ>

³ Based on the middle-income countries (MIC) poverty line of US\$5.5 / day (2011 PPP).

⁴ World Bank, 2018. Kazakhstan - Systematic Country Diagnostic: A New Growth Model for Building a Secure Middle Class (Report No. 125611). Available at : <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/664531525455037169/kazakhstan-systematic-country-diagnostic-a-new-growth-model-for-building-a-secure-middle-class>.

⁵ World Bank, 2019. Kazakhstan: Reversing Productivity Stagnation – Country Economic Memorandum (Report No. 134720). Available at: <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/615051550479498194/kazakhstan-reversing-productivity-stagnation-country-economic-memorandum>.

⁶ World Economic Forum, 2022. Global Gender Gap Report. Available at: https://www3.weforum.org/docs/WEF_GGGR_2022.pdf.

⁷ According to the Kazakhstan National Bureau of Statistics.

⁸ US International Trade Administration, 2022. Kazakhstan – Country Commercial Guide. Available at: <https://www.trade.gov/country-commercial-guides/kazakhstan-information-and-communication-technologies>



telecommunications sector became a constraint to accelerating digital development efforts because of suboptimal performance towards achieving good quality broadband for all.

4. **On the supply side, Kazakhstan is facing significant broadband access problem.** National fixed high-speed broadband household penetration stood at 37,4 percent in 2022, which is over 28 percentage points (p.p.) below the regional average and slightly over a third of the level observed in countries with a similar GDP per capita.⁹ In relation to mobile internet, unique subscriptions per 100 inhabitants are also low (at 57 percent¹⁰) 28.2 percent of the population (or 5.4 million people) lives in unserved or underserved areas, with, based on the Ookla's internet quality analysis and Ministry of Digital Development, Innovations and Aerospace Industry (MDDIAI) data, nearly 775,000 people remaining unserved are concentrated in four regions: Akmola, South Kazakhstan, West Kazakhstan and East Kazakhstan. Affordability continues to be an issue, with Kazakhstan ranking 41st in the affordability subcategory of the 2022 Inclusive Internet Index by the Economist Intelligence Unit (EIU) – down from the 36th rank in 2020. A dedicated national broadband program was only adopted in 2023 recognizing broadband connectivity as a challenge. MDDIAI seeks to 'eliminate digital inequality' and improve broadband quality to ensure 100 Megabits per second (Mbps) internet connectivity for all households at affordable prices.

5. **The GoKz is working to improve telecommunications market's efficiency through several reforms.** With respect to the legal framework, the country's main telecom sector law was enacted in 2004¹¹ and is largely outdated compared to good international practices, albeit some reforms are being introduced.¹² There is no independent sectoral regulator in Kazakhstan, as the telecom market is overseen by MDDIAI and its subordinate divisions (such as the Telecom Committee, the Information Security Committee, the Public Services Committee, and the State Radio Frequency Service) established in June 2019, collectively acting as a policymaker and sector regulator. In a context of state-backed operators dominating the fixed market (65.2-percent market share) and the mobile market (57.2 percent market share), improvements are focused on policy reforms having a significant impact on affordability and on pushing the market frontier.

6. **On the demand side, Kazakhstan has taken systematic actions to improve digital skills of the population and achieved substantial progress in this area.** "Digital Kazakhstan" State Program (DKSP) and its successor TBDIS included improvement of basic digital skills of the population among its key initiatives. A multi-agency digital literacy program implemented in Kazakhstan has covered such areas as basic digital skills, e-government services usage, open government, e-commerce, and cybersecurity skills. Approximately 1.53 million people were trained between 2018 and 2020. As a result, according to the National Bureau of Statistics, the level of digital literacy in Kazakhstan grew from 77.3% in 2018 to 85.3% in 2021, even though the situation varies across the regions, with the level of literacy ranging from 76.5% and 76.8% in North-Kazakhstan and West-Kazakhstan oblasts, respectively, to 94.6% in Astana¹³. In the Wiley 2021 Digital Skills Gap Index, Kazakhstan ranked 43rd out of 134 countries assessed globally and 24th out of 45 Europe and Central Asia countries¹⁴.

7. **Digital economy is global in nature and resilient and affordable broadband access is a key pre-requisite for accelerating digitalization and attract large Foreign Direct Investments (FDIs)** such as Business Process Outsourcing (BPO) or Data Center/Cloud.

⁹ Telegeography, 2022. Global Comms Database. Available at: <https://www.telegeography.com/products/globalcomms/data/country-profiles/as/kazakhstan/kazakhstan.pdf>.

¹⁰ Global System for Mobile Communications Association (GSMA) for 2022.

¹¹ Law of the Republic of Kazakhstan of July 5, 2004 No. 567-II "About communication" (as amended on 02.07.2020) ("Communications Law") (unofficial translation). Available at: <https://cis-legislation.com/document.fwx?rgn=6622>

¹² For instance, the latest change introduced cross-sector infrastructure sharing provisions with the electricity sector.

¹³ Kazakhstan National Bureau of Statistics. Statistics of Information and Communication Technologies. Available at: <https://stat.gov.kz/official/industry/29/statistic/7>

¹⁴ Wiley, 2021. The Digital Skills Gap Index (GSGI). Available at: <https://dsgi.wiley.com/global-rankings/>



C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

To support equitable access to high-quality and climate resilient broadband infrastructure in selected unserved and underserved areas of Kazakhstan.

Key Results

- i. Household broadband penetration (% households that subscribe to high-quality broadband) in the project areas;
- ii. Newly built or upgraded broadband infrastructure that is resilient to climate-related hazards (%);
- iii. Number of beneficiaries satisfied with the quality of access to digital infrastructure;
- iv. Private Capital Mobilized in selected unserved and underserved areas of Kazakhstan (million).

D. Project Description

8. **The proposed Project will directly contribute to the GoKZ's objectives to eliminate digital inequality' and improve broadband quality to ensure 100 Megabits per second (Mbps) internet connectivity for all households at affordable prices, and indirectly to accelerating economic diversification as underpinned by resilient and affordable broadband infrastructure.** The Project will also finance critical regulatory reforms to promote private sector investments in the telecom sector and strengthen foundational enablers to spur growth of new private-sector digital markets, such as cloud and data infrastructure.

9. **Component 1: Resilient Digital Infrastructure** will finance deploying backhaul and access networks to households, businesses and public institutions in selected areas. Matching grants will be provided to qualified ISPs.

10. **Component 2: Enabling Environment for Digital Economy.** This component aims to support telecommunications investments under Component 1 through improving Kazakhstan's regulatory environment as well as to lay the grounds for development of cloud and data infrastructure market. The component will finance technical assistance activities to improve the telecom sector's regulatory effectiveness and reduce market-entry barriers, while refining the regulatory framework to be more climate-informed. It will also aim to strengthen the data protection regulatory framework to grow Kazakhstan's data and cloud industries.

11. **Component 3: Project Management and Implementation Support.** This component will finance support to the Borrower's project management and implementation of project-associated activities, including procurement, financial management, monitoring and evaluation, project communications, as well as environmental and social safeguards and citizen engagement.



Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Area OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

The Environmental and Social Risks Rating is "Moderate" at this concept stage due to the project scope and financing activities. The DARE project will not support subprojects with major civil works; however, some activities under Component-1.2 include small matching grants to qualified Internet Service Providers for deploying backhaul and access networks to households and public institutions. Internet cables shall be installed along existing electricity poles with no or minor civil works if required. The potential environmental risks associated with these activities are mainly OHS-related and include falls from heights and electrical hazards. Similarly, component-2 intends to support social systems and services, improving the efficiency of public data processing, sharing, and management. Likewise, component 3 will include activities to enhance digital skills. Potential environmental risks associated with the other components include procurement of e-related goods that are not energy-efficient, and minor e-waste generation is foreseen only after its decommissioning. The main social issues and risks associated with the Project relate to (i) ensuring that the project is as inclusive as possible and efforts are made to reach out to all sections of society and to provide universal accessibility; (ii) data management, ensuring the protection of personal data and the fundamental rights and freedoms of persons that are related to that data; and (iii) implementing meaningful and effective stakeholder engagement and public and beneficiary outreach. The project is rated low for SEA/SH risks at this stage and will be re-assessed during the appraisal stage. The expectation is that most of the labor will be locally hired, so labor influx is not envisaged. The project recognizes the following standards as relevant: ESS 1, ESS 2, ESS 3, ESS 4, and ESS 10. To address E&S risks, the client shall prepare and disclose (i) ESMF, (ii) SEP, and (iii) LMP prior to the project appraisal. These will be living documents that can be revised or updated during implementation as found necessary. The E&S commitment plan (ESCP) will include appropriate actions with time-bound commitments related to implementation of these documents and other institutional arrangements.

E. Implementation

Institutional and Implementation Arrangements

- 12. The Project will be implemented by the Republican State Institution “Telecommunications Committee of MDDIAI” (Telecommunications Committee, TC)¹⁵.**
- 13. The Project Implementation Unit will be set up in TC and will be responsible for the implementation of the Project.** The PIU will provide support to the fiduciary and safeguards functions. PIU personnel will be hired using loan proceeds through a process and with terms of reference that are acceptable to the Bank.
- 14. The Project will be implemented in accordance with the Project Operations Manual**, which will include: (a) a detailed description of Project components and their implementation arrangements, incl. Grants Manual that will outline implementation of the Subcomponent 1.1; (b) detailed Project cost estimates; (c) procurement, financial management and disbursement arrangements; and (d) composition of, roles and responsibilities of staff working in the PIU. The POM

¹⁵ <https://www.gov.kz/memleket/entities/telecom/about?lang=en>



will be amended as needed to incorporate adjustments during Project’s implementation, in agreement with the Bank. Other integral Project documents include the Procurement Plan (PP), Labor Management Plan (LMP), Stakeholder Engagement Plan (SEP) and Environmental and Social Management Framework (ESMF).

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APPROVAL

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